

LIBERTY BROADBAND CORPORATION
2016 ANNUAL REPORT





TABLE OF CONTENTS

LETTER TO SHAREHOLDERS..... 1

STOCK PERFORMANCE 2

FINANCIAL INFORMATION.....F1

CORPORATE DATA Inside Back Cover

Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our businesses, product and marketing strategies; new service offerings; the return on our investment in, and performance of, Charter Communications, Inc. ("Charter"); the ongoing integration of Charter, Time Warner Cable and Bright House's operations; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; Liberty Interactive Corporation's ("LIC") proposed transactions involving General Communication, Inc. ("GCI"); and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements in our "Letter to Shareholders" and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- Charter's ability to sustain and grow revenue and cash flow from operations by offering video, Internet, voice, advertising and other services to residential and commercial customers, to adequately meet the customer experience demands in its markets and to maintain and grow its customer base, particularly in the face of increasingly aggressive competition, the need for innovation and the related capital expenditures;
- the impact of competition from other market participants, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband and telephone providers, digital subscriber line ("DSL") providers, fiber to the home providers, video provided over the Internet by (i) market participants that have not historically competed in the multichannel business, (ii) traditional multichannel video distributors and (iii) content providers that have historically licensed cable networks to multichannel video distributors, and providers of advertising over the Internet;
- general business conditions, economic uncertainty or downturn, high unemployment levels and the level of activity in the housing sector;
- Charter's ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- the development and deployment of new products and technologies, including cloud-based user interface, Spectrum Guide®, downloadable security for set top boxes, and any other cloud-based consumer services and service platforms;
- failure to protect the security of personal information about the customers of our operating subsidiary and equity affiliate, subjecting us to costly government enforcement actions or private litigation and reputational damage;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- the effects of governmental regulation on our business or potential business combination transactions;
- any events that disrupt Charter's networks, information systems or properties and impair its operating activities and negatively impact its reputation;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in the nature of key strategic relationships with partners, vendors and joint venturers;
- LIC's proposed transactions involving GCI;
- the availability and access, in general, of funds to meet debt obligations prior to or when they become due and to fund operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets;
- the ability of Charter and our company to comply with all covenants in our respective debt instruments, any violation of which, if not cured in a timely manner, could trigger a default of other obligations under cross-default provisions;
- our ability to successfully monetize certain of our assets;
- Charter's ability to achieve the synergies and value creation contemplated by the Time Warner Cable merger and the Bright House transaction (the "Transactions");
- Charter's ability to promptly, efficiently and effectively integrate acquired operations into its own operations;
- Charter's ability to manage a significantly larger company than before the completion of the Transactions;
- changes in Charter's, Time Warner Cable's or Bright House's (as they existed before the Transactions were completed) operating businesses, future cash requirements, capital requirements, results of operations, revenues, financial condition and/or cash flows;
- disruption in the existing business relationships of Charter, Time Warner Cable and Bright House as a result of the Transactions;
- the increase in indebtedness as a result of the Transactions, which will increase interest expense and may decrease Charter's operating flexibility;
- operating costs and business disruption that may be greater than expected;
- the ability to retain and hire key personnel and maintain relationships with providers or other business partners; and
- costs, disruptions and possible limitations on operating flexibility related to regulatory conditions applicable to Charter as a result of the Transactions.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind any risk factors identified and other cautionary statements contained in this Annual Report and in our publicly filed documents, including our most recent Forms 10-K and 10-Q. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

This Annual Report includes information concerning Charter, a public company that files reports and other information with the SEC in accordance with the Securities Exchange Act of 1934, as amended. Information contained in this Annual Report concerning Charter has been derived from the reports and other information filed by it with the SEC. If you would like further information about Charter, the reports and other information it files with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

Liberty returned to its cable roots with our \$2.6 billion investment in Charter in May 2013. We purchased an additional 897,000 shares for \$124.5 million in May 2014 and, in May 2016, invested an incremental \$5 billion as part of Charter's Time Warner Cable and Bright House transactions. To-date, our total invested capital is nearly \$8 billion (excluding the Time Warner Cable shares we previously held). Our initial investment was a unique opportunity to take a meaningful stake in what was then the fourth largest cable provider in the US and back a management team we believed to be best-in-class. As Liberty Broadband sits here today, Charter has quadrupled in size and the stock has appreciated over 200%⁽¹⁾ in the past four years, with a CAGR of 34%⁽¹⁾ for our shareholders; a very successful outcome. We remain strong supporters of the cable industry, Charter and its management team.

How's the New Charter?

It has been nearly one year since the closing of the Time Warner Cable and Bright House transactions. Charter now has approximately 50 million passings and serves 26 million customers nationwide. It is a tall task to integrate the complexities of these three large companies, but Tom Rutledge and his team have managed this integration superbly, while maintaining their operational excellence at Legacy Charter, which generated customer relationship growth of 6% and residential revenue growth of nearly 6% in 2016, with margins expanding through the close of the transactions.

The integration is still in its early stages, but it is progressing well and remains on or ahead of schedule. The Charter team is estimating \$700 million of run rate synergies as we approach the one year anniversary of the deal, with north of \$1 billion in synergies expected after three years. Earlier this year, Charter passed the 75% mark on the rollout of its Spectrum pricing and packaging in newly-acquired markets. The all-digital rollout will be restarting in the second quarter and Charter expects to be 100% digital in less than two years.

The team continues to invest in the quality of its product; this strategy is succeeding. Legacy Charter grew residential video customers for the second year in a row, despite the prevailing theory that Pay TV is in a systemic decline. We hope to see this trend continue with the rollout of Charter's product offering across the enlarged footprint.

Charter has already deployed meaningful free cash into share repurchases in 2016, buying back \$1.6 billion of equity from shareholders. We expect there to be much more going forward.

Looking Ahead

There is a lot of discussion today around the future of cable, wireless technologies, 5G and the like. Tom has described his business as the network of the future; we stand by that

assertion. We believe in the market value of the broadband pipe and the unique position of cable to be the change leader in this space. Today, mobile opportunities are a source of optionality, but not a necessity.

While the industry landscape is constantly evolving, we recognize the need to be aware and ahead of industry trends as they unfold. Charter has now activated its mobile virtual network operator ("MVNO") agreement with Verizon and is planning to launch a mobile offering in 2018. We are excited for the opportunity it brings. Charter has also begun launching 5G-like field trials and experimenting with high-capacity, low-latency networks. We think any large scale network deployments are in the distant future. When the time comes, Charter's infrastructure is well-suited to implement these new products and technologies. With that said, we believe Charter's actions will be proactive and opportunistic, not a defensive must.

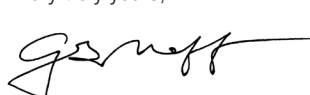
Charter has a very clear business plan. It's formulaic, proven and repeatable: invest in a superior product, provide great service and package it with simple and transparent pricing. This results in a more satisfied, stickier customer and ultimately a reduction in costs. We too are big believers in this plan. The compensation structure of Charter's management team is directly tied to the long-term performance of Charter's stock – we all stand to benefit from their successful execution. To the extent there is opportunity for further consolidation in the cable industry, we remain interested. As evidenced from the results over the past year, we can create meaningful synergies with acquisitions.

The largest shareholder of Liberty Broadband remains Liberty Interactive Corporation. Today, these shares are attributed to the Liberty Ventures Group tracking stock of Liberty Interactive. We are pleased about Liberty Interactive's planned acquisition of General Communication, Inc. through a combination with certain Liberty Ventures assets and liabilities and the subsequent split-off of its controlling interest in GCI Liberty, whose largest asset will be its position in Liberty Broadband. We believe an asset-backed GCI Liberty will further highlight the value of our shares.

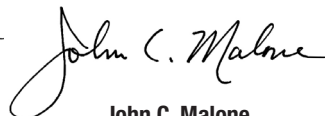
We look forward to seeing many of you at this year's annual investor meeting, which will take place on November 16th at the Times Center at 242 West 41st Street in New York City.

We appreciate your ongoing support.

Very truly yours,



Gregory B. Maffei
President & Chief Executive Officer



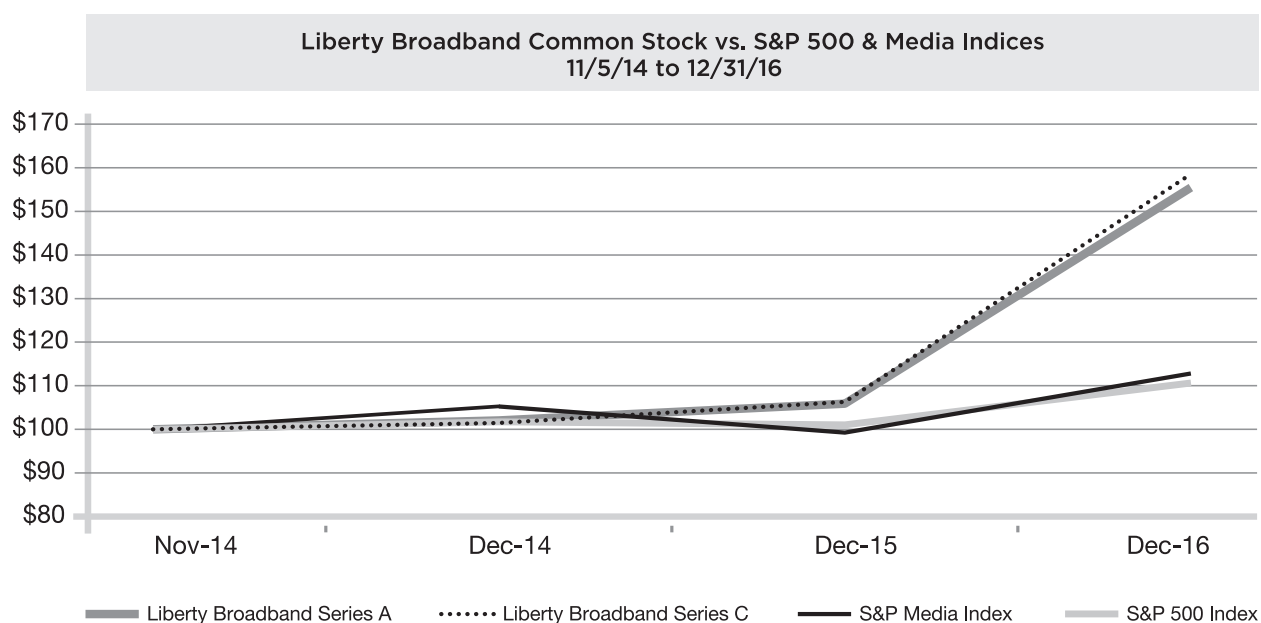
John C. Malone
Chairman of the Board

(1) Based on Liberty's initial purchase price of \$105.62/share (adjusted for the May 2016 reorganization of Charter into New Charter).

STOCK PERFORMANCE

The following graph compares the percentage change in the cumulative total stockholder return on an investment in Liberty Broadband Series A and Series C common stock from November 5, 2014 (the day Liberty Broadband began trading “regular-way” following its spin-off from Liberty Media

Corporation) through December 31, 2016, in comparison to the S&P 500 Index and S&P Media Index. Liberty Broadband performance includes the impact of the rights offering completed in January 2015.



	11/5/2014	12/31/2014	12/31/2015	12/31/2016
Liberty Broadband Series A	\$100.00	\$102.03	\$105.89	\$155.45
Liberty Broadband Series C	\$100.00	\$101.48	\$106.28	\$158.58
S&P 500 Index	\$100.00	\$101.75	\$101.01	\$110.64
S&P Media Index	\$100.00	\$105.26	\$99.23	\$112.80

Market for Registrant's Common Equity and Related Stockholder Matters of Equity Securities.

Market Information

Each series of our common stock has been outstanding since November 2014. Our Series A and Series C common stock trade on the Nasdaq Global Select Market under the symbols “LBRDA” and “LBRDK,” respectively. Our Series B common stock is eligible for quotation on the OTC Markets under the symbol “LBRDB”, but it is not actively traded. The following table sets forth the quarterly range of high and low sales prices of shares of each series of our common stock for the years ended December 31, 2016 and 2015. With respect to our Series B common stock, this information represents inter-dealer prices without dealer mark-ups, mark-downs or commissions, and may not be indicative of the value of the common stock or the existence of an active market.

	Liberty Broadband Corporation					
	Series A (LBRDA)		Series B (LBRDB)		Series C (LBRDK)	
	High	Low	High	Low	High	Low
<u>2015</u>						
First quarter	\$ 58.13	44.08	60.01	43.09	58.07	44.06
Second quarter	\$ 56.60	49.80	60.01	51.67	56.80	49.99
Third quarter	\$ 57.28	49.50	56.30	50.23	56.03	48.28
Fourth quarter	\$ 56.10	48.80	55.07	51.53	59.70	48.99
<u>2016</u>						
First quarter	\$ 58.82	42.03	52.81	41.00	58.50	41.30
Second quarter	\$ 60.27	54.53	52.81	52.81	60.46	54.45
Third quarter	\$ 71.77	58.96	67.97	61.11	72.94	59.59
Fourth quarter	\$ 73.90	61.69	76.25	63.97	75.67	63.64

Holders

As of January 31, 2017, there were 865, 67 and 1,109 holders of our Series A, Series B and Series C common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held nominally by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our board of directors in light of our earnings, financial condition and other relevant considerations.

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2017 Annual Meeting of stockholders.

Purchases of Equity Securities by the Issuer

There were no repurchases of Liberty Broadband Series A, B or C common stock during the period. During the three months ended December 31, 2016, 1,190 shares of Liberty Broadband Series A common stock and 2,376 shares of Liberty Broadband Series C common stock were surrendered by certain of our officers and employees to pay withholding taxes and other deductions in connection with the vesting of their restricted stock.

Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. The following data should be read in conjunction with our consolidated financial statements.

	December 31,				
	2016	2015	2014	2013	2012
<i>Summary Balance Sheet Data:</i>	amounts in thousands				
Cash and cash equivalents	\$ 205,728	655,079	44,809	9,251	10,031
Investments in available for sale securities (2)(3)	\$ —	439,560	360,762	326,700	232,648
Investment in affiliates, accounted for using the equity method (2)(3)	\$ 9,315,253	2,372,699	2,498,804	2,402,024	—
Intangible assets not subject to amortization (1)	\$ 6,497	6,497	27,166	20,669	20,669
Intangible assets subject to amortization, net (1)	\$ 8,596	11,887	12,915	429	1,562
Net deferred income tax assets	\$ —	55,368	30,822	—	—
Total assets	\$ 9,590,960	3,565,741	3,003,471	2,891,781	306,786
Long-term debt	\$ 198,512	399,703	371,539	—	—
Net deferred income tax liabilities (6)	\$ 504,644	—	—	6,740	34,166
Total equity (deficit) (5)	\$ 8,473,092	3,148,219	2,494,769	2,779,194	196,459

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<i>Summary Statement of Operations Data:</i>	amounts in thousands, except per share amounts				
Revenue	\$ 30,586	91,182	69,045	77,363	83,098
Operating income (loss)	\$ (21,160)	58,955	(42,974)	(88)	7,879
Share of earnings (losses) of affiliate (2)(3)	\$ 641,544	(120,962)	(127,573)	(76,090)	—
Gain (loss) on dilution of investment in affiliate (2)(3)	\$ 770,766	(7,198)	(87,158)	(92,933)	—
Realized and unrealized gains (losses) on financial instruments	\$ 94,122	2,619	51,189	97,860	57,582
Net earnings (loss) attributable to Liberty					
Broadband shareholders	\$ 917,303	(50,187)	(134,605)	(41,728)	44,196
Basic earnings (loss) per common share (4)	\$ 6.03	(0.49)	(1.52)	(0.47)	0.50
Diluted earnings (loss) per common share (4)	\$ 6.00	(0.49)	(1.52)	(0.47)	0.50

- (1) As discussed in note 2 to the accompanying consolidated financial statements, Skyhook Holding, Inc. acquired 100% of the outstanding common shares of Skyhook Wireless, Inc., a Delaware corporation, on February 14, 2014 for approximately \$57.5 million in cash.
- (2) As discussed in note 6 to the accompanying consolidated financial statements, in May 2013, Liberty acquired approximately 26.9 million shares of common stock and approximately 1.1 million warrants in Charter for approximately \$2.6 billion, which represented an approximate 27% beneficial ownership in Charter at the time of purchase.
- (3) As discussed in note 6 to the accompanying consolidated financial statements, on May 18, 2016 Time Warner Cable merged with Charter, causing a significant increase in Share of earnings (losses) of affiliate and gain on dilution of investment in affiliate in 2016. As a result of the merger transaction, Time Warner Cable is no longer accounted for as an available for sale security as of December 31, 2016.

- (4) We issued 85,761,332 common shares, which is the aggregate number of shares of Series A, Series B and Series C common stock outstanding upon the completion of the Broadband Spin-Off on November 4, 2014. Additionally, Liberty Broadband distributed subscription rights, which were priced at a discount to the market value, to all holders of Liberty Broadband common stock as of the rights record date. Because of the discount, the rights offering is considered a stock dividend which requires retroactive treatment for prior periods for the weighted average shares outstanding based on a factor determined by the fair value per share immediately prior to the rights exercise and the theoretical fair value after the rights exercise. The number of shares issued upon completion of the Broadband Spin-Off, adjusted for the rights factor, was used to determine both basic and diluted earnings (loss) per share (“EPS”) for the years ended December 31, 2013 and 2012 and for the period from January 1, 2014 through the date of the Broadband Spin-Off, as no Company equity awards were outstanding prior to the Broadband Spin-Off. Basic EPS subsequent to the Broadband Spin-Off was computed using the weighted average number of shares outstanding (“WASO”), adjusted for the rights factor, from the date of the completion of the Broadband Spin-Off through January 9, 2015, the date on which the rights offering was fully subscribed. Diluted EPS subsequent to the Broadband Spin-Off was computed using the WASO from the date of the completion of the Broadband Spin-Off through January 9, 2015, adjusted for the rights factor and potentially dilutive equity awards outstanding during the same period. Subsequent to January 9, 2015, basic EPS was computed using the WASO during the period, and diluted EPS was computed using the WASO adjusted for potentially dilutive equity awards outstanding during the period.
- (5) As discussed in note 10 to the accompanying consolidated financial statements, in connection with the Time Warner Cable Merger, in May 2016, Liberty Broadband funded its purchase of Charter Class A common stock using proceeds of \$4.4 billion related to subscriptions for approximately 78.3 million newly issued shares of Liberty Broadband Series C common stock.
- (6) The increase in deferred tax liabilities is due to certain of the deferred tax liabilities that were assumed in connection with the closing of the Transactions. See further discussion in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying consolidated financial statements and the notes thereto. Additionally, see note 3 in the accompanying consolidated financial statements for an overview of new accounting standards that we have adopted or that we plan to adopt that have had or may have an impact on our financial statements.

Overview

During May 2014, the board of directors of Liberty Media Corporation and its subsidiaries ("Liberty") authorized management to pursue a plan to spin-off to its stockholders common stock of a wholly-owned subsidiary, Liberty Broadband Corporation ("Liberty Broadband"), and to distribute subscription rights to acquire shares of Liberty Broadband's common stock (the "Broadband Spin-Off"). At the time of the Broadband Spin-Off, Liberty Broadband was comprised of, (i) Liberty's former interest in Charter Communications, Inc. ("Legacy Charter"), (ii) Liberty's former wholly-owned subsidiary TruePosition, Inc. ("TruePosition"), (iii) Liberty's former minority equity investment in Time Warner Cable, Inc. ("Time Warner Cable", "TWC", "Legacy Time Warner" or "Legacy TWC"), (iv) certain deferred tax liabilities, as well as liabilities related to the Time Warner Cable written call options and (v) initial indebtedness, pursuant to margin loans entered into prior to the completion of the Broadband Spin-Off. The Broadband Spin-Off was accounted for at historical cost due to the pro rata nature of the distribution to holders of Liberty common stock.

In the Broadband Spin-Off, record holders of Liberty Series A, Series B and Series C common stock received one-fourth of a share of the corresponding series of Liberty Broadband common stock for each share of Liberty common stock held by them, with cash paid in lieu of fractional shares. In addition, following the completion of the Broadband Spin-Off, on December 10, 2014, stockholders received a subscription right to acquire one share of Series C Liberty Broadband common stock for every five shares of Liberty Broadband common stock they held at a per share subscription price of \$40.36, which was a 20% discount to the 20-trading day volume weighted average trading price of the Series C Liberty Broadband common stock following the completion of the Broadband Spin-Off. The rights offering was fully subscribed on January 9, 2015, with 17,277,224 shares of Series C common stock issued to those rightsholders exercising basic and, as applicable, oversubscription privileges. The subscription rights were issued to raise capital for general corporate purposes of Liberty Broadband. The Broadband Spin-Off and rights offering were intended to be tax-free to stockholders of Liberty. During September 2015, Liberty entered into a closing agreement with the IRS which provided that the Broadband Spin-Off qualified for tax-free treatment.

On May 18, 2016, Time Warner Cable merged with Legacy Charter (the "Time Warner Cable Merger"). In connection with the Time Warner Cable Merger, Legacy Charter underwent a corporate reorganization, resulting in CCH I, LLC, a former subsidiary of Legacy Charter ("Charter"), becoming the new publicly traded parent company. Also on May 18, 2016, the previously announced acquisition of Bright House Networks, LLC ("Bright House" or "Legacy Bright House") from Advance/Newhouse Partnership ("A/N") by Charter (the "Bright House Transaction") was completed. In connection with the Time Warner Cable Merger and Bright House Transaction, Liberty Broadband entered into certain agreements with Legacy Charter, Charter, Liberty Interactive Corporation ("Liberty Interactive") and Time Warner Cable. In connection with the Time Warner Cable Merger and Bright House Transaction (collectively, the "Transactions"), Liberty Broadband exchanged its shares of Time Warner Cable for shares of Charter and purchased additional shares of Charter. As a result, and pursuant to proxy agreements entered into with Liberty Interactive and A/N, Liberty Broadband controls 25.01% of the aggregate voting power of Charter. In addition, in connection with the Time Warner Cable Merger, Liberty Broadband funded its purchase of shares of Charter Class A common stock using proceeds of \$4.4 billion related to subscriptions for approximately 78.3 million newly issued shares of Liberty Broadband Series C common stock.

The financial information represents a combination of the historical financial information of Skyhook, Liberty Broadband's interest in Charter, Liberty's former minority equity investment in Time Warner Cable and certain deferred tax liabilities. This financial information refers to the combination of the aforementioned subsidiary, investments, and financial instruments, as "Liberty Broadband," "the Company," "us," "we" and "our" here and in the notes to the consolidated financial statements.

Strategies and Challenges

Executive Summary

Skyhook Holding, Inc. (formerly known as TruePosition, Inc.) was originally incorporated on November 24, 1992 to provide technology for locating wireless phones and other mobile devices. Skyhook Holding, Inc.'s location offering was a passive network overlay system using its patented Uplink-Time Difference of Arrival ("U-TDOA") technology ("U-TDOA service") and was used primarily to provide E-9-1-1 services domestically and to enhance services in support of commercial applications, national security and law enforcement worldwide. In February 2014, Skyhook Holding, Inc. acquired Skyhook Wireless, Inc., which operates a global location network containing billions of geolocated Wi-Fi access points and cell towers that serve as the reference infrastructure for providing location services to wireless phones and other mobile devices ("Wi-Fi location software solution"). Skyhook Wireless, Inc.'s Wi-Fi location software solution determines the location of a wireless device by matching received Wi-Fi or cellular signals to the known locations of access points and cell towers contained in a proprietary database maintained by Skyhook Wireless, Inc. These Wi-Fi location software solutions are used primarily by mobile device makers, wireless carriers, and asset tracking platforms to understand the precise geographic location and movement of a mobile device. In addition to Wi-Fi location software solutions, Skyhook (as defined below) also provides location-based context services that provide not just the precise latitude and longitude of a given mobile device, but also the real world context of that location. For example, Skyhook can provide customers with an understanding of the type of location (e.g., a fast-food restaurant or an airport), the ability to provide notifications and triggers upon the entry or exit of a device from a pre-defined location, and insights based on historical device locations. These location-based context solutions provide a way for application developers, enterprises, and advertisers to understand consumers' mobile behavior and to improve their user experience, while also providing companies with the ability to reach and measure their audiences in new and relevant ways.

In 2015, one of Skyhook Holding, Inc.'s customers, a wireless carrier utilizing the legacy U-TDOA service which accounted for approximately 80% - 90% of consolidated revenue at the time, gave notice that it planned to discontinue use of the U-TDOA service and did not intend to renew its contract, which expired on December 31, 2015. The loss of this customer had a material adverse effect on Skyhook Holding, Inc.'s business. As a result of the loss of this wireless carrier customer, changes in the regulatory environment and a shift in the overall market for the legacy U-TDOA service, Skyhook Holdings Inc. ceased making further investment in its U-TDOA products. In 2016, Skyhook Holding, Inc. and Skyhook Wireless, Inc. combined operations in order to focus on the development and sale of the suite of location and context products and are referred to collectively herein as "Skyhook."

For both its location and context solutions, Skyhook earns revenue from device makers, application providers, enterprises and advertising companies through the integration of Skyhook's technology, the provision of location services and via the sale of data. Skyhook also earns revenue through entering into licensing agreements with companies to utilize its software. Although the revenue generated from license agreements has thus far been one-time in nature, Skyhook anticipates a recurring revenue stream from its licensing agreements in future periods.

Charter is the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet and voice services to approximately 26.2 million residential and business customers at December 31, 2016. In addition, Charter sells video and online advertising inventory to local, regional and national advertising customers and fiber-delivered communications and managed information technology ("IT") solutions to large enterprise customers. Liberty acquired its interest in Charter on May 1, 2013. At December 31, 2016, Liberty Broadband owned approximately 54.1 million shares of Charter Class A common stock, representing an approximate 20% ownership interest in the issued and outstanding shares. Upon the closing of the Time Warner Cable Merger, the Second Amended and Restated Stockholders Agreement, dated as of May 23, 2015, by and among Legacy Charter, Charter, Liberty Broadband and A/N, as amended (the "Stockholders Agreement"), became fully effective. Under the Stockholders Agreement, we have the right to designate three directors to the Charter board of directors, subject to certain exclusions and requirements. Charter has agreed to cause the appointment of at least one of our designees to serve on the nominating and corporate governance, finance, audit and compensation and benefits committees of the board, provided they meet the independence and other qualifications for membership on those committees.

Key Drivers of Revenue

Skyhook earns revenue from device makers, application providers, enterprises and advertising companies through the integration of its software and technology, the provision of location services and through the sale of data. In addition, Skyhook earns revenue from licensing its intellectual property to other enterprises. Prior to 2016, Skyhook also earned significant revenue from the sale of hardware and the licensing of associated software required to operate a passive network overlay system for generating location records for wireless devices using U-TDOA technology, and from professional and support services related thereto. These services were primarily sold to wireless carriers to provide E-9-1-1 services domestically and to enhance services in support of commercial applications, national security and law enforcement worldwide.

Charter's revenue is derived principally from the monthly fees customers pay for the residential and commercial video, Internet and voice services provided. Charter also earns revenue from one-time installation fees and advertising sales. Charter expects to continue to grow revenue by increasing the number of products in the company's current customer homes and obtaining new customers with an improved value offering. In addition, Charter expects to increase revenue by expanding the sales of services to its commercial customers.

Current Trends Affecting Our Business

Skyhook's location determination services compete against (1) other satellite and terrestrial based location technology offerings, such as GPS, (2) other providers of Wi-Fi and cell-based positioning, such as Google, Inc. ("Google") and HERE, a former subsidiary of Nokia; and (3) other commercial enterprises' in-house developed location solutions. There are also a number of new location technologies in development which may further increase competition to be a location solution for new devices and which may require Skyhook to meet more stringent accuracy standards. In addition, Skyhook's context services compete against other geofencing and location data offerings from other niche location companies, such as Factual and Foursquare.

Charter faces intense competition for residential customers, both from existing competitors and, as a result of the rapid development of new technologies, services and products, from new entrants. With respect to its residential business, Charter competes with other providers of video, high-speed Internet access, telephone services, and other sources of home entertainment. Specifically, newer categories of competitors include virtual multichannel video programming distributors such as AT&T's "DirecTV NOW," DISH Network Corporation's "Sling TV," and Sony Corporation's "Playstation Vue." In the broadband communications industry, Charter's principal competitors for video services are DBS and telephone companies that offer video services. Charter's principal competitors for high-speed Internet services are the broadband services provided by telephone companies, including both traditional DSL, fiber-to-the-node, and fiber-to-the-home offerings. A growing number of commercial areas, such as retail malls, restaurants and airports, offer Wi-Fi Internet service. Numerous local governments are also considering or actively pursuing publicly subsidized Wi-Fi Internet access networks. These options offer alternatives to cable-based Internet access. Charter's principal competitors for telephone services are established telephone companies, other telephone service providers, and other carriers, including VoIP providers. The increase in the number of different technologies capable of carrying voice services and the number of alternative communication options available to customers as well as the replacement of wireline services by wireless have intensified the competitive environment in which Charter operates its residential voice service.

Skyhook and Charter must stay abreast of rapidly evolving technological developments and offerings to remain competitive and increase the utility of their products and services. These companies must be able to incorporate new technologies into their products and services in order to address the needs of their customers.

Results of Operations—Consolidated

Consolidated operating results:

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Revenue	\$ 30,586	91,182	69,045
Operating expenses, excluding stock-based compensation			
Operating expense	2,798	6,089	7,499
Research and development	10,082	16,637	18,311
Selling, general and administrative	29,148	36,814	46,946
Stock-based compensation	5,713	6,380	999
Depreciation and amortization	4,005	6,088	9,043
Net gain on legal settlement	—	(60,450)	(6,000)
Impairment of intangible assets	—	20,669	35,221
Operating income (loss)	<u>\$ (21,160)</u>	<u>58,955</u>	<u>(42,974)</u>
Less impact of stock-based compensation, net gain on legal settlement, depreciation and amortization, and impairment of intangible assets	9,718	(27,313)	39,263
Adjusted OIBDA	<u><u>\$ (11,442)</u></u>	<u><u>31,642</u></u>	<u><u>(3,711)</u></u>

Revenue

Revenue decreased \$60.6 million and increased \$22.1 million for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The decrease in revenue in 2016 was due to the loss of Skyhook's largest legacy U-TDOA service customer whose contract expired on December 31, 2015. This customer accounted for approximately 85% and 83% of Skyhook's revenue during 2015 and 2014, respectively. A significant decline in Skyhook's operations is expected to continue unless Skyhook is able to generate sufficient new business to replace the financial impacts of the loss of this customer. The decrease in revenue in 2016 resulting from the lost customer was partially offset by a new license agreement entered into during 2016. On September 1, 2016, Skyhook entered into a confidential license agreement pursuant to which Skyhook agreed to grant to the licensee a perpetual, non-exclusive, non-transferable, worldwide license to patents and patent applications owned by the companies. In exchange for this right, the licensee agreed to pay a one-time lump sum payment of \$17.5 million that was recognized as revenue in the third quarter of 2016. Apart from the one-time revenue received from the license agreement in 2016, and excluding \$35.5 million of deferred revenue (discussed below) in 2015, revenue from Skyhook's operations decreased by approximately \$42.6 million during 2016.

The increase in revenue during 2015 was primarily due to the recognition of \$35.5 million of deferred revenue upon the expiration of the aforementioned contract with Skyhook's largest legacy U-TDOA service customer on December 31, 2015, as all contractual obligations were satisfied at that time. Exclusive of the recognition of the deferred revenue associated with this contract during 2015, revenue decreased \$13.4 million from the prior year, primarily as a result of reduced domestic software and maintenance license fees due to a reduction in the size of the deployed base of Skyhook's legacy U-TDOA service.

Operating, research and development, and selling, general and administrative expenses

Operating, research and development, and selling, general and administrative expenses, decreased collectively by \$17.5 million and \$13.2 million for December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The decrease in 2016 was due to headcount reductions and other cost containment measures taken by Skyhook in 2016 and 2015, upon combining the operations of its businesses, coupled with lower legal expenses, and lower corporate selling general and administrative expenses during the year. The decrease in 2015 was largely due to a full year implementation of cost reduction measures at Skyhook and lower legal expenses, partially offset by higher corporate selling, general and administrative costs during the current year. Legal expenses decreased \$3.8 million and \$10.1 million in the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. The decrease in legal expenses during 2016 is a result of the settlement of Skyhook's patent infringement lawsuit during the first quarter of 2015, lower costs to maintain the patent portfolio

and the resolution of various other legal matters, offset by legal costs associated with the license agreement entered into by Skyhook and corporate legal expenses related to the Time Warner Cable Merger. The decrease in legal expenses during 2015 is due to the settlement during the third quarter of 2014 of Skyhook's antitrust lawsuit arising from the standard setting processes for LTE wireless data communication technology as it pertains to location technology and the settlement of Skyhook's patent infringement lawsuit against Google during the first quarter of 2015. Additionally, lobbying costs of \$431 thousand and \$3.3 million related to the indoor accuracy regulations previously discussed were incurred during each of the years ended December 31, 2015 and December 31, 2014, respectively. Lobbying costs decreased significantly after the first quarter of 2015 based upon rulemaking timelines, and no lobbying costs were incurred during 2016. Merger costs of \$958 thousand related to the Skyhook acquisition were incurred in 2014. No merger costs were incurred during 2016 or 2015.

Stock-based compensation

Stock-based compensation expense decreased \$667 thousand and increased \$5.4 million for the years ended December 31, 2016 and 2015, respectively, as compared to the same periods in the prior year. The decrease in 2016 is due to a decrease in the number of vested outstanding awards under Skyhook's long-term incentive plans as a result of headcount reductions coupled with a reduction in the fair value of the awards. This decrease was partially offset by an increase in stock-based compensation due to the vesting of options to purchase shares of Liberty Broadband Series C common stock granted during 2014, 2015 and 2016. The increase in stock-based compensation during 2015 was primarily due to the vesting of options to purchase shares of Liberty Broadband Series C common stock granted during December 2014 and an increase in the number of options to purchase shares of Liberty Broadband Series C common stock granted during 2015. Additionally, stock-based compensation increased in 2015 due to the issuance of new awards and additional vesting of the outstanding awards under the Skyhook's long-term incentive plans, partially offset by cancelled awards.

Depreciation and amortization

Depreciation and amortization decreased \$2.1 million and \$3.0 million for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The decrease in depreciation and amortization expense during the current year is due to a decrease in the general depreciable asset base as assets have become fully depreciated coupled with the write-off of fixed assets during the first quarter of 2015. The decrease in 2015 was due to lower amortization expense resulting from the impairment of Skyhook's intangible assets during the fourth quarter of 2014 and write-off of fixed assets during the first quarter of 2015. The assets written off were comprised of assets related to the abandonment of a product development project related to the legacy U-TDOA service during the period.

Net gain on legal settlement

On September 10, 2010, Skyhook filed a patent infringement lawsuit in the U.S. District Court for the District of Massachusetts against Google. In March 2013, Skyhook amended its lawsuit to add additional claims. The case had been scheduled to be tried before a jury commencing March 9, 2015, with Skyhook alleging at that time that Google infringed on eight Skyhook patents involving location technology and seeking an injunction and/or award of damages in an amount to be determined at trial. However, on March 5, 2015, the parties advised the District Court that the case had been settled and thereby dismissed the action without costs and without prejudice to the right, upon good cause shown within 45 days, to reopen the action if settlement was not consummated. On March 27, 2015, the parties consummated a final settlement agreement and on April 24, 2015, Google paid Skyhook settlement consideration of \$90 million. In return for payment of the settlement consideration, Google received dismissal of the action with prejudice, a license to the existing Skyhook patents and patent applications (and their continuations, divisionals, continuations-in-part), a three-year covenant not to sue (subject to limited exceptions) and a mutual release of claims. As a result of the settlement, Skyhook realized a net gain, after legal fees, of approximately \$60.5 million during the first quarter of 2015.

Impairment of intangible assets

During September 2015, Skyhook's largest customer (AT&T) gave notice that it did not intend to renew its contract related to Skyhook's legacy U-TDOA service, which expired on December 31, 2015. The Company believed that the receipt of the notification represented a significant change in circumstances since we last performed our annual goodwill impairment test. Accordingly, we performed a goodwill impairment test upon receipt of the notification. At that time, the estimated fair value of

the reporting unit was primarily determined based on the cash and cash equivalents held by the reporting unit, and when compared to its carrying value, it was concluded that a goodwill impairment did not exist. As previously discussed, the carrying value of Skyhook included a \$35.5 million deferred revenue liability related to the contract with AT&T. Upon expiration of the contract on December 31, 2015, the deferred revenue was recognized, as all contractual obligations were satisfied at that time. The recognition of this deferred revenue liability increased the reporting unit carrying value. As a result, the Company determined the fair value of Skyhook. As the reporting unit's carrying value now exceeded the fair value, we performed a Step 2 impairment test and recorded a \$20.7 million impairment loss related to Skyhook's goodwill during December 2015. See note 7 in the accompanying consolidated financial statements for additional discussion regarding this impairment loss.

In November 2014, Skyhook was notified that one of its significant customers was not expected to renew its contract related to its Wi-Fi location software solution for 2015. As a result, 30-40% of Skyhook's Wi-Fi location software solution revenue was not expected to recur in 2015. Due to this anticipated decline in Skyhook's operations, the Company determined the fair value of Skyhook and performed a Step 2 impairment test, which resulted in a \$35.2 million impairment loss recorded to Skyhook's goodwill and intangible assets during December 2014. See note 7 in the accompanying consolidated financial statements for additional discussion regarding this impairment loss.

Operating Income (Loss)

Operating income (loss) declined \$80.1 million and improved \$101.9 million for the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods, due to the items discussed above.

Adjusted OIBDA

We define Adjusted OIBDA as revenue less operating expenses and selling, general and administrative expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 15 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to Operating income and Earnings (loss) from continuing operations before income taxes.

Adjusted OIBDA declined \$43.1 million and improved \$35.3 million in the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. Adjusted OIBDA for the years ended December 31, 2016, 2015 and 2014 included \$8.7 million, \$11.9 million, and \$1.5 million of corporate selling, general and administrative expenses, respectively. The decrease in Adjusted OIBDA for the year ended December 31, 2016 is due to the \$60.6 million decrease in revenue, discussed above, partially offset by a \$3.8 million decline in legal expenses during the year (discussed above) and a \$13.7 million improvement in operating, research and development, and selling, general and administrative expenses during the year (discussed above). The increase in Adjusted OIBDA for the year ended December 31, 2015 is due to the \$22.1 million increase in revenue, discussed above, along with a \$10.1 million decline in legal expenses during the year (discussed above), and a \$3.1 million improvement in operating expenses during the year.

Other Income and Expense:

Components of Other Income (Expense) are presented in the table below.

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Other income (expense):			
Interest expense	\$ (14,956)	(7,424)	(1,138)
Dividend and interest income	5,020	3,797	5,426
Share of earnings (losses) of affiliate	641,544	(120,962)	(127,573)
Realized and unrealized gains (losses) on financial instruments, net	94,122	2,619	51,189
Gain (loss) on dilution of investment in affiliate	770,766	(7,198)	(87,158)
Other, net	336	158	(63)
	<u>\$ 1,496,832</u>	<u>(129,010)</u>	<u>(159,317)</u>

Interest expense

Interest expense increased \$7.5 million and \$6.3 million during the years ended December 31, 2016 and 2015, respectively. The increase in the current year is attributable to additional amounts outstanding on the two margin loan agreements entered into by our wholly owned subsidiary (the “2016 Margin Loan Agreements”) during the current period as compared to the prior year. The increase in 2015 is also due to additional amounts drawn on the two margin loan agreements entered into by a wholly owned special purpose subsidiary (the “2014 Margin Loan Agreements”). See note 8 in the accompanying consolidated financial statements for additional information on the margin loan agreements.

Dividend and interest income

Dividend and interest income increased \$1.2 million and decreased \$1.6 million for each of the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The increase in 2016 is the result of increased interest income due to a higher cash and short-term marketable securities balance during the first and second quarters of 2016, with an increase in interest rates during the entire year in 2016, partially offset by a loss of dividend income due to the Time Warner Cable Merger during May 2016. The decrease in 2015 was due to contractual commitments on the Time Warner Cable shares. Although the 2015 quarterly Time Warner Cable dividend rate remained the same as 2014, a larger portion of the dividends were passed through to the counterparty in 2015, due to more written call option contracts on Time Warner Cable shares outstanding during 2015 than 2014 as well as the Time Warner Cable collar agreement that was outstanding for a portion of the current year.

Share of earnings (losses) of affiliates

Share of earnings (losses) from affiliates improved \$762.5 million and \$6.6 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. Share of earnings (losses) from affiliates is attributable to the Company’s ownership interest in Charter. In May 2013, the Company acquired its initial investment in Legacy Charter. Upon acquisition, the Company allocated the excess basis, between the book basis of Legacy Charter and fair value of the shares acquired, and ascribed remaining useful lives of 7 years and 13 years to property and equipment and customer relationships, respectively, and indefinite lives to franchise fees, trademarks and goodwill. Outstanding debt is amortized over the contractual period using the effective interest rate method. Amortization related to debt and intangible assets with identifiable useful lives is included in the Company’s share of earnings (losses) from affiliates line item in the accompanying consolidated statements of operations and aggregated \$41.8 million, \$51.6 million, and \$81.2 million, net of related taxes, for the years ended December 31, 2016 2015, and 2014, respectively.

On May 18, 2016, the Time Warner Cable Merger and Bright House Transaction were completed. The Time Warner Cable Merger resulted in Legacy Charter and Time Warner Cable becoming wholly owned subsidiaries of Charter, which was a wholly owned subsidiary of Legacy Charter at the time. As a result of the Time Warner Cable Merger and Bright House Transaction, Liberty Broadband exchanged its shares of Time Warner Cable for shares of Charter and purchased additional shares of Charter. As a result, and pursuant to proxy agreements entered into with Liberty Interactive and A/N, Liberty Broadband

controls 25.01% of the aggregate voting power of Charter following the completion of the Transactions. The increase in share of earnings from affiliates during 2016 is attributable to the earnings of Charter subsequent to the Time Warner Cable Merger and Bright House Transaction. See note 6 in the accompanying notes to the consolidated financial statements for additional discussion of the Company's investment in Charter.

The following is a discussion of Charter's stand alone results of operations. In order to provide a better understanding of Charter's operations, we have included a summarized presentation of Charter's results from operations. Charter is a separate publicly traded company and additional information about Charter can be obtained through its website and public filings. The amounts included in the table below, derived from Charter's public filings, represent Charter's results for each of the years ended December 31, 2016, 2015 and 2014, as well as a year over year comparison on a pro forma basis as if the Transactions were completed on January 1, 2015.

	Years ended December 31,			Years ended December 31,	
	2016	2015	2014	2016	2015
	amounts in millions			Pro forma	
Revenue	\$ 29,003	9,754	9,108	40,023	37,394
Operating expenses, excluding stock-based compensation	(18,497)	(6,437)	(5,980)		
Adjusted OIBDA	10,506	3,317	3,128	14,651	12,990
Depreciation and amortization	(6,907)	(2,125)	(2,102)		
Stock-based compensation	(244)	(78)	(55)		
Operating income	3,355	1,114	971	4,801	3,396
Other expenses, net	(2,535)	(1,445)	(918)		
Net income (loss) before income taxes	820	(331)	53		
Income tax benefit (expense)	2,925	60	(236)		
Net income (loss)	\$ 3,745	(271)	(183)		

Charter's revenue increased \$19.2 billion and \$646 million during the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior years. Revenue growth primarily reflects the Transactions and increases in the number of residential Internet and triple play customers and in commercial business customers, growth in rates driven by higher equipment revenue and rate increases offset by a decrease in basic video customers. On a pro forma basis, assuming the transactions occurred as of January 1, 2015, total revenue increased by \$2.6 billion for the year ended December 31, 2016 compared to the year ended December 31, 2015. Revenue growth in 2015 primarily reflects increases in the number of residential Internet and triple play customers and in commercial business customers, growth in expanded basic and digital penetration, promotional and annual rate increases, and higher advanced services penetration, partially offset by a decrease in advertising sales in 2015 and a decrease in average basic video customers.

The increase in revenue during 2016 and 2015 was partially offset by the net impact of an increase in operating expenses, excluding stock-based compensation, of \$12.1 billion and \$457 million, respectively. The increase in operating expenses in 2016 was primarily due to the Transactions. The increase in operating expenses in 2015 was primarily attributable to an increase in programming costs as a result of annual contractual rate adjustments, including increases in amounts paid for retransmission consents, and the introduction of new networks offset by synergies as a result of the Transactions and lower pay-per-view programming expenses.

Charter's Adjusted OIBDA in 2016 and 2015 increased as a result of the above discussion. On a pro forma basis, assuming the transactions occurred as of January 1, 2015, Adjusted OIBDA increased by \$1.7 billion as a result of an increase in residential and commercial revenues offset by increases in programming costs and other expenses.

Depreciation and amortization expense increased \$4.8 billion and \$23 million during the years ended December 31, 2016 and 2015, respectively. The increase in depreciation and amortization expense in 2016 is attributable to additional depreciation and amortization related to the Transactions, inclusive of the incremental amounts as a result of the higher fair values recorded in acquisition accounting. The increase in depreciation and amortization in 2015 is attributable to the depreciation on more recent capital expenditures, partially offset by certain assets becoming fully depreciated.

Stock compensation expense increased \$166 million and \$23 million in the years ended December 31, 2016 and 2015, respectively, which in both years was due to increases in headcount and the value of equity issued.

Other expenses increased \$1.1 billion and \$527 million in the years ended December 31, 2016 and 2015, respectively, compared to the same periods in the prior year. The increase in other expenses is primarily attributable to an increase of \$1.2 billion and \$395 million of interest expense during 2016 and 2015, respectively, associated with the debt incurred to fund the Transactions, and, in 2016, \$604 million associated with debt assumed from Legacy TWC. The increase in other expenses in 2016 was partially offset by gains on financial instruments of \$89 million.

Income tax benefit (expense) increased \$2.9 billion and \$296 million during the years ended December 31, 2016 and 2015, respectively, compared to the same periods in the prior year. Certain of the deferred tax liabilities that were assumed in connection with the closing of the Transactions will reverse and provide a source of future taxable income, resulting in a reduction of substantially all of Charter's preexisting valuation allowance associated with its deferred tax assets of approximately \$3.3 billion. Such release of Charter's valuation allowance was recognized directly to income tax benefit in the consolidated statements of operations for the year ended December 31, 2016. Income tax benefit for the year ended December 31, 2016 was also impacted by a change in a state tax law that resulted in approximately \$65 million of tax benefit. The income tax benefit recognized in 2015 was primarily due to the deemed liquidation of Charter Communications Holding Company, LLC ("Charter Holdco") solely for federal and state income tax purposes, resulting in a \$187 million deferred income tax benefit offset by income tax expense recognized during 2015, primarily through increases in deferred tax liabilities. Charter owns a 100% equity interest in Charter Holdco and was treated as a partnership for tax purposes prior to July 2, 2015. The impact of the election to treat Charter Holdco as a disregarded entity resulted in a \$169 million net deferred income tax benefit. Income tax benefit (expense) also improved due to a reduction in tax amortization for fully amortized intangible assets that are indefinite-lived for book purposes.

Realized and unrealized gains (losses) on financial instruments, net

Realized and unrealized gains on financial instruments, net increased \$91.5 million and decreased \$48.6 million for each of the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. Realized and unrealized gains on financial instruments, net are attributable to changes in the fair value of our former investment in Time Warner Cable and corresponding outstanding written call options and collar agreement. Historically, the change in fair value of our investment in Time Warner Cable was directly correlated to changes in the underlying Time Warner Cable stock price. The change in fair value of our derivative instruments related to our former investment in Time Warner Cable was typically inversely correlated to changes in the underlying Time Warner Cable stock price. The net realized gain of \$94 million during the year ended December 31, 2016, was attributable to gains in the fair value of our investment in Time Warner Cable prior to the Time Warner Cable Merger, due to increases in the Time Warner Cable stock price during the period. The net realized and unrealized gain decreased during 2015 due to gains in the fair value of our investment in Time Warner Cable, partially offset by losses on the Time Warner Cable call options and collar, due to increases in the Time Warner Cable stock price during the year.

Gain (loss) on dilution of investment in equity affiliate

The gain during 2016 is primarily due to the Time Warner Cable Merger. Even after considering the exchange of Time Warner Cable shares held by Liberty Broadband to shares of Charter, Liberty Broadband's interest in Charter was diluted as a result of the conversion of outstanding Time Warner Cable shares held by third parties into shares of Charter. However, Liberty Broadband recognized a gain during the period as Liberty Broadband's investment basis in Legacy Charter was at a price per share below the new equity issued in the Time Warner Cable Merger. This gain was slightly offset by losses due to the issuance of Charter common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below Liberty Broadband's book basis per share during the year. The loss during 2015 is the result of the issuance of Charter common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below Liberty Broadband's book basis per share during the year. As Liberty Broadband's ownership in Charter changes due to exercises of Charter warrants and stock options, a loss is recorded with the effective sale of common stock, because the exercise price of Charter warrants or stock options is typically lower than the book value of the Charter shares held by Liberty Broadband.

Other, net

Other income increased \$178 thousand and \$221 thousand for each of the years ended December 31, 2016 and 2015, respectively, as compared to the corresponding prior year periods. The increase in 2016 is due to a gain on the sale of certain

patents and a domain name at Skyhook during the year. The improvement during 2015 is primarily attributable to a gain on Skyhook fixed assets that were retired during the year.

Income taxes

Our effective tax rate for the years ended December 31, 2016, 2015 and 2014 was 38%, 28% and 33%, respectively. During 2016, our effective tax rate was higher than the federal tax rate of 35% primarily due to the effect of state income taxes. During 2015, our effective tax rate was lower than the federal tax rate of 35% primarily due to the non-deductible impairment of goodwill related to Skyhook's legacy U-TDOA service. During 2014, our effective tax rate was lower than the federal tax rate of 35% primarily due to the non-deductible impairment of goodwill and other amortizable intangible assets related to Skyhook's Wi-Fi location software solution.

Net earnings (losses)

We had net earnings of \$917.3 million, and net losses of \$50.2 million and \$134.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. The change in net earnings (losses) was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

Liquidity and Capital Resources

As of December 31, 2016 substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, other government securities or government guaranteed funds, AAA rated money market funds and other highly rated financial and corporate debt instruments.

The following are potential sources of liquidity: available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our other investments, outstanding debt facilities, debt and equity issuances, and dividend and interest receipts.

As of December 31, 2016, Liberty Broadband had a cash balance of \$205.7 million.

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Cash flow information			
Net cash provided (used) by operating activities . . .	\$ (11,898)	35,289	2,728
Net cash provided (used) by investing activities . . .	\$ (4,990,800)	(2,479)	(209,986)
Net cash provided (used) by financing activities . . .	\$ 4,553,347	577,460	242,816

Skyhook generally collects the majority of its annual software maintenance from its customers during the first quarter of each calendar year, which is the most significant factor contributing to the cash generated from operations during 2014. The most significant factor contributing to the cash generated from operations during 2015 was the receipt by Skyhook of legal settlement proceeds, partially offset by the payment of legal fees. The most significant factor contributing to the cash used by operations during 2016 was a decline in revenue related to the loss of Skyhook's largest legacy U-TDOA service customer at the end of 2015. Due to the loss of this customer, we expect declines in cash flows from operations to continue in future periods.

As discussed in note 6 of the accompanying consolidated financial statements, in support of the Time Warner Cable Merger, the Company issued \$4.4 billion additional shares of Liberty Broadband Series C common stock in order to purchase \$4.3 billion in shares of Charter. Furthermore, as also discussed in note 6 of the accompanying consolidated financial statements, Liberty Broadband used cash on hand and proceeds from a new margin loan to purchase an additional \$700 million of Charter shares in connection with Charter's acquisition of Bright House from A/N. Additionally, the Company had incremental borrowings of \$200 million during the year ended December 31, 2016.

The projected use of our cash will be primarily to fund any operational needs of our subsidiary, to service debt, to fund potential investment opportunities, and refinance Liberty Broadband's margin loans that come due in 2017 and 2018. We expect corporate cash to cover these expenses for the foreseeable future.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
	amounts in thousands				
Consolidated contractual obligations					
Long-term debt	\$ 600,000	400,000	200,000	—	—
Interest payments	\$ 16,526	15,275	1,251	—	—
Operating lease obligations	\$ 620	593	27	—	—
Open purchase orders	\$ 480	377	103	—	—
Total	\$ 617,626	416,245	201,381	—	—

Information about the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations, without uncertain tax positions as it is indeterminable when payments will be made, is summarized below.

Critical Accounting Estimates and Policies

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Listed below are the accounting estimates and accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with our audit committee.

Application of the Equity Method of Accounting for Investments in Affiliates. For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company determines the difference between the purchase price of the investee and the underlying equity which results in an excess basis in the investment. This excess basis is allocated to the underlying assets and liabilities of the Company's investee through a purchase accounting exercise and is allocated within memo accounts used for equity accounting purposes. Depending on the applicable underlying assets, these amounts are either amortized over the applicable useful lives or determined to be indefinite lived.

Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities by such equity investee, to investors other than the Company, are recognized in the statement of operations through the gain (loss) on dilution of investment in affiliate line item. We periodically evaluate our equity method investment to determine if decreases in fair value below our cost basis are other than temporary. If a decline in fair value is determined to be other than temporary, we are required to reflect such decline in our consolidated statement of operations. Other than temporary declines in fair value of our equity method investment would be included in share of earnings (losses) of affiliates in our consolidated statement of operations.

The primary factors we consider in our determination of whether declines in fair value are other than temporary are the length of time that the fair value of the investment is below our carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. Fair value of our publicly traded cost and equity investments is based on the market prices of the investments at the balance sheet date. Impairments are calculated as the difference between our carrying value and our estimate of fair value. As our assessment of the fair value of our investments and any resulting impairment losses and the timing of when to recognize such charges requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

Our evaluation of the fair value of our investments and any resulting impairment charges are made as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in our consolidated statement of operations in the period in which they occur to the extent such decreases are deemed to be other than temporary. Subsequent increases in fair value will be recognized in our consolidated statement of operations only upon our ultimate disposition of the investment.

Fair Value of Non-Financial Instruments. Our non-financial instrument valuations are primarily comprised of our determination of the estimated fair value allocation of net tangible and identifiable intangible assets acquired in business combinations, our annual assessment of the recoverability of our goodwill and other nonamortizable intangibles, and our evaluation of the recoverability of our other long-lived assets upon certain triggering events.

The Company periodically reviews the carrying value of its intangible assets with definite lives and other long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets or asset groups might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset group, or a significant decline in

the observable market value of an asset group, among others. If such facts indicate a potential impairment, the recoverability of the asset group is assessed by determining whether the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset group over the remaining economic life of the asset group. If the carrying amount of the asset group is greater than the expected undiscounted cash flows to be generated by such asset group, including its ultimate disposition, an impairment adjustment is recognized.

The accounting guidance permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not that the carrying value of the Company's indefinite-lived intangible assets, other than goodwill, exceeds its fair value, then a quantitative assessment is performed.

If the carrying value of our intangible or long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment expense in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our intangible and long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our intangible or long-lived assets may differ from our estimate of fair value. As each of our operating segments have intangible assets, this critical accounting policy affects the financial position and results of operations of each segment.

As of December 31, 2016, the Company had \$6.5 million of goodwill, attributable to Skyhook's Wi-Fi location software solution, primarily related to assembled workforces, non-contractual relationships and other intangibles that do not qualify for separate recognition.

We perform our annual assessment of the recoverability of our goodwill in the fourth quarter each year. The Company utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In evaluating goodwill on a qualitative basis, the Company reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it is more likely than not that an indicated impairment exists for any of our reporting units. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis, the Company also considers fair value determinations for certain reporting units that have been made at various points throughout the current and prior year for other purposes. In November 2014, Skyhook was notified that one of its significant Wi-Fi location software solution customers, representing approximately 30-40% of its Wi-Fi location software solution revenue, was not expected to renew its contract for 2015. Due to this anticipated decline in Skyhook's operations, the Company determined the fair value of Skyhook and performed a Step 2 impairment test, which resulted in a \$35.2 million impairment loss recorded related to Skyhook's goodwill and intangible assets during December 2014. During September 2015, Skyhook's largest legacy U-TDOA service customer gave notice that it did not intend to renew its contract, which expired on December 31, 2015. The Company believed that the receipt of the notification represented a significant change in circumstances since we last performed our annual goodwill impairment test. Accordingly, we performed a goodwill impairment test upon receipt of the notification. At that time, the estimated fair value of the reporting unit was primarily determined based on the cash and cash equivalents held by the reporting unit, and when compared to its carrying value, it was concluded that a goodwill impairment did not exist. The carrying value of Skyhook included a \$35.5 million deferred revenue liability related to the contract with the largest customer. Upon expiration of the contract on December 31, 2015, the deferred revenue was recognized, as all contractual obligations were satisfied at that time. The recognition of this deferred revenue liability increased the reporting unit carrying value. As a result, the Company determined the fair value of Skyhook. As the carrying value exceeded the fair value, we performed a Step 2 impairment test and recorded a \$20.7 million impairment loss related to Skyhook's goodwill during December 2015.

Fair Value of Financial Instruments. All marketable debt and equity securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value generally based on quoted market prices. Fair values are determined for each individual security in the investment portfolio. GAAP permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the

entity's statements of operations (the "Fair Value Option"). Liberty Broadband has elected the Fair Value Option for those of its AFS securities which it considers to be non-strategic ("Fair Value Option Securities"). Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying consolidated statements of operations. A small portion of the Company's AFS securities are not designated as Fair Value Option Securities and are reviewed from time to time in order to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors considered in this determination are the length of time that the fair value of the investment is below the carrying value, the severity of the decline, and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investments. The Company's assessment of the foregoing factors involves considerable management judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns of AFS securities would be included in the consolidated statements of operations as other than temporary declines in fair values of investments. There were no impairment charges recorded during 2016, 2015 or 2014.

All of the Company's derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the Company's derivatives are currently designated as hedges.

The fair value of certain of the Company's derivative instruments are estimated using the Black Scholes Merton option-pricing model ("Black-Scholes model"). The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from pricing services based on the expected volatility of the underlying security over the remaining term of the derivative instrument. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period, based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. The Company considered its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Management judgment is required in estimating the Black-Scholes variables.

Revenue Recognition. Skyhook earns revenue from device makers, application providers, enterprises and advertising companies through the integration of its software and technology, the provision of location services and through the sale of data. In addition, Skyhook earns revenue from licensing its intellectual property to other enterprises. Prior to 2016, Skyhook also earned significant revenue from the sale of hardware and the licensing of associated software required to operate a passive network overlay system for generating location records for wireless devices using U-TDOA technology, and from professional and support services related thereto. These services were primarily sold to wireless carriers to provide E-9-1-1 services domestically and to enhance services in support of commercial applications, national security and law enforcement worldwide.

Skyhook recognizes fees received from intellectual property licensing at the inception of a license term for perpetual licenses (or licenses with terms comprising substantially all of the remaining life of the intellectual property) when collectability of the license fee is probable and there are no ongoing performance obligations. Revenue recognition is deferred when collectability of the license fee is not considered probable, when the license term is less than substantially all of the remaining life of the intellectual property, or when there are ongoing performance obligations which are not separate elements from the license. In such circumstances, revenue may be recognized as the license fees are collected or over the license term or performance period as appropriate.

Fees from the integration of Skyhook technology are accounted for consistent with the outstanding guidance for software revenue recognition. Under those policies, for revenue derived from multiple-element arrangements, if vendor specific objective evidence ("VSOE") exists for each of the elements of the arrangement at the outset, the Company allocates the revenue to the

various elements for recognition upon delivery of each element. If VSOE is not present, the revenue is deferred until the earlier of establishing sufficient VSOE for allocating revenue for recognition or delivery of all of the elements. If a multiple-element arrangement includes post-contract customer support (commonly referred to as maintenance), VSOE must exist for the maintenance in order to allocate revenue to all of the elements of the arrangement. If VSOE does not exist for the maintenance, revenue for the entire arrangement is recognized ratably over the contractual or expected term of the maintenance arrangement.

Revenue from the provision of location services and through the sale of data and revenue from tangible products that contain software components and non-software components that function together to deliver the tangible products essential functionality are not under the scope of software revenue recognition guidance and are instead subject to the guidance for multiple-element arrangements. Accordingly, for multiple-element arrangements entered into or materially modified on or after January 1, 2011, the overall arrangement fee is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or third-party evidence of selling price or are based on the entity's estimated selling price. The associated revenue for each element is recognized upon delivery assuming all other criteria for revenue recognition are met.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We have identified the Company's various revenue streams and are working with our subsidiaries to evaluate the quantitative effects of the new guidance. The Company has not yet selected a transition method. We will continue to provide updates as to the progress of our evaluation in our quarterly reports during 2017.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities. Market risk refers to the risk of loss arising from adverse changes in stock prices and interest rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We expect to achieve this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of December 31, 2016, our debt is comprised of the following amounts:

Variable rate debt		Fixed rate debt	
Principal amount	Weighted avg interest rate	Principal amount	Weighted avg interest rate
dollar amounts in millions			
\$ 600	2.6%	\$ —	NA

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We periodically use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models.

Additionally, our stock in Charter (our equity method affiliate) is publicly traded and not reflected at fair value in our balance sheet. Our investment in Charter is also subject to market risk that is not directly reflected in our financial statements.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Broadband Corporation are included herein, beginning on Page F-23.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

See page F-21 for *Management's Report on Internal Control Over Financial Reporting*.

See page F-22 for *Report of Independent Registered Public Accounting Firm* for their attestation regarding our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Broadband Corporation's (the "Company") management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2016, using the criteria in *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation the Company's management believes that, as of December 31, 2016, its internal control over financial reporting is effective.

The Company's independent registered public accounting firm that audited the consolidated financial statements and related disclosures in the Annual Report has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-22 of this Annual Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Broadband Corporation:

We have audited Liberty Broadband Corporation's (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Liberty Broadband Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Broadband Corporation as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2016, and our report dated February 17, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado
February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Broadband Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Broadband Corporation (the Company) (as defined in note 1) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity, for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of 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. 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 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 financial position of Liberty Broadband Corporation as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado
February 17, 2017

LIBERTY BROADBAND CORPORATION

Consolidated Balance Sheets

December 31, 2016 and 2015

	2016	2015
	amounts in thousands	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 205,728	655,079
Trade and other receivables, net of allowance for doubtful accounts of \$136 thousand and \$138 thousand, respectively	878	2,462
Short-term marketable securities	—	9,014
Derivative instruments	49,019	—
Other current assets	2,794	11,660
Total current assets	258,419	678,215
Investments in available-for-sale securities (note 5)	—	439,560
Investments in affiliates, accounted for using the equity method (note 6)	9,315,253	2,372,699
Property and equipment, net	710	1,248
Goodwill (note 7)	6,497	6,497
Intangible assets subject to amortization, net (note 7)	8,596	11,887
Deferred income tax assets (note 9)	—	55,368
Other assets	1,485	267
Total assets	\$ 9,590,960	3,565,741
<i>Liabilities and Equity</i>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,931	10,493
Deferred revenue	2,171	2,629
Current portion of debt (note 8)	400,000	—
Other current liabilities	2,014	2,254
Total current liabilities	412,116	15,376
Debt (note 8)	198,512	399,703
Deferred income tax liabilities (note 9)	504,644	—
Deferred revenue	2,596	2,443
Total liabilities	1,117,868	417,522
<i>Equity</i>		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 26,251,533 and 26,163,206 at December 31, 2016 and 2015, respectively	262	262
Series B common stock, \$.01 par value. Authorized 18,750,000 shares; issued and outstanding 2,467,509 and 2,467,547 at December 31, 2016 and 2015, respectively	25	25
Series C common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 153,019,547 and 74,643,546 at December 31, 2016 and 2015, respectively	1,530	746
Additional paid-in capital	7,945,883	3,537,848
Accumulated other comprehensive earnings, net of taxes	7,656	8,905
Retained earnings (accumulated deficit)	517,736	(399,567)
Total equity	8,473,092	3,148,219
Commitments and contingencies (note 14)		
Total liabilities and equity	\$ 9,590,960	3,565,741

See accompanying notes to consolidated financial statements.

LIBERTY BROADBAND CORPORATION

Consolidated Statements of Operations

Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014
	amounts in thousands, except per share amounts		
Revenue:			
Software sales	\$ 28,597	10,364	8,428
Service	1,858	76,139	58,426
Other	131	4,679	2,191
Total revenue	30,586	91,182	69,045
Operating costs and expenses			
Operating, including stock-based compensation (note 11)	2,798	6,096	7,500
Selling, general and administrative, including stock-based compensation (note 11)	34,703	42,792	47,778
Research and development, including stock-based compensation (note 11)	10,240	17,032	18,477
Gain on legal settlement	—	(60,450)	(6,000)
Impairment of intangible assets (note 7)	—	20,669	35,221
Depreciation and amortization	4,005	6,088	9,043
	51,746	32,227	112,019
Operating income (loss)	(21,160)	58,955	(42,974)
Other income (expense):			
Interest Expense	(14,956)	(7,424)	(1,138)
Dividend and interest income	5,020	3,797	5,426
Share of earnings (losses) of affiliate (note 6)	641,544	(120,962)	(127,573)
Gain (loss) on dilution of investment in affiliate (note 6)	770,766	(7,198)	(87,158)
Realized and unrealized gains (losses) on financial instruments, net (note 4) ...	94,122	2,619	51,189
Other, net	336	158	(63)
Earnings (loss) from continuing operations before income taxes	1,475,672	(70,055)	(202,291)
Income tax benefit (expense)	(558,369)	19,868	67,686
Net earnings (loss) attributable to Liberty Broadband shareholders	\$ 917,303	(50,187)	(134,605)
Basic earnings (loss) from continuing operations attributable to Series A, Series B and Series C Liberty Broadband shareholders per common share (note 3)	\$ 6.03	(0.49)	(1.52)
Diluted net earnings (loss) attributable to Series A, Series B and Series C Liberty Broadband shareholders per common share (note 3)	\$ 6.00	(0.49)	(1.52)

See accompanying notes to consolidated financial statements.

LIBERTY BROADBAND CORPORATION

Consolidated Statements of Comprehensive Earnings (Loss)

Years ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	amounts in thousands		
Net earnings (loss)	\$ 917,303	(50,187)	(134,605)
Other comprehensive earnings (loss), net of taxes:			
Unrealized holding gains (losses) arising during the period	(221)	(287)	(3,163)
Share of other comprehensive earnings (loss) of equity affiliate	811	1,274	3,191
Other	<u>(1,839)</u>	<u>—</u>	<u>—</u>
Other comprehensive earnings (loss), net of taxes	<u>(1,249)</u>	<u>987</u>	<u>28</u>
Comprehensive earnings (loss) attributable to Liberty Broadband shareholders.	<u>\$ 916,054</u>	<u>(49,200)</u>	<u>(134,577)</u>

See accompanying notes to consolidated financial statements.

LIBERTY BROADBAND CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
	amounts in thousands		
Cash flows from operating activities:			
Net earnings (loss)	\$ 917,303	(50,187)	(134,605)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,005	6,088	9,043
Stock-based compensation	5,713	6,380	999
Impairment of intangible assets	—	20,669	35,221
Cash payments for stock-based compensation	(591)	(1,268)	(732)
Share of (earnings) losses of affiliate, net	(641,544)	120,962	127,573
(Gain) loss on dilution of investment in affiliate	(770,766)	7,198	87,158
Realized and unrealized (gains) losses on financial instruments, net	(94,122)	(2,619)	(51,189)
Deferred income tax expense (benefit)	560,778	(24,964)	(66,703)
Other, net	1,033	(1,440)	18
Changes in operating assets and liabilities:			
Current and other assets	9,161	(1,238)	446
Payables and other liabilities	(2,868)	(44,292)	(4,501)
Net cash provided by operating activities	(11,898)	35,289	2,728
Cash flows from investing activities:			
Capital expended for property and equipment	(267)	(731)	(1,398)
Cash paid for acquisitions, net of cash acquired	—	—	(48,088)
Investments in equity investees	(5,000,000)	—	(175,857)
Amounts loaned to former parent	—	—	(55,646)
Repayments by former parent on loan receivable	—	—	80,012
Purchases of short term investments and other marketable securities	(155,444)	(18,032)	(9,001)
Sales of short term investments and other marketable securities	164,458	18,019	—
Other investing activities, net	453	(1,735)	(8)
Net cash used in investing activities	(4,990,800)	(2,479)	(209,986)
Cash flows from financing activities:			
Cash received from rights offering	—	697,309	—
Borrowings of debt	200,000	67,995	372,000
Repayments of debt	—	(40,000)	—
Cash received from issuance of Series C Liberty Broadband common stock	4,400,000	—	—
Contribution from (distribution to) former parent, net	—	—	(129,184)
Proceeds (payments) from issuances of financial instruments	(47,888)	30,158	130,237
Payments from settlements of financial instruments	—	(182,192)	(130,237)
Other financing activities, net	1,235	4,190	—
Net cash provided by (used in) financing activities	4,553,347	577,460	242,816
Net increase (decrease) in cash	(449,351)	610,270	35,558
Cash and cash equivalents, beginning of year	655,079	44,809	9,251
Cash and cash equivalents, end of year	\$ 205,728	655,079	44,809

Supplemental disclosure to the consolidated statements of cash flows:

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Cash paid for interest	\$ 13,783	7,251	1,078
Cash paid (received) for taxes	\$ (9,410)	5,485	2,870

See accompanying notes to consolidated financial statements.

LIBERTY BROADBAND CORPORATION
Consolidated Statement of Equity
Years ended December 31, 2016, 2015 and 2014

	Preferred Stock	Series A	Common stock Series B	Series C	Additional paid-in capital	Parent's investment	Accumulated other comprehensive earnings	Retained earnings (accumulated deficit)	Total equity
					amounts in thousands				
Balance at January 1, 2014	\$ —	—	—	—	—	2,986,079	7,890	(214,775)	2,779,194
Net earnings (loss)	—	—	—	—	—	—	—	(134,605)	(134,605)
Other comprehensive earnings (loss)	—	—	—	—	—	—	28	—	28
Stock-based compensation	—	—	—	—	422	—	—	—	422
Change in capitalization in connection with Broadband Spin-Off	—	261	25	572	3,155,537	(3,156,395)	—	—	—
Contribution from (distribution to) former parent	—	—	—	—	(299,500)	170,316	—	—	(129,184)
Tax attributes in connection with Broadband Spin-Off	—	—	—	—	(21,086)	—	—	—	(21,086)
Balance at December 31, 2014	—	261	25	572	2,835,373	—	7,918	(349,380)	2,494,769
Net earnings (loss)	—	—	—	—	—	—	—	(50,187)	(50,187)
Other comprehensive earnings (loss)	—	—	—	—	—	—	987	—	987
Stock-based compensation	—	—	—	—	5,200	—	—	—	5,200
Issuance of common stock upon exercise of stock options	—	1	—	1	138	—	—	—	140
Excess tax benefits from stock-based compensation	—	—	—	—	1,217	—	—	—	1,217
Common stock issued pursuant to the rights offering	—	—	—	173	697,136	—	—	—	697,309
Other	—	—	—	—	(1,216)	—	—	—	(1,216)
Balance at December 31, 2015	—	262	25	746	3,537,848	—	8,905	(399,567)	3,148,219
Net earnings (loss)	—	—	—	—	—	—	—	917,303	917,303
Other comprehensive earnings (loss)	—	—	—	—	—	—	(1,249)	—	(1,249)
Stock-based compensation	—	—	—	—	5,362	—	—	—	5,362
Issuance of common stock upon exercise of stock options	—	—	—	1	3,529	—	—	—	3,530
Issuance of common stock	—	—	—	783	4,399,217	—	—	—	4,400,000
Other	—	—	—	—	(73)	—	—	—	(73)
Balance at December 31, 2016	\$ —	262	25	1,530	7,945,883	—	7,656	517,736	8,473,092

See accompanying notes to consolidated financial statements.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements

December 31, 2016, 2015 and 2014

(1) Basis of Presentation

During May 2014, the board of directors of Liberty Media Corporation and its subsidiaries (“Liberty”) authorized management to pursue a plan to spin-off to its stockholders common stock of a wholly-owned subsidiary, Liberty Broadband Corporation (“Liberty Broadband” or the “Company”), and to distribute subscription rights to acquire shares of Liberty Broadband’s common stock (the “Broadband Spin-Off”). At the time of the Broadband Spin-off, Liberty Broadband was comprised of (i) Liberty’s former interest in Charter Communications, Inc. (“Legacy Charter”), (ii) Liberty’s former wholly-owned subsidiary TruePosition, Inc. (“TruePosition”), (iii) Liberty’s former minority equity investment in Time Warner Cable, Inc. (“Time Warner Cable”), (iv) certain deferred tax liabilities, as well as liabilities related to the Time Warner Cable written call options and (v) initial indebtedness, pursuant to margin loans entered into prior to the completion of the Broadband Spin-Off. These financial statements refer to the combination of the aforementioned subsidiary, investments, and financial instruments, as “Liberty Broadband,” “the Company,” “us,” “we” and “our” in the notes to the consolidated financial statements. The Broadband Spin-Off was accounted for at historical cost due to the pro rata nature of the distribution to holders of Liberty common stock.

In the Broadband Spin-Off, record holders of Liberty Series A, Series B and Series C common stock received one-fourth of a share of the corresponding series of Liberty Broadband common stock for each share of Liberty common stock held by them, with cash paid in lieu of fractional shares. In addition, following the completion of the Broadband Spin-Off, on December 10, 2014, stockholders received a subscription right to acquire one share of Series C Liberty Broadband common stock for every five shares of Liberty Broadband common stock. See note 10 for additional information related to the rights offering.

Following the Broadband Spin-Off, Liberty and Liberty Broadband operate as separate, publicly traded companies, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the Broadband Spin-Off, Liberty (for accounting purposes a related party of the Company) and Liberty Broadband entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the Broadband Spin-Off and to provide for an orderly transition. These agreements include a reorganization agreement, a services agreement, a facilities sharing agreement and a tax sharing agreement.

The reorganization agreement provides for, among other things, the principal corporate transactions (including the internal restructuring) required to effect the Broadband Spin-Off, certain conditions to the Broadband Spin-Off and provisions governing the relationship between Liberty Broadband and Liberty with respect to and resulting from the Broadband Spin-Off. The tax sharing agreement provides for the allocation and indemnification of tax liabilities and benefits between Liberty and Liberty Broadband and other agreements related to tax matters. Pursuant to the tax sharing agreement, Liberty Broadband has agreed to indemnify Liberty, subject to certain limited exceptions, for losses and taxes resulting from the Broadband Spin-Off to the extent such losses or taxes result primarily from, individually or in the aggregate, the breach of certain restrictive covenants made by Liberty Broadband (applicable to actions or failures to act by Liberty Broadband and its subsidiaries following the completion of the Broadband Spin-Off). Pursuant to the services agreement, Liberty provides Liberty Broadband with general and administrative services including legal, tax, accounting, treasury and investor relations support. Under the facilities sharing agreement, Liberty Broadband shares office space with Liberty and related amenities at Liberty’s corporate headquarters. Liberty Broadband will reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services which will be negotiated semi-annually. Under these various agreements, approximately \$3.4 million and \$3.3 million were reimbursed to Liberty for the years ended December 31, 2016 and 2015, respectively.

On May 18, 2016, Time Warner Cable merged with Charter (the “Time Warner Cable Merger”). In connection with the Time Warner Cable Merger, Legacy Charter underwent a corporate reorganization, resulting in CCH I, LLC (“Charter”), a former subsidiary of Charter, becoming the new publicly traded parent company. Also on May 18, 2016, the previously announced acquisition of Bright House Networks, LLC (“Bright House”) from Advance/Newhouse Partnership (“A/N”) by Charter (the “Bright House Transaction”) was completed. In connection with the Time Warner Cable Merger and Bright House Transaction,

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Liberty Broadband entered into certain agreements with Legacy Charter, Charter (for accounting purposes a related party of the Company), Liberty Interactive Corporation (“Liberty Interactive,” for accounting purposes a related party of the Company) and Time Warner Cable. As a result of the Time Warner Cable Merger and Bright House Transaction (collectively, the “Transactions”), Liberty Broadband exchanged its shares of Time Warner Cable for shares of Charter and purchased additional shares of Charter. As a result, and pursuant to proxy agreements entered into with Liberty Interactive and A/N, Liberty Broadband controls 25.01% of the aggregate voting power of Charter. See note 6 for additional detail regarding these transactions and corresponding agreements.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and represent a combination of the historical financial information of Skyhook, the Company’s interest in Charter, the Company’s former minority equity investment in Time Warner Cable and certain deferred tax liabilities. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

(2) Description of Business

Skyhook Holding, Inc. (formerly known as TruePosition, Inc.) was originally incorporated on November 24, 1992 to provide technology for locating wireless phones and other mobile devices. Skyhook Holding, Inc.’s location offering was a passive network overlay system using its patented U-TDOA technology (“U-TDOA service”) and was used primarily to provide E-9-1-1 services domestically and to enhance services in support of commercial applications, national security and law enforcement worldwide. In February 2014, Skyhook Holding, Inc. acquired 100% of the outstanding common shares of Skyhook Wireless, Inc., for approximately \$57.5 million in cash. Skyhook Wireless, Inc. operates a global location network containing billions of geolocated Wi-Fi access points (“Wi-Fi location software solution”) and cell towers that serve as the reference infrastructure for providing location services. These Wi-Fi location software solutions are used primarily by mobile device makers, wireless carriers, and asset tracking platforms to understand the precise geographic location and movement of a mobile device. In addition to Wi-Fi location software solutions, Skyhook also provides location-based context services that provide not just the precise latitude and longitude of a given mobile device, but also the real world context of that location. For example, Skyhook can provide customers with an understanding of the type of location (e.g., a fast-food restaurant or an airport), the ability to provide notifications and triggers upon the entry or exit of a device from a pre-defined location, and insights based on historical device locations. These location-based context solutions provide a way for application developers, enterprises, and advertisers to understand consumers’ mobile behavior and to improve their user experience, while also providing companies with the ability to reach and measure their audiences in new and relevant ways. Acquisition related costs of \$958 thousand are included in selling, general and administrative expenses for the year ending December 31, 2014.

In 2015, one of Skyhook Holding, Inc.’s customers, a wireless carrier utilizing the legacy U-TDOA service which accounted for approximately 80% - 90% of consolidated revenue at the time, gave notice that it planned to discontinue use of the U-TDOA service and did not intend to renew its contract, which expired on December 31, 2015. The loss of this customer had a material adverse effect on Skyhook Holding, Inc.’s business. As a result of the loss of this wireless carrier customer, further changes in the regulatory environment and a shift in the overall market for the legacy U-TDOA service, Skyhook Holding, Inc. ceased making further investment in its U-TDOA products. In 2016, Skyhook Holding, Inc. and Skyhook Wireless, Inc. combined operations in order to focus on the development and sale of the suite of location and context products, and are referred to collectively herein as “Skyhook.”

For both its location and context solutions, Skyhook earns revenue from device makers, application providers, enterprises and advertising companies through the integration of Skyhook’s technology, the provision of location services and via the sale of data. Skyhook also earns revenue through entering into licensing agreements with companies to utilize its intellectual property. Although the revenue generated from license agreements has thus far been one-time in nature, Skyhook anticipates a recurring revenue stream from its licensing activities in future periods.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Charter is the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet and voice services to approximately 26.2 million residential and business customers at December 31, 2016. In addition, Charter sells video and online advertising inventory to local, regional and national advertising customers; and fiber-delivered communications and managed information technology (“IT”) solutions to business customers. Charter also owns and operates regional sports networks and local sports, news and lifestyle channels and its residential services include security and home management services. Charter’s core strategy is to deliver high quality products at highly competitive prices, combined with outstanding service.

Also included in Liberty Broadband is a former investment in outstanding shares of Time Warner Cable, which was classified as available-for-sale and carried at fair value based on quoted market prices until the second quarter of 2016 when Time Warner Cable merged with Charter. See note 5 for information regarding the Company’s former investment in Time Warner Cable. Additionally, the Company historically had written call options and a cashless collar agreement on Time Warner Cable shares. See note 4 for information regarding the Time Warner Cable written call options and cashless collar agreement.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash consists of cash deposits held in global financial institutions. Cash equivalents consist of highly liquid investments with original maturities of three months or less at the time of acquisition. Cash that has restrictions upon its usage has been excluded from cash and cash equivalents. Restricted cash is comprised of a certificate of deposit being held as collateral against Skyhook’s office lease in Boston. Restricted cash was \$32 thousand and included in Other assets in the consolidated balance sheets at both December 31, 2016 and 2015.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and reduced by an allowance for doubtful accounts. For accounts outstanding longer than the contractual payment terms, the Company determines an allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, a specific customer’s ability to pay its obligations to us, and current economic conditions.

Derivative Instruments and Hedging Activities

All of the Company’s derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the Company’s derivatives are currently designated as hedges.

The fair value of certain of the Company’s derivative instruments are estimated using the Black Scholes Merton option-pricing model (“Black-Scholes model”). The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtained volatility rates from pricing services based on the expected volatility of the underlying security over the remaining term of the derivative instrument. A discount rate was obtained at the inception of the derivative instrument and updated each reporting period, based on the Company’s estimate of the discount rate at which it could currently settle the derivative instrument. The Company considered its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Management judgment was required in estimating the Black-Scholes variables. See note 4 for further discussion of fair value of the Company’s derivative

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

instruments. The Company had an outstanding derivative instrument classified as an asset at December 31, 2016. See note 4 for further information.

Property and Equipment

Property and equipment consists of the following (amounts in thousands):

	December 31,	
	2016	2015
Support equipment.	\$ 5,177	21,769
Computer equipment.	2,040	2,257
Furniture & fixtures.	1,813	2,025
	<u>9,030</u>	<u>26,051</u>
Accumulated depreciation.	<u>(8,320)</u>	<u>(24,803)</u>
	<u>\$ 710</u>	<u>1,248</u>

Property and equipment is recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three years for computer equipment and five years for support equipment and furniture and fixtures. In 2015, Skyhook wrote-off the majority of its assets related to its legacy U-TDOA service.

Investments

All marketable debt and equity securities held by the Company are classified as available-for-sale (“AFS”) and are carried at fair value generally based on quoted market prices. Fair values are determined for each individual security in the investment portfolio. Unrealized gains and losses, net of taxes, arising from changes in fair value are reported in accumulated other comprehensive income (loss) as a component of shareholders’ equity.

GAAP permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity’s statements of operations (the “Fair Value Option”). Liberty Broadband has elected the Fair Value Option for those of its AFS securities which it considers to be non-strategic (“Fair Value Option Securities”). Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying consolidated statements of operations. The total value of AFS securities for which the Company has elected the Fair Value Option aggregated \$438.9 million as of December 31, 2015. There were no AFS securities outstanding at December 31, 2016.

The Company continually reviews its AFS securities not designated as Fair Value Option Securities to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors considered in this determination are the length of time that the fair value of the investment is below the carrying value, the severity of the decline, and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts’ ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company’s intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investments. The Company’s assessment of the foregoing factors involves considerable management judgment and accordingly, actual results may differ materially from the Company’s estimates and judgments. Writedowns of AFS securities would be included in the consolidated statements of

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

operations as other than temporary declines in fair values of investments. There were no impairment charges recorded during 2016, 2015 or 2014.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company determines the difference between the purchase price of the investee and the underlying equity which results in an excess basis in the investment. This excess basis is allocated to the underlying assets and liabilities of the Company's investee through a purchase accounting exercise and is allocated within memo accounts used for equity accounting purposes. Depending on the applicable underlying assets, these amounts are either amortized over the applicable useful lives or determined to be indefinite lived. We periodically evaluate our equity method investment to determine if decreases in fair value below our cost basis are other than temporary. If a decline in fair value is determined to be other than temporary, we are required to reflect such decline in our consolidated statement of operations. Other than temporary declines in fair value of our equity method investment would be included in share of earnings (losses) of affiliate in our consolidated statement of operations. Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities by such equity investee, are recognized in the statement of operations through the gain (loss) on dilution of investment in affiliate line item.

As Liberty Broadband does not control the decision making process or business management practices of our affiliate accounted for using the equity method, Liberty Broadband relies on management of its affiliate to provide it with accurate financial information prepared in accordance with GAAP that the Company uses in the application of the equity method. In addition, Liberty Broadband relies on the audit reports that are provided by the affiliate's independent auditors on the financial statements of such affiliate. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliate that would have a material effect on Liberty Broadband's consolidated financial statements. See note 6 for additional discussion regarding our investment in Charter and the Transactions that occurred during the second quarter of 2016.

Leases

The Company, through its consolidated entities, leases facilities and certain equipment under cancelable and non-cancelable lease agreements. The terms of some of the lease agreements provide for rental payments on a graduated basis. Rent expense is recognized on a straight-line basis over the lease period and accrued as rent expense incurred but not paid. The lease term begins on the date we become legally obligated for the rent payments or when we take possession of the office space, whichever is earlier.

In February 2016, the FASB issued new accounting guidance on lease accounting. This guidance requires a company to recognize lease assets and lease liabilities arising from operating leases in the statement of financial position. The new guidance also simplifies the accounting for sale and leaseback transactions. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. Companies are required to use a modified retrospective approach to adopt this guidance. The Company has not yet determined the effect of the standard on its ongoing financial reporting, and has not yet determined an adoption date. The Company is currently working with its consolidated subsidiary to evaluate the impact of the adoption of this new guidance on our consolidated financial statements, including identifying the population of leases, evaluating technology solutions and collecting lease data.

Goodwill and Other Indefinite Lived Intangible Assets

The Company performs at least annually an assessment of the recoverability of goodwill and other indefinite-lived intangible assets during the fourth quarter of each year. The Company utilizes a qualitative assessment for determining whether

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

the quantitative impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. In evaluating goodwill on a qualitative basis, the Company reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it was more likely than not that an indicated impairment exists for any of our reporting units. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company-specific performance in future periods.

If based on the qualitative analysis it is more likely than not that an impairment exists, the Company performs the two-step impairment test. In the Step 1 Test, the Company compares the estimated fair value of a reporting unit to its carrying value. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in the Company's valuation analysis are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose carrying value exceeds the fair value, a second test is required to measure the impairment loss (the "Step 2 Test"). In the Step 2 Test, the fair value (Level 3) of the reporting unit is allocated to all of the identifiable assets and liabilities of the reporting unit, including identifiable assets that may not currently be recognized, with any residual value being allocated to goodwill. Any excess of the carrying value of the goodwill over this allocated amount is recorded as an impairment charge.

The accounting guidance also permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not that the carrying value of the Company's indefinite-lived intangible assets, other than goodwill, exceeds its fair value, then a quantitative assessment is performed. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

See note 7 for additional discussion regarding goodwill impairment losses recorded during the years ended December 31, 2015 and 2014. There was no goodwill impairment loss recorded during the year ended December 31, 2016.

Internal Use Software Development Costs

Certain costs incurred during the application development stage related to the development of internal use software are capitalized and included in other intangible assets. Capitalized costs include internal and external costs, if direct and incremental, and deemed by management to be significant. Costs related to the planning and post implementation phases of software development are expensed as these costs are incurred. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the website or software resulting in added functionality, in which case the costs are capitalized.

Impairment of Long-Lived Assets

Intangible assets with definite lives and other long-lived assets are carried at cost and are amortized on a straight-line basis over their estimated useful lives of three to five and a half years. The Company periodically reviews the carrying value of long-lived assets or asset groups, including property and equipment, to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets or asset groups might not be recoverable.

Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset group, or a significant decline in the observable market value of an asset group, among others. If such facts indicate a

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

potential impairment, the recoverability of the asset group is assessed by determining whether the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset group over the remaining economic life of the asset group. If the carrying amount of the asset group is greater than the expected undiscounted cash flows to be generated by such asset group, including its ultimate disposition, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such asset groups exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of asset groups. Accordingly, actual results could vary significantly from such estimates. Asset groups to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell. The Company recorded a \$16.8 million impairment loss to its intangible assets with definite lives during the year ended December 31, 2014 due to an anticipated decline in Skyhook's operations as a result of the loss of one of its significant Wi-Fi location software solution customers, as discussed in note 7. There was no indication of impairment of long-lived assets during the years ended December 31, 2016 or 2015.

Foreign Currency Translation and Transaction Gains and Losses

The functional currency of the Company is the United States ("U.S.") dollar. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive earnings (loss) as unrealized (based on the applicable period end exchange rate) or realized upon settlement of the transactions.

Revenue Recognition

Skyhook earns revenue from device makers, application providers, enterprises and advertising companies through the integration of Skyhook's software and technology, the provision of location services and through the sale of data. In addition, Skyhook earns revenue from licensing its intellectual property to other enterprises. Prior to 2016, Skyhook also earned significant revenue from the sale of hardware and the licensing of associated software required to operate a passive network overlay system for generating location records for wireless devices using U-TDOA technology, and from professional and support services related thereto. These services were primarily sold to wireless carriers to provide E-9-1-1 services domestically and to enhance services in support of commercial applications, national security and law enforcement worldwide.

Skyhook recognizes fees received from intellectual property licensing at the inception of a license term for perpetual licenses (or licenses with terms comprising substantially all of the remaining life of the intellectual property) when collectability of the license fee is probable and there are no ongoing performance obligations. Revenue recognition is deferred when collectability of the license fee is not considered probable, when the license term is less than substantially all of the remaining life of the intellectual property, or when there are ongoing performance obligations which are not separate elements from the license. In such circumstances, revenue may be recognized as the license fees are collected or over the license term or performance period as appropriate.

Fees from the integration of Skyhook technology are accounted for consistent with the outstanding guidance for software revenue recognition. Under those policies, for revenue derived from multiple-element arrangements, if vendor specific objective evidence ("VSOE") exists for each of the elements of the arrangement at the outset, the Company allocates the revenue to the various elements for recognition upon delivery of each element. If VSOE is not present, the revenue is deferred until the earlier of establishing sufficient VSOE for allocating revenue for recognition or delivery of all of the elements. If a multiple-element arrangement includes post-contract customer support (commonly referred to as maintenance), VSOE must exist for the maintenance in order to allocate revenue to all of the elements of the arrangement. If VSOE does not exist for the maintenance, revenue for the entire arrangement is recognized ratably over the contractual or expected term of the maintenance arrangement.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Revenue from the provision of location services and through the sale of data and revenue from tangible products that contain software components and non-software components that function together to deliver the tangible products essential functionality are not under the scope of software revenue recognition guidance and are instead subject to the guidance for multiple-element arrangements. Accordingly, for multiple-element arrangements entered into or materially modified on or after January 1, 2011, the overall arrangement fee is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or third-party evidence of selling price or are based on the entity's estimated selling price. The associated revenue for each element is recognized upon delivery assuming all other criteria for revenue recognition are met.

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations, and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. We have identified the Company's various revenue streams and are working with our subsidiary to evaluate the quantitative effects of the new guidance. The Company has not yet selected a transition method. We will continue to provide updates as to the progress of our evaluation in our quarterly reports during 2017.

Research and Development Costs

Research and development costs are expensed as incurred.

Deferred Revenue and Deferred Costs

Deferred revenue represents billings in excess of revenue previously recognized. Deferred costs represent direct costs related to installation services, hardware, and software, which, to the extent not previously recognized, are recognized as the related revenue is recognized. As discussed in note 7, Skyhook recognized \$35.5 million of deferred revenue during December 2015, which was attributable to prepaid transaction fees, in connection with the expiration of its largest legacy U-TDOA service customer's contract.

Stock-Based Compensation

As more fully described in note 11, Liberty Broadband has granted to its directors, employees and employees of certain of its subsidiaries options, restricted stock and stock appreciation rights ("SARs") to purchase shares of Liberty Broadband common stock (collectively, "Awards"). Liberty Broadband measures the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). Liberty Broadband measures the cost of employee services received in exchange for an Award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the Award, and remeasures the fair value of the Award at each reporting date. Certain outstanding awards of Liberty were assumed by Liberty Broadband at the time of the Broadband Spin-Off.

Additionally, Skyhook sponsors long-term incentive plans ("LTIPs") which provide for the granting of phantom stock units ("PSUs"), and phantom stock appreciation rights ("PARs") to employees, directors, and consultants of Skyhook. Skyhook

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

measures the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award and recognizes that cost ratably over the period during which the employee is required to provide service (usually the vesting period of the award). Skyhook measures the cost of employee services received in exchange for awards of liability instruments (such as PSUs and PARs that will be settled in cash) based on the current fair value of the award, and remeasures the fair value of the award at each reporting date. The consolidated statements of operations includes stock-based compensation related to Skyhook awards.

In March 2016, the FASB issued new guidance which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2016, with early application permitted. The Company adopted this guidance in the third quarter of 2016. In accordance with the new guidance, excess tax benefits and tax deficiencies are recognized as income tax benefit or expense rather than as additional paid-in capital. The Company has elected to recognize forfeitures as they occur rather than continue to estimate expected forfeitures. In addition, pursuant to the new guidance, excess tax benefits are classified as an operating activity on the consolidated statements of cash flows. The recognition of excess tax benefits and deficiencies are applied prospectively from January 1, 2016. Based on the Company's analysis, no cumulative effect adjustment to retained earnings was necessary for tax benefits that were not previously recognized and for adjustments to compensation cost based on actual forfeitures. The presentation changes for excess tax benefits have been applied retrospectively in the consolidated statements of cash flows, resulting in the reclassification of \$1.2 million of excess tax benefits for the year ended December 31, 2015, from cash flows from financing activities to cash flows from operating activities. There were no excess tax benefits reclassified for the years ended December 31, 2016 and December 31, 2014.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the Company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more likely than not that such net deferred tax assets will not be realized. We consider all relevant factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as assessing available tax planning strategies. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in interest expense in the accompanying consolidated statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in other income (expense) in the accompanying consolidated statements of operations.

We recognize in our consolidated financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Certain Risks and Concentrations

The Skyhook business was subject to certain risks and concentrations including dependence on relationships with its customers. Skyhook had one significant legacy U-TDOA service customer whose contract expired on December 31, 2015. The loss of this customer had a material adverse effect on Skyhook's business which is expected to continue unless Skyhook is able to generate significant new business to replace the financial impact of this customer. For the years ended December 31, 2015 and 2014, this customer accounted for 85% and 83%, respectively, of Skyhook's total revenue.

Contingent Liabilities

Periodically, we review the status of all significant outstanding matters to assess any potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss in our consolidated statements of operations. We provide disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) consists of net income (loss), cumulative foreign currency translation adjustments, unrealized gains and losses on available-for-sale securities, net of tax and the Company's share of the comprehensive earnings (loss) of our equity method affiliate.

Earnings per Share (EPS)

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

The Company issued 85,761,332 common shares, which is the aggregate number of shares of Series A, Series B and Series C common stock outstanding upon the completion of the Broadband Spin-Off on November 4, 2014. Additionally, following the completion of the Broadband Spin-Off, Liberty Broadband distributed subscription rights, which were priced at a discount to the market value, to all holders of Liberty Broadband common stock (see further discussion in note 10). The rights offering, because of the discount, is considered a stock dividend which requires retroactive treatment for prior periods for the weighted average shares outstanding based on a factor applied determined by the fair value per share immediately prior to the rights exercise and the theoretical fair value after the rights exercise. The number of shares issued upon completion of the Broadband Spin-Off, adjusted for the rights factor, was used to determine both basic and diluted EPS for the period from January 1, 2014 through the date of the Broadband Spin-Off, as no Company equity awards were outstanding prior to the Broadband Spin-Off. In addition, the Company issued 78,250,042 shares of Series C common stock in connection with the Time Warner Cable Merger on May 18, 2016 (see further discussion in note 10). Basic EPS subsequent to the Broadband Spin-Off was computed using the weighted average number of shares outstanding ("WASO"), adjusted for the rights factor, from the date of the completion of the Broadband Spin-Off through January 9, 2015, the date on which the rights offering was fully subscribed. Basic EPS subsequent to January 9, 2015 was computed using WASO. Diluted EPS subsequent to the Broadband Spin-Off was computed using the WASO from the date of the completion of the Broadband Spin-Off through January 9, 2015, adjusted for the rights factor and potentially dilutive equity awards outstanding during the same period. Subsequent to January 9, 2015, basic EPS

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

was computed using the WASO during the period, and diluted EPS was computed using the WASO adjusted for potentially dilutive equity awards outstanding during the period.

	Years ended December 31,		
	2016	2015	2014
	number of shares in thousands		
Basic WASO	152,103	102,504	88,143
Potentially dilutive shares	749	494	630
Diluted WASO	152,852	102,998	88,773

Potential common shares excluded from diluted EPS because their inclusion would be antidilutive for the years ended December 31, 2016, 2015 and 2014 are approximately 17 thousand, 3 thousand, and 17 thousand, respectively.

Reclasses and adjustments

Certain prior period amounts have been reclassified for comparability with the current year presentation.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers (i) application of the equity method of accounting for its affiliates, (ii) fair value of non-financial instruments, (iii) fair value of financial instruments, (iv) revenue recognition, and (v) accounting for income taxes to be its most significant estimates.

Recent Accounting Pronouncements

In August 2014, the FASB issued new accounting guidance which requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required. The amendments in this update are effective for the annual period ending after December 15, 2016, and the Company adopted this standard during the year ended December 31, 2016. The Company's management completed the required analysis as of December 31, 2016, noting no conditions or events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern.

(4) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level 3.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

The Company's assets and liabilities measured at fair value are as follows:

Description	December 31, 2016			December 31, 2015		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
			amounts in thousands			
Cash equivalents	\$ 198,011	198,011	—	639,956	639,956	—
Short-term marketable securities	\$ —	—	—	9,014	9,014	—
Available-for-sale securities .	\$ —	—	—	439,560	439,560	—
Derivative instruments (1) . .	\$ 49,019	—	49,019	—	—	—

- (1) As of December 31, 2016, the Company has an outstanding zero-strike call option on 704,908 shares of Liberty Broadband Series C common stock which expires in March 2017. The Company prepaid a premium of \$47.9 million in December 2016. Liberty Broadband has the option to settle in cash or shares of Liberty Broadband Series C common stock upon expiration of the contract.

The fair value of Level 2 derivative instruments were derived from a Black-Scholes model using observable market data as the significant inputs. The inputs used in the model during the period outstanding (exclusive of the applicable trading price of Series C Liberty Broadband common stock and the strike prices associated with the call options) were as follows:

	Range	
Volatility	21.1 %	21.5 %
Interest rate	1.0 %	1.0 %
Dividend yield	0 %	0 %

Other Financial Instruments

Other financial instruments not measured at fair value on a recurring basis include trade receivables, trade payables, accrued and other current liabilities, current portion of debt and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value due to the short maturity of these instruments as reported on our consolidated balance sheets. The carrying value of our long-term debt bears interest at a variable rate and therefore is also considered to approximate fair value.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Realized and Unrealized Gains (Losses) on Financial Instruments

Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31,		
	2016	2015	2014
	(amounts in thousands)		
Legacy Charter warrants (1)	\$ NA	NA	32,782
Time Warner Cable investment and financial instruments (2)(3)(4)	92,990	2,619	18,407
Derivative instruments (5)	1,132	—	—
	<u>\$ 94,122</u>	<u>2,619</u>	<u>51,189</u>

- (1) As discussed in note 6, Liberty Broadband exercised all of the Company's outstanding warrants to purchase shares of Legacy Charter common stock during November 2014, subsequent to the completion of the Broadband Spin-Off.
- (2) As of December 31, 2014, the Company had an outstanding written call option on 625,000 Time Warner Cable shares with a strike price of \$92.02 per share which expired in February 2015. Upon expiration, this written call option was rolled into a new written call option on 625,000 Time Warner Cable shares with a strike price of \$100.39 per share which the Company cash settled during June 2015 for \$48.3 million. Additionally, as of December 31, 2014, the Company had another outstanding written call option on 625,000 Time Warner Cable shares with a strike price of \$90.84 per share which the Company cash settled during April 2015 for \$36.7 million. No written call options on Time Warner Cable shares were outstanding as of or during the year ended December 31, 2016.
- (3) On March 27, 2015, Liberty Broadband entered into a cashless collar agreement with a financial institution on 1.7 million Time Warner Cable shares held by the Company with a put option strike price of \$136.80 per share and a call option strike price of \$161.62 per share. The collar was originally scheduled to expire during March 2017. The Company unwound the agreement during July 2015 for \$67.1 million cash paid to the counterparty. In connection with this collar agreement, the Company also entered into a revolving loan agreement with an availability of \$234 million, which was terminated upon unwinding of the collar agreement during July 2015 (note 8).
- (4) As discussed in note 6, Time Warner Cable merged with Charter on May 18, 2016. Therefore the Company no longer has an investment in Time Warner Cable as of May 18, 2016, and the unrealized gain (loss) related to our investment in Time Warner Cable is recorded through this date. In connection with the merger, the Company exchanged, in a tax-free transaction, its shares of Time Warner Cable for shares of Charter Class A common stock.
- (5) As of December 31, 2016, the Company had an outstanding zero-strike call option on 704,908 shares of Liberty Broadband Series C common stock which expires in March 2017. The Company had an unrealized gain on the option during the current year primarily due to an increase in the market price of Liberty Broadband Series C common stock during that period.

(5) Investments in Available-for-Sale Securities

All marketable equity and debt securities held by the Company are classified AFS and are carried at fair value generally based on quoted market prices. GAAP permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statements of operations. The Company has elected to account for those of its AFS securities which it considers to be nonstrategic ("Fair Value

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Option Securities”) at fair value. Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations.

Investments in AFS securities, including our interest in Time Warner Cable which was our only Fair Value Option Security, are summarized as follows:

	December 31, 2016	December 31, 2015
	amounts in thousands	
Time Warner Cable (1)	\$ —	438,912
Other equity securities	—	648
Total Investments in available-for-sale securities . . .	<u>\$ —</u>	<u>439,560</u>

- (1) As discussed in note 6, Time Warner Cable merged with Charter on May 18, 2016. Therefore the Company no longer has an investment in Time Warner Cable as of this date.

Unrealized Holding Gains and Losses

There were no unrealized holding gains in Accumulated other comprehensive earnings (loss) related to investment in AFS securities for the year ended December 31, 2016. For the year ended December 31, 2015, the gross unrealized holding gain related to investment in AFS securities was \$357 thousand. There were no gross unrealized holding losses related to investment in AFS securities for the periods presented.

(6) Investments in Affiliates Accounted for Using the Equity Method

In May 2013, Liberty completed a transaction with investment funds managed by, or affiliated with, Apollo Management, Oaktree Capital Management and Crestview Partners to acquire approximately 26.9 million shares of common stock and approximately 1.1 million warrants in Legacy Charter for approximately \$2.6 billion, which represented an approximate 27% beneficial ownership (including the warrants on an as if converted basis) in Legacy Charter at the time of purchase and a price per share of \$95.50. Liberty funded the purchase with a combination of cash of approximately \$1.2 billion on hand and new margin loan arrangements on approximately 20.3 million Legacy Charter common shares, approximately 720 million SIRIUS XM common shares, approximately 8.1 million Live Nation common shares and a portion of Liberty’s available for sale securities, including shares of Time Warner Cable. The margin loan secured by the Charter and Time Warner Cable shares was repaid and the collateral was released prior to completion of the Broadband Spin-Off. Under Liberty’s stockholders agreement with Charter, Liberty had the right to nominate four directors to the Charter board of directors, subject to certain exclusions and requirements. Liberty also had the right to cause one of its nominees to serve on the nominating and corporate governance, audit and compensation and benefits committees of the board, provided they meet the independence and other qualifications for membership on those committees. These rights were transferred to Liberty Broadband in connection with the Broadband Spin-Off and, in connection with the Bright House Transaction, on May 23, 2015, Liberty Broadband entered into the Second Amended and Restated Stockholders Agreement with Legacy Charter, Charter and A/N, as amended (the “Stockholders Agreement”). The Stockholders Agreement became fully effective upon the closing of the Time Warner Cable Merger and continues to provide Liberty Broadband with board nomination rights. Liberty allocated the purchase price between the shares of common stock and the warrants acquired in the transaction by determining the fair value of the publicly traded warrants and allocating the remaining balance to the shares acquired, which resulted in an excess basis in the investment of \$2,532.3 million. The investment in Charter is accounted for as an equity method affiliate based on our ownership interest and the board seats held by individuals appointed by Liberty Broadband.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

During May 2014, Liberty purchased 897 thousand Legacy Charter shares for approximately \$124.5 million. During November 2014, subsequent to the completion of the Broadband Spin-Off, Liberty Broadband borrowed \$52 million to fund the exercise of all of the Company's outstanding Legacy Charter warrants (see note 8). The exercise of the Legacy Charter warrants resulted in a non-cash investing addition of \$130.6 million to the equity method investments line item and a \$130.6 million non-cash investing reduction to the derivative instruments line item within the consolidated balance sheets.

On May 18, 2016, the Time Warner Cable Merger was completed, which resulted in Legacy Charter and Time Warner Cable becoming wholly owned subsidiaries of Charter. Also on May 18, 2016, the previously announced Bright House Transaction was completed. In connection with these transactions, Legacy Charter underwent a corporate reorganization, resulting in Charter, a former subsidiary of Legacy Charter, becoming the new publicly traded parent company. In connection with the Time Warner Cable Merger and the Bright House Transaction, Liberty Broadband completed the previously announced transactions described below:

Transactions completed in connection with the Time Warner Cable Merger

Charter Investment Agreement

On May 18, 2016, Liberty Broadband completed its previously announced investment in Charter in accordance with the investment agreement dated May 23, 2015 by and among Liberty Broadband, Legacy Charter and Charter (the "Charter Investment Agreement"). Pursuant to the Charter Investment Agreement, immediately following the consummation of the Time Warner Cable Merger, Liberty Broadband purchased from Charter \$4.3 billion of shares of Charter Class A common stock, par value \$0.001 per share, at a price per share of \$195.70 following adjustment by the applicable exchange ratio. As a result, Liberty Broadband received approximately 22.0 million shares of Charter Class A common stock. Liberty Broadband funded its purchase of these shares of New Charter Class A common stock with proceeds from the issuance of Liberty Broadband Series C common stock (note 10).

Charter Contribution Agreement

Also on May 18, 2016, shares of Time Warner Cable common stock held by Liberty Broadband and Liberty Interactive were exchanged, in a tax-free transaction, for shares of Charter Class A common stock which resulted in each of Liberty Broadband and Liberty Interactive receiving one share of Charter Class A common stock for each share of Time Warner Cable common stock so exchanged. In the exchange, Liberty Broadband received approximately 2.4 million shares of Charter Class A common stock, with a fair value of \$531.9 million.

Liberty Interactive Proxy Agreement

Pursuant to the Proxy and Right of First Refusal Agreement, dated May 23, 2015, as amended (the "Liberty Interactive Proxy Agreement"), by and between Liberty Broadband and Liberty Interactive, Liberty Interactive granted Liberty Broadband an irrevocable proxy to vote all shares of Charter common stock owned beneficially or of record by Liberty Interactive following the closing of the Time Warner Cable Merger, for a five year term subject to extension upon the mutual agreement of both parties, subject to certain limitations. So long as the Liberty Interactive Proxy Agreement is in effect, Liberty Broadband also has a right of first refusal to purchase all or a portion of any shares of Charter common stock which Liberty Interactive proposes to transfer, subject to certain limitations.

Transactions Completed in connection with the Bright House Transaction

Second Amended and Restated Stockholders Agreement

On May 18, 2016, pursuant to the Stockholders Agreement, upon the closing of the Bright House Transaction, Liberty Broadband purchased from Charter approximately 3.7 million additional shares of Charter Class A common stock at a price per

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

share of \$191.33 following adjustment by the applicable exchange ratios, for an aggregate purchase price of \$700 million. Liberty Broadband funded its \$700 million purchase in shares of Charter through cash on hand and margin loan draws (note 8).

Proxy and Right of First Refusal Agreement

In connection with the Bright House Transaction, on May 18, 2016, A/N and Liberty Broadband entered into a proxy and right of first refusal agreement, as amended (the “A/N Proxy”), pursuant to which A/N granted Liberty Broadband a five-year proxy to vote shares of Charter held by A/N, capped at a number of shares representing 7% of the voting power of Charter’s outstanding shares. As a result of the A/N Proxy and the Liberty Interactive Proxy Agreement, Liberty Broadband controls 25.01% of the aggregate voting power of Charter following the completion of the Time Warner Cable Merger and the Bright House Transaction and is Charter’s largest stockholder.

So long as the A/N Proxy is in effect, if A/N proposes to transfer common units of Charter Communications Holdings, LLC (which units are exchangeable into Charter shares and which will, under certain circumstances, result in the conversion of certain shares of Class B Common Stock into Charter shares) or Charter shares, in each case, constituting either (i) shares representing the first 7.0% of the outstanding voting power of Charter held by A/N or (ii) shares representing the last 7.0% of the outstanding voting power of New Charter held by A/N, Liberty Broadband will have a right of first refusal (“ROFR”) to purchase all or a portion of any such securities A/N proposes to transfer. The purchase price per share for any securities sold to Liberty Broadband pursuant to the ROFR will be the volume-weighted average price of Charter shares for the two trading day period before the notice of a proposed sale by A/N, payable in cash. Certain transfers are permitted to affiliates of A/N, subject to the transferee entity entering into an agreement assuming the transferor’s obligations under the A/N Proxy.

Investment in Charter

For discussion purposes the term “Charter” will be used to discuss both our previous and current holdings in Legacy Charter and Charter. It is noted that the ticker symbol for Legacy Charter and Charter are the same, and that in connection with the Time Warner Cable Merger, Legacy Charter underwent a corporate reorganization, resulting in Charter, a former subsidiary of Legacy Charter, becoming the new publicly traded parent company.

As of December 31, 2016, the carrying value of Liberty Broadband’s ownership in Charter was approximately \$9,315 million. The market value of Liberty Broadband’s ownership in Charter as of December 31, 2016 was approximately \$15,568 million, which represented an approximate ownership of 20% of the outstanding equity of Charter as of that date.

During the years ended December 31, 2016, 2015 and 2014, there was a dilution gain of \$770.8 million, and dilution losses of \$7.2 million and \$87.2 million, respectively, in the Company’s investment in Charter. The gain during 2016 is primarily due to the Time Warner Cable Merger. Even after considering the exchange of Time Warner Cable shares held by Liberty Broadband to shares of Charter, Liberty Broadband’s interest in Charter was diluted as a result of the conversion of outstanding Time Warner Cable shares held by third parties into shares of Charter. However, Liberty Broadband recognized a gain during the period as Liberty Broadband’s investment basis in Charter was at a price per share below the new equity issued in the Time Warner Cable Merger. This gain was partially offset by losses due to the issuance of Charter common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below Liberty Broadband’s investment basis per share during the year. The loss during 2015 is the result of the issuance of Charter common stock from the exercise of warrants and stock options, held by outside investors (employees and other third parties), at prices below Liberty Broadband’s investment basis per share during the year.

During the years ended December 31, 2016, 2015 and 2014, the Company recorded \$811 thousand, \$1.3 million and \$3.2 million, respectively, of its share of Charter’s other comprehensive earnings, net of income taxes. Charter records gains and losses related to the fair value of its interest rate swap agreements which qualify as hedging activities in other comprehensive income. The pre-tax portion of Liberty Broadband’s share of Charter’s other comprehensive earnings was \$1.3 million, \$2.1 million and \$5.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Due to the amortization of amortizable assets acquired and losses due to warrant and stock option exercises at Charter (as previously discussed), the excess basis has decreased to \$1,243.7 million as of December 31, 2016. Such amount has been allocated within memo accounts used for equity method accounting purposes as follows (amounts in millions):

Property and equipment	\$	222.2
Customer relationships		386.1
Franchise fees		1,170.2
Trademarks		29.2
Goodwill		145.6
Debt		(37.5)
Deferred income tax liability		(672.1)
	\$	<u>1,243.7</u>

Upon acquisition, the Company ascribed remaining useful lives of 7 years and 13 years to property and equipment and customer relationships, respectively, and indefinite lives to franchise fees, trademarks and goodwill. Outstanding debt is amortized over the contractual period using the effective interest rate method. Included in our share of earnings from Charter of \$641.5 million, and losses of Charter of \$121.0 million and \$127.6 million for the years ended December 31, 2016, 2015 and 2014, respectively, are \$41.8 million, \$51.6 million and \$81.2 million, respectively, of losses, net of taxes, due to the amortization of the excess basis of our investment in Charter related to debt and intangible assets with identifiable useful lives. The excess basis amortization during the year ended December 31, 2015 was offset by the write-off of the excess basis related to debt instruments which Charter repaid during the second quarter of 2015 prior to their contractual maturity.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Charter Communications, Inc.

Summarized financial information for Charter is as follows:

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	amounts in millions	
Current assets	\$ 3,300	345
Property and equipment, net	32,963	8,345
Goodwill	29,509	1,168
Intangible assets	81,924	6,862
Other assets	1,371	22,596
Total assets	<u>\$ 149,067</u>	<u>39,316</u>
Current liabilities	\$ 9,572	1,972
Deferred income taxes	26,665	1,590
Long-term debt	59,719	35,723
Other liabilities	2,745	77
Equity	50,366	(46)
Total liabilities and equity	<u>\$ 149,067</u>	<u>39,316</u>

Consolidated Statements of Operations

	Years ended December 31,		
	2016	2015	2014
	amounts in millions		
Revenue	\$ 29,003	9,754	9,108
Cost and expenses:			
Operating costs and expenses (excluding depreciation and amortization)	18,655	6,426	5,973
Depreciation and amortization	6,907	2,125	2,102
Other operating expenses, net	86	89	62
	<u>25,648</u>	<u>8,640</u>	<u>8,137</u>
Operating income	3,355	1,114	971
Interest expense	(2,499)	(1,306)	(911)
Loss on extinguishment of debt	(111)	(128)	—
Other income (expense), net	75	(11)	(7)
Income tax (expense) benefit	2,925	60	(236)
Net earnings (loss)	3,745	(271)	(183)
Less: Net income attributable to noncontrolling interests	(223)	—	—
Net Income (loss) attributable to Charter shareholders	<u>\$ 3,522</u>	<u>(271)</u>	<u>(183)</u>

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

(7) Goodwill and Other Intangible Assets

Changes in the carrying amount of Skyhook goodwill is as follows (amounts in thousands):

Balance at January 1, 2014	\$	20,669
Acquisitions (1)		24,931
Impairments (2)		(18,434)
Balance at December 31, 2014		27,166
Impairments (3)		(20,669)
Balance at December 31, 2015		6,497
Other		—
Balance at December 31, 2016	\$	6,497

- (1) As discussed in note 2, Skyhook Holding, Inc. acquired Skyhook Wireless, Inc. on February 14, 2014.
- (2) In mid-November 2014, Skyhook was notified that one of its significant customers was not expected to renew its contract related to Wi-Fi location software solution for 2015. As a result, approximately 30-40% of Skyhook's Wi-Fi location software solution revenue was not expected to recur during 2015. Due to this anticipated decline in Skyhook's operations, the Company determined the fair value of Skyhook and performed a Step 2 impairment test. The fair value of Skyhook, including the related intangibles and goodwill, was determined using Skyhook's projections of future operating performance and applying a combination of market multiples (market approach) and discounted cash flow (income approach) calculations (Level 3). The impairment test resulted in a \$35.2 million impairment loss recorded to Skyhook's goodwill and intangible assets related to Skyhook's Wi-Fi location software solution during December 2014.
- (3) Skyhook's legacy U-TDOA service was historically largely dependent on one wireless carrier (AT&T), which accounted for approximately 80% - 90% of Skyhook's overall revenue related to its U-TDOA service. During September 2015, AT&T gave notice that it did not intend to renew its contract, which expired on December 31, 2015. The Company believed that the receipt of the notification represented a significant change in circumstances since we last performed our annual goodwill impairment test. Accordingly, we performed a goodwill impairment test upon receipt of the notification. At that time, the estimated fair value of the reporting unit was primarily determined based on the cash and cash equivalents held by the reporting unit, and when compared to its carrying value, it was concluded that a goodwill impairment did not exist. The carrying value of Skyhook included a \$35.5 million deferred revenue liability related to the contract with AT&T. Upon expiration of the contract on December 31, 2015, the deferred revenue was recognized, as all contractual obligations were satisfied at that time. The recognition of this deferred revenue liability increased the reporting unit carrying value. As a result, the Company determined the fair value of Skyhook. As the reporting unit's carrying value exceeded the fair value, we performed a Step 2 impairment test. The fair value of Skyhook, including the related intangibles and goodwill, was determined using Skyhook's projections of future operating performance and applying a combination of market multiples (market approach) and discounted cash flow (income approach) calculations (Level 3). The impairment test resulted in a \$20.7 million impairment loss related to Skyhook's goodwill related to Skyhook's legacy U-TDOA service during December 2015.

As of December 31, 2016, the Company's accumulated goodwill impairment loss was \$39.1 million. The Company does not have any significant indefinite lived intangible assets other than goodwill.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Intangible assets subject to amortization are comprised of the following (amounts in thousands):

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired patents	\$ 10,823	(8,450)	2,373	10,823	(6,872)	3,951
Tradename	2,838	(1,528)	1,310	2,838	(1,154)	1,684
Capitalized software	850	(710)	140	10,973	(10,857)	116
Customer relationships	10,213	(5,440)	4,773	10,212	(4,076)	6,136
	<u>\$ 24,724</u>	<u>(16,128)</u>	<u>8,596</u>	<u>34,846</u>	<u>(22,959)</u>	<u>11,887</u>

Effective January 1, 2015, Skyhook's patents are amortized straight-line over three to three and a half years. Skyhook's capitalized software intangible assets are amortized straight-line over three to five years. Skyhook's customer relationships and tradename are amortized straight-line over five and a half years. Amortization expense was \$3.4 million, \$3.1 million and \$6.5 million for each of the years ended December 31, 2016, 2015 and 2014, respectively.

The estimated future amortization expense for the next five years related to intangible assets with definite lives as of December 31, 2016 is as follows (amounts in thousands):

2017	\$ 3,368
2018	2,573
2019	1,786
2020	869
2021	—
Total	<u>\$ 8,596</u>

(8) Debt

Outstanding debt at December 31, 2016 and December 31, 2015 is summarized as follows:

	December 31, 2016	December 31, 2015
	amounts in thousands	
2014 Margin Loans . .	400,000	400,000
2016 Margin Loans . .	200,000	—
Total	<u>\$ 600,000</u>	<u>400,000</u>

2014 Margin Loans

On October 30, 2014, in connection with and prior to the effectiveness of the Broadband Spin-Off, a wholly-owned special purpose subsidiary of the Company ("BroadbandSPV") entered into two margin loan agreements (the "2014 Margin Loan Agreements") with each of the lenders party thereto. The 2014 Margin Loan Agreements permit BroadbandSPV, subject to certain funding conditions, to borrow term loans up to an aggregate principal amount equal to \$400 million (the "2014 Margin Loans"), of which BroadbandSPV borrowed \$320 million on October 31, 2014 and had \$80 million available to be drawn immediately following the Broadband Spin-Off. During November 2014, subsequent to the Broadband Spin-Off, Liberty Broadband borrowed an additional \$52 million to fund the exercise of the Legacy Charter warrants. As of December 31, 2014, Liberty Broadband had \$372 million outstanding under the 2014 Margin Loan Agreements, with an additional \$28 million available to be drawn. \$300 million of the amount borrowed pursuant to the 2014 Margin Loan Agreements (less certain expenses

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

incurred in connection with the 2014 Margin Loans) was distributed to Liberty prior to the Broadband Spin-Off. During October 2015, Liberty Broadband borrowed an additional \$28 million pursuant to the 2014 Margin Loan Agreements. The maximum borrowing capacity of \$400 million under the 2014 Margin Loan Agreements was outstanding at December 31, 2016. The maturity date of the 2014 Margin Loans is October 30, 2017. Borrowings under the 2014 Margin Loan Agreements bear interest at the three-month LIBOR rate plus 1.55% and have an unused commitment fee of 0.25% per annum based on the average daily unused portion of the 2014 Margin Loans. Borrowings outstanding under these margin loans bore interest at a rate of 2.39% per annum at December 31, 2016. Interest is payable quarterly in arrears beginning on December 31, 2014. The 2014 Margin Loan Agreements contain various affirmative and negative covenants that restrict the activities of BroadbandSPV. The 2014 Margin Loan Agreements do not include any financial covenants. The 2014 Margin Loan Agreements also contain certain restrictions related to additional indebtedness. In connection with Cheetah 5's (as defined below) execution of the 2016 Margin Loan Agreements (as defined below), the 2014 Margin Loan Agreements were amended to, among other things, permit the transactions under the 2016 Margin Loan Agreements and conform certain of the terms in the 2014 Margin Loan Agreements to the 2016 Margin Loan Agreements.

2016 Margin Loans

On March 21, 2016, a wholly-owned special purpose subsidiary of the Company ("Cheetah 5"), entered into two margin loan agreements (the "2016 Margin Loan Agreements" and together with the 2014 Margin Loan Agreements, the "Margin Loan Agreements") with each of the lenders thereto. The 2016 Margin Loan Agreements permit Cheetah 5, subject to certain funding conditions, to borrow initial term loans up to an aggregate principal amount equal to \$200 million and delayed draw loans (the "Draw Loans") up to an aggregate principal amount equal to \$100 million, for an aggregate total of \$300 million (collectively the "2016 Margin Loans"). At December 31, 2016, Cheetah 5 had borrowed \$200 million as of December 31, 2016 and had \$100 million available to be drawn until March 21, 2017. The maturity date of the 2016 Margin Loans is March 21, 2018. Borrowings under the 2016 Margin Loans bear interest at the applicable LIBOR rate plus 2.10% per annum and have an unused commitment fee of 0.5% per annum based on the average daily unused portion of the Draw Loans. Borrowings outstanding under the 2016 Margin Loan Agreements bore interest at a rate of 2.94% per annum at December 31, 2016. Interest is payable quarterly in arrears beginning on March 31, 2016. The proceeds of the 2016 Margin Loans were used for the Company's additional investment in Charter during May 2016 (note 6). Borrowings may also be used for distribution as a dividend or a return of capital, for the purchase of margin stock and for general corporate purposes. The 2016 Margin Loan Agreements contain various affirmative and negative covenants that restrict the activities of Cheetah 5. The 2016 Margin Loan Agreements do not include any financial covenants. The 2016 Margin Loan Agreements also contain restrictions related to additional indebtedness.

BroadbandSPV and Cheetah 5's respective obligations under the Margin Loan Agreements, are guaranteed by the Company. In addition, BroadbandSPV and Cheetah 5's obligations are secured by first priority liens on a portion of the Company's ownership interest in Charter, sufficient for BroadbandSPV and Cheetah 5 to meet the loan to value requirements under the Margin Loan Agreements. The Margin Loan Agreements each contain language that indicates that Liberty Broadband, transferor of underlying shares as collateral, has the right to exercise all voting, consensual and other powers of ownership pertaining to the transferred shares for all purposes, provided that Liberty Broadband agrees that it will not vote the shares in any manner that would reasonably be expected to give rise to transfer or other certain restrictions. Similarly, the Margin Loan Agreements indicate that no lender party shall have any voting rights with respect to the shares transferred, except to the extent that a lender party buys any shares in a sale or other disposition made pursuant to the terms of the Margin Loan Agreements. As of December 31, 2016, 9.5 million shares of Charter with a value of \$2.7 billion were pledged as collateral pursuant to the Margin Loan Agreements.

As mentioned, the 2014 Margin Loans have a maturity date of October 2017, which is within one year of the balance sheet date. As such, the 2014 Margin Loans have been classified as a current liability in the consolidated balance sheet as of December 31, 2016. Management intends to refinance the loan on a long-term basis. In addition, the 2014 Margin Loans are adequately collateralized, as discussed above.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

In connection with the collar agreement on shares of Time Warner Cable entered into on March 27, 2015, as discussed in note 4, the Company also entered into a \$234 million revolving loan agreement. On April 7, 2015, Liberty Broadband drew \$40 million on this loan, which was the amount used to match the outstanding call liability due in April 2015. The shares of Time Warner Cable underlying the collar served as collateral for borrowings under the revolving loan agreement. Borrowings outstanding under the revolving loan agreement bore interest at the three-month LIBOR rate plus 0.64%, payable quarterly in arrears beginning on March 31, 2015. The interest rate on the unused portion of the revolving loan agreement was 0.12% per annum. The Company repaid the \$40 million drawn on the loan during July 2015 and the agreement was terminated upon unwinding of the Time Warner Cable collar agreement.

(9) Income Taxes

Liberty Broadband, as consolidated, was included in the federal consolidated income tax return of Liberty through November 4, 2014. Subsequent to the Broadband Spin-Off, Liberty Broadband files separate federal consolidated income tax returns. The tax provision included in these financial statements has been prepared on a stand-alone basis, as if Liberty Broadband was not part of the consolidated Liberty group for the periods prior to the Broadband Spin-Off. Charter is not included in the Liberty Broadband consolidated group tax return as Liberty Broadband owns less than 80% of the company. A portion of the income taxes allocated to Liberty Broadband by Liberty were treated as an equity contribution by Liberty upon completion of the Broadband Spin-Off.

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Current:			
Federal	\$ 1,556	(4,234)	510
State and local	853	(862)	473
	<u>2,409</u>	<u>(5,096)</u>	<u>983</u>
Deferred:			
Federal	(493,890)	23,512	62,014
State and local	(66,888)	1,452	4,689
	<u>(560,778)</u>	<u>24,964</u>	<u>66,703</u>
Income tax benefit (expense)	<u>\$ (558,369)</u>	<u>19,868</u>	<u>67,686</u>

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Computed expected tax benefit (expense)	\$ (516,485)	24,519	70,802
State and local taxes, net of federal income taxes	(42,995)	1,786	2,657
Foreign taxes, net of foreign tax credit	(1,180)	(59)	—
Change in valuation allowance	683	612	(2,154)
Dividends received deduction	931	752	819
Change in tax rate	45	(179)	(998)
Impairment of intangible assets not deductible for tax purposes	—	(7,234)	(6,452)
Loss on liquidation of subsidiary	—	—	3,082
Derivative instrument	396	—	—
Other	236	(329)	(70)
Income tax (expense) benefit	<u>\$ (558,369)</u>	<u>19,868</u>	<u>67,686</u>

For the year ended December 31, 2016 the significant reconciling items, as noted in the table above, are the result of the effect of state income taxes.

For the year ended December 31, 2015 the significant reconciling items, as noted in the table above, are the result of the impairment to non-deductible goodwill related to Skyhook's legacy U-TDOA service.

For the year ended December 31, 2014 the significant reconciling items, as noted in the table above, are the result of the impairment to non-deductible goodwill at Skyhook related to its Wi-Fi location software solution and a tax loss from the liquidation of a consolidated subsidiary at Skyhook.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

The tax effects of temporary differences and tax attributes that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2016	2015
	amounts in thousands	
Deferred tax assets:		
Net operating loss and tax credit carryforwards .	\$ 23,017	12,585
Investments	—	45,195
Accrued stock-based compensation	4,812	2,896
Deferred revenue	1,721	1,880
Other	2,073	2,254
Total deferred tax assets	31,623	64,810
Less: valuation allowance	(6,945)	(7,628)
Net deferred tax assets	24,678	57,182
Deferred tax liabilities:		
Investments	(527,151)	—
Intangible assets	(2,170)	(1,795)
Other	(1)	(19)
Total deferred tax liabilities	(529,322)	(1,814)
Net deferred tax asset (liability)	\$ (504,644)	55,368

The Company's valuation allowance decreased \$683 thousand in 2016, which affected tax expense during the year ended December 31, 2016.

At December 31, 2016, the Company has a deferred tax liability on investments of \$527.2 million primarily as a result of the merger between Time Warner Cable and Charter, as discussed in note 6.

At December 31, 2016, Liberty Broadband had federal and state net operating losses (on a tax effected basis) and tax credit carryforwards for income tax purposes aggregating approximately \$23.0 million. These net operating losses and credit carryforwards are expected to be utilized prior to expiration, except for \$6.9 million which based on current projections, may expire unused and accordingly are subject to a valuation allowance. The carryforwards that are expected to be utilized will begin to expire in 2022.

As of December 31, 2016, the Company had not recorded tax reserves related to unrecognized tax benefits for uncertain tax positions.

As of December 31, 2016, Liberty's tax years prior to 2013 are closed for federal income tax purposes, and the IRS has completed its examination of Liberty's 2013 through 2014 tax years. The tax loss carryforwards from the 2011 through 2014 tax years are still subject to adjustment. The IRS has completed its examination of Liberty Broadband's 2015 tax year. Liberty Broadband's 2016 tax year is being examined as part of the IRS's Compliance Assurance Process "CAP" program. As discussed earlier, because Liberty Broadband's ownership of Charter is less than the required 80%, Charter is not consolidated with Liberty Broadband for federal income tax purposes.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

(10) Stockholders' Equity

In the Broadband Spin-Off, record holders of Liberty Series A, Series B and Series C common stock received one-fourth of a share of the corresponding series of Liberty Broadband common stock for each share of Liberty common stock held by them, with cash paid in lieu of fractional shares. This resulted in the issuance of an aggregate 85,761,332 shares of Series A, Series B and Series C common stock.

In addition, following the completion of the Broadband Spin-Off, on December 10, 2014, stockholders received a subscription right to acquire one share of Liberty Broadband Series C common stock for every five shares of Liberty Broadband common stock they held as of the rights record date at a per share subscription price of \$40.36, which was a 20% discount to the 20-trading day volume weighted average trading price of the Series C Liberty Broadband common stock following the completion of the Broadband Spin-Off. The rights offering was fully subscribed on January 9, 2015, with 17,277,224 shares of Series C common stock issued to those rightsholders exercising basic and, as applicable, oversubscription privileges. The subscription rights were issued to raise capital for general corporate purposes of Liberty Broadband.

In connection with the Time Warner Cable Merger in May 2016, Liberty Broadband funded its purchase of shares of Charter Class A common stock using proceeds of \$4.4 billion related to subscriptions for approximately 78.3 million newly issued shares of Liberty Broadband Series C common stock, par value \$0.01 per share (the "Series C Shares"), at a price per share of \$56.23, which was determined based upon the fair value of Liberty Broadband's net assets on a sum-of-the parts basis at the time certain Amended and Restated Investment Agreements were executed. The purchasers of the Series C Shares were Liberty Interactive through its Liberty Ventures Group (approximately 42.7 million shares) and certain other third party investors, which all invested on substantially similar terms. One of the third party investors also held a position in Time Warner Cable and agreed to vote its Time Warner Cable shares in favor of the Time Warner Cable Merger. Each of Legacy Charter and Liberty Broadband obtained stockholder approval during September 2015 for the issuance of the Charter shares and the Series C Shares, respectively, in accordance with the rules and requirements of the Nasdaq Stock Market. The issuance of the Series C Shares was not registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder. As a result of the issuance of the Series C Shares in connection with the Transactions, Liberty Interactive's non-voting economic ownership in Liberty Broadband was 23.5% as of December 31, 2016.

As discussed in note 4, the Company has an outstanding zero-strike call option on 704,908 Series C Shares which expires in March 2017. The Company prepaid a premium of \$47.9 million in December 2016. Liberty Broadband has the option to settle in cash or Series C Shares upon expiration of the contract. The Company accounts for the zero-strike call option as a financial instrument asset due to its settlement provisions. Accordingly, changes in the fair value of the asset are included in realized and unrealized gains (losses) on financial instruments in the accompanying statement of operations.

Preferred Stock

Liberty Broadband's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty Broadband's board of directors. As of December 31, 2016, no shares of preferred stock were issued.

Common Stock

Liberty Broadband's Series A common stock has one vote per share, Liberty Broadband's Series B common stock has ten votes per share and Liberty Broadband's Series C common stock has no votes per share (except as otherwise required by applicable law). Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock. All series of our common stock participate on an equal basis with respect to dividends and distributions.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

As of December 31, 2016, there were 454 thousand shares of Series A and 2.5 million shares of Series C common stock reserved for issuance under exercise privileges of outstanding stock options.

(11) Stock-Based Compensation

Included in the accompanying consolidated statements of operations are the following amounts of stock-based compensation for the years ended December 31, 2016, 2015 and 2014 (amounts in thousands).

	December 31,		
	2016	2015	2014
Operating expense.....	\$ —	7	1
Selling, general and administrative	5,555	5,978	832
Research and development	158	395	166
	<u>\$ 5,713</u>	<u>6,380</u>	<u>999</u>

Liberty Broadband - Incentive Plans

In connection with the Broadband Spin-Off, the holder of an outstanding option or stock appreciation right (collectively, “Award”) to purchase shares of Liberty common stock on the record date (an “original Liberty Award”) received an Award to purchase shares of the corresponding series of our Liberty Broadband common stock (a “Liberty Broadband Award”) and an adjustment to the exercise price and number of shares subject to the original Liberty Award (as so adjusted, an “adjusted Liberty Award”). Following the Broadband Spin-Off, employees of Liberty hold Awards in both Liberty common stock and Liberty Broadband common stock. The compensation expense relating to employees of Liberty is recorded at Liberty. Therefore, compensation expense related to options resulting from the Broadband Spin-Off will not be recognized in the Company’s consolidated financial statements.

Except as described above, all other terms of an adjusted Liberty Award and a new Liberty Broadband Award (including, for example, the vesting terms thereof) are in all material respects, the same as those of the corresponding original Liberty Award.

Pursuant to the Liberty Broadband 2014 Omnibus Incentive Plan, as amended, the Company may grant Awards to be made in respect of a maximum of 8.4 million shares of Liberty Broadband common stock. Awards generally vest over 4-5 years and have a term of 7-10 years. Liberty Broadband issues new shares upon exercise of equity awards.

Liberty Broadband – Grants of Stock Options

During the year ended December 31, 2016, Liberty Broadband granted 17 thousand options to purchase shares of Series C common stock to its non-employee directors with a weighted average grant-date fair value of \$18.64 per share which cliff vest over a one year vesting period. There were no options to purchase shares of Series A common stock granted during the period.

The Company has calculated the grant-date fair value for all of its equity classified awards and any subsequent remeasurement of its liability classified awards using the Black-Scholes Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. For grants made in 2016, 2015 and 2014, the range of expected terms was 4.6 to 7.3 years. Since Liberty Broadband common stock has not traded on the stock market for a significant length of time, the volatility used in the calculation for Awards is based on a blend of the historical volatility of Liberty Broadband and Charter common stock and the implied volatility of publicly traded Liberty Broadband and Charter options; as the most significant asset within Liberty Broadband, the volatility of Charter was considered in the overall volatility of Liberty Broadband. For grants made in 2016, 2015 and 2014, the range of volatilities was 26.2% to 28.5%. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject option.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Liberty Broadband – Outstanding Awards

The following table presents the number and weighted average exercise price (“WAEP”) of Awards to purchase Liberty Broadband common stock granted to certain officers, employees and directors of the Company, as well as the weighted average remaining life and aggregate intrinsic value of the Awards.

	Series A (in thousands)	WAEP	Weighted average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2016	630	\$ 32.36		
Granted	—	\$ —		
Exercised	(176)	\$ 32.06		
Forfeited/Cancelled	—	\$ —		
Outstanding at December 31, 2016	454	\$ 32.47	3.0	\$ 18
Exercisable at December 31, 2016	448	\$ 32.32	2.9	\$ 18

	Series C (in thousands)	WAEP	Weighted average remaining contractual life (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2016	2,761	\$ 41.09		
Granted	17	\$ 72.11		
Exercised	(311)	\$ 31.93		
Forfeited/Cancelled	—	\$ —		
Outstanding at December 31, 2016	2,467	\$ 42.45	6.1	\$ 78
Exercisable at December 31, 2016	934	\$ 32.81	3.0	\$ 39

The Company had no outstanding Series B options during 2016.

As of December 31, 2016, the total unrecognized compensation cost related to unvested Liberty Broadband Awards was approximately \$15.0 million. Such amount will be recognized in the Company’s consolidated statements of operations over a weighted average period of approximately 2 years.

As of December 31, 2016, Liberty Broadband reserved 2.9 million shares of Series A and Series C common stock for issuance under exercise privileges of outstanding stock Awards.

Liberty Broadband – Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2016, 2015 and 2014 was \$14.4 million, \$11.2 million, and \$1.8 million, respectively.

Liberty Broadband – Restricted Shares

The aggregate fair value of all Series A and Series C restricted shares of Liberty Broadband common stock that vested during the years ended December 31, 2016, 2015 and 2014 was \$674 thousand, \$5.8 million, and \$172 thousand, respectively.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

As of December 31, 2016, the Company had approximately 27,000 unvested restricted shares of Series A and Series C Liberty Broadband common stock held by certain directors, officers and employees of the Company with a weighted average grant-date fair value of \$15.30 per share.

Skyhook equity incentive plans

Long-Term Incentive Plans

Skyhook has granted PARs and PSUs to employees, directors, and consultants of Skyhook, pursuant to the LTIPs. PAR grants under the LTIPs vest over a four or five-year period. On June 30 of each of the fiscal years following the second, fourth, sixth, and eighth anniversaries of the date of a grant, 25% of the original grant is deemed to have been exercised and canceled. Upon such date, the holders of such grants receive the appreciation in the value of the grant, if any, from the value of the grant on the date of its issuance. PSUs, unless otherwise indicated, have the same vesting, exercise, and cancellation provisions as PARs granted under the plan. Certain of the PARs and the majority of the outstanding PSU grants contain modifications to the standard vesting, exercise and cancellation provisions. On July 29, 2016, all Skyhook PARs were converted into PARs granted under the TruePosition LTIP and future awards under the Skyhook LTIP were suspended. Concurrent with the conversion, Skyhook made certain adjustments to the outstanding TruePosition PARs and PSUs to standardize and simplify the valuation of awards granted under the TruePosition LTIP. As a result of the name change of TruePosition, Inc. to Skyhook Holding, Inc., it is expected that the TruePosition Long Term Incentive Plan will be renamed the Skyhook Holdings Long Term Incentive Plan.

Upon separation from Skyhook, holders of grants are eligible, assuming all conditions are met under the LTIPs, to receive the appreciation in value of their vested PAR grants and the value of their vested PSU grants as of the date of their separation that have not been deemed exercised and canceled.

The following summarizes the PAR and PSU activities under the LTIPs during 2016 (in thousands):

	TruePosition		Skyhook PARs
	Stand-alone PARs	Stand-alone PSUs	
Outstanding at January 1, 2016	894	160	7,061
Grants	—	—	—
Exercises	(185)	(38)	(1,552)
Forfeitures	(4)	—	(1,832)
Outstanding prior to conversion and adjustments	705	122	3,677
Conversions and adjustments	6,070	413	(3,677)
Grants	4,147	—	—
Exercises	(56)	—	—
Forfeitures	(154)	—	—
Outstanding at December 31, 2016	10,712	535	—
Fair value of outstanding grants	\$ 911	\$ 1,588	\$ —
Vested fair value	\$ 415	\$ 1,084	\$ —
Weighted average remaining vesting period	2.5 years	2.1 years	NA

Grants that are exercised and paid and grants that are forfeited, canceled, or otherwise not paid are available for grant under the LTIPs.

Grants under the LTIPs may be settled in cash, publicly traded stock of the companies or an affiliate of the companies, or a combination thereof. Skyhook accounts for grants under the LTIPs as liability instruments. Accordingly, Skyhook measures

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

the cost of employee services received in exchange for grants based on the current fair value of the grants and records a liability at the end of each reporting period equivalent to the vested portion of such current fair value.

Skyhook calculates the grant-date fair value and subsequent remeasurement of its liability classified awards using the Black-Scholes model. Skyhook estimates the expected term of the awards based on historical exercise and forfeiture data. The expected term for grants made to during 2016 ranged from 0.5 - 7.5 years. The volatility used by Skyhook in the Black-Scholes model for grants made during 2016 was 30%. Skyhook uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject options, which ranged from 0.6% - 2.3% for grants made in 2016.

As of December 31, 2016 and 2015, \$1.7 million and \$2.0 million, respectively, are included in other liabilities for the fair value (Level 2) of the Company's LTIP obligations.

(12) Employee Benefit Plans

Prior to January 1, 2015, Skyhook participated in Liberty's defined-contribution plan (the "Liberty 401(k) Plan"). The Liberty 401(k) Plan provided for employees to make contributions by salary reductions to a trust for investment in Liberty common stock, as well as several mutual funds and/or a self-directed brokerage account pursuant to Section 401(k) of the Internal Revenue Code.

Beginning January 1, 2015, employees of Skyhook participate in a separate defined-contribution plan administered by Skyhook (the "TruePosition 401(k) Plan"). The TruePosition 401(k) Plan provides for employees to make contributions by salary reductions for investment in several mutual funds and/or a self-directed brokerage account pursuant to Section 401(k) of the Internal Revenue Code. It is anticipated that the TruePosition 401(k) Plan will be renamed the Skyhook 401(k) plan as of March 1, 2017.

Pursuant to the existing TruePosition 401(k) Plan, Skyhook employees are eligible for 100% matching contributions for each dollar contributed up to 10%, and 50% matching contributions for each dollar contributed up to 8% of the employees' total compensation, subject to certain limitations. For the years ended December 31, 2016, 2015 and 2014, Skyhook contributed approximately \$0.8 million, \$1.1 million and \$1.5 million respectively.

(13) Related Party Transactions

During the year ended December 31, 2014 certain of Skyhook's costs and expenses were charged to Skyhook by Liberty. The amounts due to (from) Liberty and the activities for the year ended December 31, 2014 are summarized as follows (amounts in thousands):

	2014
Payable (receivable) at beginning of year	\$ (5,953)
Costs and expenses charged by Liberty	3,913
Amounts (receivable) due under the tax-sharing arrangement	(4,094)
Transfer of related party receivable to (from) note receivable	5,306
Payments to Liberty	(6,399)
Amount receivable (due) under the tax-sharing arrangement transferred to Liberty Broadband	7,227
(Receivable) payable at end of year	<u>\$ —</u>

Prior to the completion of the Broadband Spin-Off, Skyhook was a party to certain tax sharing arrangements with Liberty (or its former affiliate). Under these tax-sharing arrangements, Skyhook had been obligated to make cash payments to Liberty (or its former affiliate) in each year Skyhook generated positive taxable income, determined as if Skyhook filed a separate tax

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

return. The amount of such payment has been equal to the amount of Skyhook's taxable income (as so determined) multiplied by the highest corporate tax rate in effect for the applicable tax jurisdiction. If on a separate return basis, Skyhook would have a net operating loss or net tax credit for a particular year, and such loss or credit could be utilized on the actual tax returns filed by Liberty (or its former affiliate), then Skyhook would be entitled to reduce current and future payments to Liberty (or its former affiliate) by the amount of such tax benefit. Skyhook made payments of \$3.2 million in 2014 under these tax sharing arrangements. Prior to the completion of the Broadband Spin-Off, Skyhook's income tax receivable from Liberty was transferred to Liberty Broadband and the tax sharing arrangement between Liberty and Skyhook was extinguished.

(14) Commitments and Contingencies

Leases

Skyhook leases various properties under operating leases expiring at various times through 2018. The aggregate minimum annual lease payments under the noncancelable operating leases as of December 31, 2016 are as follows (amounts in thousands):

2017.....	\$	592
2018.....		27
	\$	<u>619</u>

Skyhook's two principal facilities are under lease through December 2017 and January 2018, respectively. Total rental expense for the years ended December 31, 2016, 2015 and 2014 was \$2.4 million, \$3.7 million and \$3.3 million, respectively.

Litigation

On May 23, 2012, Skyhook (then known as TruePosition) filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Polaris Wireless, Inc. ("Polaris"), related to the sale by Polaris of systems used to locate mobile devices. In parallel with the lawsuit, at Polaris's request, the U.S. Patent and Trademark Office initiated an Inter Partes Review. Both the District Court and the Patent Trial and Appeal Board ruled adversely to Skyhook and those rulings were upheld on appeal. No further appeal was taken. During the pendency of the appeal, Polaris filed a motion in the District Court for an award of approximately \$3 million in attorneys' fees and expenses incurred in defending the lawsuit. The matter was heard by the Court on October 16, 2015, wherein the court denied the Polaris motion.

On September 10, 2010, Skyhook filed a patent infringement lawsuit in the U.S. District Court for the District of Massachusetts against Google, Inc. ("Google"). In March 2013, Skyhook amended its lawsuit to add additional claims. In total, at the time the case was to be tried, Skyhook alleged that Google infringed on eight Skyhook patents involving location technology and sought an injunction and/or award of damages in an amount to be determined at trial. The case had been scheduled to be tried before a jury commencing March 9, 2015. However, on March 5, 2015, the parties advised the District Court that the case has been settled and thereby dismissed the action without costs and without prejudice to the right person, upon good cause shown within 45 days, to reopen the action if settlement is not consummated. On March 27, 2015, the parties consummated a final settlement agreement and on April 24, 2015, Google paid Skyhook settlement consideration of \$90 million. In return for payment of the settlement consideration, Google received dismissal of the action with prejudice, a license to the existing Skyhook patents and patent applications (and their continuations, divisionals, continuations-in-part), a three-year covenant not to sue (subject to limited exceptions) and a mutual release of claims. The settlement amount of \$90 million is recorded net of approximately \$29.5 million for legal fees in the statement of operations for the year ended December 31, 2015.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

General Litigation

In the ordinary course of business, the Company and its consolidated subsidiaries are parties to legal proceedings and claims involving alleged infringement of third-party intellectual property rights, defamation, and other claims. Although it is reasonably possible that the Company may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Indemnification Claims

In the normal course of business, Skyhook provides indemnification to certain customers against specified claims that might arise against those customers from the use of Skyhook's products. To date, Skyhook has not made any significant reimbursements to any of its customers for any losses related to these indemnification provisions. However, four such claims are currently pending and are described below. Skyhook is unable to estimate the maximum potential impact of these indemnification provisions on its future results of operations, although Skyhook's liabilities in certain of those arrangements are customarily limited in various respects, including monetarily. Accordingly, no accrual was recorded related to indemnification claims as of December 31, 2016 or 2015.

One of Skyhook's former customers, T-Mobile, has made two indemnification claims related to its use of its legacy U-TDOA service technology. In September, 2008, T-Mobile requested indemnification for damages (including defense costs) that it may incur in a patent infringement action that Emsat Advanced Geolocation, LLC ("Emsat") filed against T-Mobile. Skyhook is not a party to the suit and they have denied any obligation to indemnify T-Mobile and believe that the equipment supplied to T-Mobile is not covered by the patent claims that Emsat is asserting against T-Mobile. T-Mobile has not yet formally pursued its indemnification claims in a civil court action, but has indicated its intention to do so after the infringement action is resolved. In March 2014, T-Mobile requested indemnification for damages (including defense costs) that it may incur in a patent infringement action that Guidance IP LLC ("Guidance") filed against T-Mobile. Skyhook is not a party to the suit, though at the time, the entities indicated a willingness to participate in the defense of the action, but received no response from T-Mobile.

Another Skyhook legacy U-TDOA service customer, AT&T, has made four indemnification claims against Skyhook. In October 2008, AT&T requested indemnification for damages (including defense costs) that it may incur relating to the Emsat litigation described in the preceding paragraph (to which AT&T is a party). In June 2009, AT&T requested indemnification for damages (including defense costs) that it may incur relating to a lawsuit filed against AT&T by Tendler Cellular of Texas, LLC ("Tendler") (to which Skyhook is not a party). This action relates to a former subsidiary of Skyhook, Useful Networks, Inc., whose operations were discontinued in 2010. In June 2011, AT&T requested indemnification for damages (including defense costs) that it may incur relating to a lawsuit filed against AT&T by Tracbeam, LLC ("Tracbeam") (to which Skyhook is not a party). Skyhook has denied that it is obligated to indemnify AT&T with respect to the Emsat and Tendler cases. AT&T has not yet formally pursued its indemnification claims in a civil court action and it is unclear at this time whether or not it will do so. The lawsuit filed against AT&T by Guidance, was resolved by the payment to AT&T of \$55 thousand during October 2015. With respect to Tracbeam, AT&T has determined that the total allocated contribution attributable to Skyhook-related products is \$132 thousand and has invoiced Skyhook accordingly. Skyhook has informed AT&T that it believes that the allocation method employed by AT&T is flawed and that the actual amount owed is less than \$132 thousand. In general, Skyhook is unable to estimate the maximum potential impact of these indemnification provisions on its future results of operations, although those liabilities in certain of those arrangements are customarily limited in various respects, including monetarily.

Off-Balance Sheet Arrangements

Liberty Broadband did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

(15) Segment Information

Liberty Broadband identifies its reportable segments as (A) those consolidated companies that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA or total assets and (B) those equity method affiliates whose share of earnings or losses represent 10% or more of Liberty Broadband's annual pre-tax earnings (losses).

Liberty Broadband evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA. In addition, Liberty Broadband reviews nonfinancial measures such as subscriber growth.

Liberty Broadband defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). Liberty Broadband believes this measure is an important indicator of the operational strength and performance of its businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net earnings, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Liberty Broadband generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2016, Liberty Broadband has identified the following consolidated company and equity method investment as its reportable segments:

- Skyhook—a wholly owned subsidiary of the Company that provides a Wi-Fi based location platform focused on providing positioning technology and contextual location intelligence solutions.
- Charter—an equity method investment that is one of the largest providers of cable services in the United States, offering a variety of entertainment, information and communications solutions to residential and commercial customers.

Liberty Broadband's operating segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated companies are the same as those described in the Company's summary of significant accounting policies in the Company's annual financial statements. For periods in which Liberty Broadband owned Charter shares and warrants, we have included amounts attributable to Charter in the tables below. Although Liberty Broadband owns less than 100% of the outstanding shares of Charter, 100% of the Charter amounts are included in the schedule below and subsequently eliminated in order to reconcile the account totals to the Liberty Broadband consolidated financial statements.

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

Performance Measures

	Years ended December 31,					
	2016		2015		2014	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in thousands					
Skyhook	\$ 30,586	(2,681)	91,182	43,600	69,045	(2,152)
Charter	29,003,000	10,506,000	9,754,000	3,317,000	9,108,000	3,128,000
Corporate and other	—	(8,761)	—	(11,958)	—	(1,559)
	29,033,586	10,494,558	9,845,182	3,348,642	9,177,045	3,124,289
Eliminate equity method affiliate	(29,003,000)	(10,506,000)	(9,754,000)	(3,317,000)	(9,108,000)	(3,128,000)
Consolidated Liberty Broadband	\$ 30,586	(11,442)	91,182	31,642	69,045	(3,711)

Other Information

	December 31, 2016			December 31, 2015		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
	amounts in thousands					
Skyhook	\$ 30,463	—	267	61,395	—	731
Charter	149,067,000	—	5,325,000	39,316,000	—	1,840,000
Corporate and other	9,560,497	9,315,253	—	3,504,346	2,372,699	—
	158,657,960	9,315,253	5,325,267	42,881,741	2,372,699	1,840,731
Eliminate equity method affiliate	(149,067,000)	—	(5,325,000)	(39,316,000)	—	(1,840,000)
Consolidated Liberty Broadband	\$ 9,590,960	9,315,253	267	3,565,741	2,372,699	731

Revenue by Geographic Area

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
United States	\$ 27,806	87,739	66,045
Other countries	2,780	3,443	3,000
	\$ 30,586	91,182	69,045

Long-lived Assets by Geographic Area

	December 31,	
	2016	2015
	amounts in thousands	
United States	\$ 710	1,248
Other countries	—	—
	\$ 710	1,248

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

The following table provides a reconciliation of segment Adjusted OIBDA to earnings (loss) from continuing operations before income taxes:

	Years ended December 31,		
	2016	2015	2014
	amounts in thousands		
Consolidated segment Adjusted OIBDA	\$ (11,442)	31,642	(3,711)
Stock-based compensation	(5,713)	(6,380)	(999)
Depreciation and amortization	(4,005)	(6,088)	(9,043)
Gain on legal settlement	—	60,450	6,000
Impairment of intangible assets	—	(20,669)	(35,221)
Operating income (loss)	<u>(21,160)</u>	<u>58,955</u>	<u>(42,974)</u>
Interest expense	(14,956)	(7,424)	(1,138)
Dividend and interest income	5,020	3,797	5,426
Share of earnings (loss) of affiliates, net	641,544	(120,962)	(127,573)
Realized and unrealized gains (losses) on financial instruments, net. . .	94,122	2,619	51,189
Gain (loss) on dilution of investment in affiliate	770,766	(7,198)	(87,158)
Other, net	336	158	(63)
Earnings (loss) from continuing operations before income taxes	<u>\$ 1,475,672</u>	<u>(70,055)</u>	<u>(202,291)</u>

LIBERTY BROADBAND CORPORATION

Notes to Consolidated Financial Statements (Continued)

December 31, 2016, 2015 and 2014

(16) Quarterly Financial Information (Unaudited)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	<u>amounts in thousands</u>			
2016:				
Revenue	\$ 3,831	2,966	20,616	3,173
Operating income (loss)	\$ (9,340)	(10,737)	6,624	(7,707)
Net earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders	\$ (22,241)	890,154	3,789	45,601
Basic earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders per common share	\$ (0.22)	6.31	0.02	0.25
Diluted earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders per common share	\$ (0.22)	6.28	0.02	0.25
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	<u>amounts in thousands</u>			
2015:				
Revenue	\$ 13,316	12,645	15,225	49,996
Operating income (loss)	\$ 50,471	(3,414)	288	11,610
Net earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders	\$ 5,318	(7,809)	(19,295)	(28,401)
Basic earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders per common share	\$ 0.05	(0.08)	(0.19)	(0.28)
Diluted earnings (loss) attributable to Liberty Broadband Corporation Series A, Series B and Series C stockholders per common share	\$ 0.05	(0.08)	(0.19)	(0.28)

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BOARD OF DIRECTORS

John C. Malone

Chairman of the Board
Liberty Broadband Corporation

Richard R. Green

Retired President and
Chief Executive Officer
CableLabs®

Gregory B. Maffei

President and Chief Executive Officer
Liberty Broadband Corporation

J. David Wargo

Founder and President
Wargo & Company, Inc.

John E. Welsh III

President
Avalon Capital Partners LLC

EXECUTIVE COMMITTEE

Gregory B. Maffei

John C. Malone

COMPENSATION COMMITTEE

J. David Wargo (Chairman)

Richard R. Green

John E. Welsh III

AUDIT COMMITTEE

John E. Welsh III (Chairman)

Richard R. Green

J. David Wargo

NOMINATING & CORPORATE GOVERNANCE COMMITTEE

Richard R. Green (Chairman)

J. David Wargo

John E. Welsh III

SENIOR OFFICERS

Gregory B. Maffei

President and Chief Executive Officer

Richard N. Baer

Chief Legal Officer

Mark D. Carleton

Chief Financial Officer

Albert E. Rosenthaler

Chief Corporate Development Officer

CORPORATE SECRETARY

Pamela L. Coe

CORPORATE HEADQUARTERS

12300 Liberty Boulevard
Englewood, CO 80112
(720) 875-5700

STOCK INFORMATION

Series A Common Stock (LBRDA) and
Series C Common Stock (LBRDK) trade
on the NASDAQ Global Select Market.

Series B Common Stock (LBRDB) is
quoted on the OTC Markets.

CUSIP NUMBERS

LBRDA – 530307 107

LBRDB – 530307 206

LBRDK – 530307 305

TRANSFER AGENT

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ON THE INTERNET

Visit the Liberty Broadband Corporation
website at www.libertybroadband.com.

FINANCIAL STATEMENTS

Liberty Broadband Corporation financial
statements are filed with the Securities
and Exchange Commission. Copies
of these financial statements can be
obtained from the Transfer Agent or
through the Liberty Broadband
Corporation website.



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