

Pendrell Corp  
Form 10-Q  
July 31, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2015**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-33008**

**PENDRELL CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Washington** **98-0221142**  
**(State or other jurisdiction of** **(IRS Employer**  
**incorporation or organization)** **Identification No.)**  
**2300 Carillon Point, Kirkland, Washington 98033**  
**(Address of principal executive offices including zip code)**  
**(425) 278-7100**  
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of July 24, 2015, the registrant had 213,668,271 shares of Class A common stock and 53,660,000 shares of Class B convertible common stock outstanding.

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**PENDRELL CORPORATION**

**FORM 10-Q**

**For the three and six months ended June 30, 2015**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Pendrell Corporation****Condensed Consolidated Balance Sheets****(In thousands, except share data, unaudited)**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 156,096	\$ 168,793
Accounts receivable	330	131
Other receivables net of reserve \$2,750 in both periods	105	69
Prepaid expenses and other current assets	672	774
<b>Total current assets</b>	<b>157,203</b>	<b>169,767</b>
Property in service net of accumulated depreciation of \$1,419 and \$1,227, respectively	3,149	3,372
Other assets	1,387	54
Intangible assets net of accumulated amortization of \$50,251 and \$43,567, respectively	103,623	109,702
Goodwill	21,209	21,209
<b>Total</b>	<b>\$ 286,571</b>	<b>\$ 304,104</b>
<b>LIABILITIES, SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS</b>		
Current liabilities:		
Accounts payable	\$ 117	\$ 281
Accrued expenses	3,004	5,824
Other liabilities	667	6,891
<b>Total current liabilities</b>	<b>3,788</b>	<b>12,996</b>
Deferred tax liability	1,521	1,521
<b>Total liabilities</b>	<b>5,309</b>	<b>14,517</b>
Commitments and contingencies (Note 7)		
Shareholders equity and noncontrolling interests:		
Preferred stock, \$0.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		

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Class A common stock, \$0.01 par value, 900,000,000 shares authorized 271,348,142 and 270,745,381 shares issued, and 213,592,079 and 212,976,489 shares outstanding	2,138	2,132
Class B convertible common stock, \$0.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	537	537
Additional paid-in capital	1,955,018	1,952,880
Accumulated deficit	(1,679,252)	(1,671,135)
Total Pendrell shareholders equity	278,441	284,414
Noncontrolling interests	2,821	5,173
Total shareholders equity and noncontrolling interests	281,262	289,587
Total	\$ 286,571	\$ 304,104

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

**Table of Contents****Pendrell Corporation****Condensed Consolidated Statements of Operations****(In thousands, except share and per share data, unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue	\$ 2,147	\$ 2,935	\$ 27,392	\$ 41,070
Operating expenses:				
Cost of revenues	942	70	10,054	13,866
Patent administration and related costs	682	1,650	1,809	3,048
Patent litigation	485	1,931	5,042	3,969
General and administrative	3,681	6,985	8,810	14,834
Stock-based compensation	789	1,871	1,437	3,752
Amortization of intangible assets	3,589	3,991	7,185	8,030
Total operating expenses	10,168	16,498	34,337	47,499
Operating loss	(8,021)	(13,563)	(6,945)	(6,429)
Interest income	34	24	65	44
Interest expense	(1)	(42)	(42)	(106)
Gain on contingency			1,748	
Other expense	(2)	(7)	(6)	(12)
Loss before income taxes	(7,990)	(13,588)	(5,180)	(6,503)
Income tax expense			(4,125)	(6,270)
Net loss	(7,990)	(13,588)	(9,305)	(12,773)
Net loss attributable to noncontrolling interest	(432)	(993)	(1,188)	(1,908)
Net loss attributable to Pendrell	\$ (7,558)	\$ (12,595)	\$ (8,117)	\$ (10,865)
Basic and diluted loss per share attributable to Pendrell	\$ (0.03)	\$ (0.05)	\$ (0.03)	\$ (0.04)
Weighted average shares outstanding used to compute basic and diluted loss per share	265,467,324	264,103,862	265,451,260	263,937,195

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

Table of Contents**Pendrell Corporation****Condensed Consolidated Statements Changes in Shareholders' Equity**

(In thousands, except share data, unaudited)

	<b>Common stock</b>	<b>Additional</b>	<b>Accumulated</b>	<b>Shareholders'</b>	<b>Noncontrolling</b>	<b>Total</b>		
	<b>Class A</b>	<b>Class B</b>	<b>Amount</b>	<b>paid-in</b>	<b>deficit</b>	<b>equity</b>	<b>interests</b>	<b>Total</b>
	<b>shares</b>	<b>shares</b>		<b>capital</b>				
Balance, December 31, 2013	212,451,224	53,660,000	\$ 2,663	\$ 1,941,818	\$ (1,619,993)	\$ 324,488	\$ 12,305	\$ 336,793
Vesting of Class A common stock issued for Ovidian acquisition				1,486		1,486		1,486
Issuance of Class A common stock from exercise of stock options	242,206		2	276		278		278
Class A common stock withheld at vesting to cover statutory tax obligations	(128,295)		(1)	(190)	(63)	(254)		(254)
Stock-based compensation and issuance of restricted stock, net of forfeitures	(72,243)			3,570		3,570		3,570
Net loss					(10,865)	(10,865)	(1,908)	(12,773)
Balance, June 30, 2014	212,492,892	53,660,000	\$ 2,664	\$ 1,946,960	\$ (1,630,921)	\$ 318,703	\$ 10,397	\$ 329,100
Balance, December 31, 2014	212,976,489	53,660,000	\$ 2,669	\$ 1,952,880	\$ (1,671,135)	\$ 284,414	\$ 5,173	\$ 289,587
Issuance of Class A	22,622							

common stock from exercise of stock options									
Class A common stock withheld at vesting to cover statutory tax obligations	(37,180)		(1)	(39)		(40)		(40)	
Stock-based compensation and issuance of restricted stock, net of forfeitures	880,148		9	1,413		1,422		1,422	
Repurchase of restricted stock	(250,000)		(2)			(2)		(2)	
Purchase of noncontrolling interest in Provitro Biosciences LLC				764		764	(1,164)	(400)	
Net loss					(8,117)	(8,117)	(1,188)	(9,305)	
Balance, June 30, 2015	213,592,079	53,660,000	\$ 2,675	\$ 1,955,018	\$(1,679,252)	\$ 278,441	\$ 2,821	\$ 281,262	

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



**Table of Contents****Pendrell Corporation****Condensed Consolidated Statements of Cash Flows****(In thousands, unaudited)**

	<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Net loss including noncontrolling interests	\$ (9,305)	\$ (12,773)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Stock-based compensation	1,437	3,752
Amortization of intangibles	7,185	8,030
Depreciation	233	263
Amortization of prepaid compensation from Ovidian acquisition		1,382
Non-cash cost of patents monetized	139	579
Loss associated with the abandonment and/or disposition of patents	757	1,288
Other	43	107
<b>Other changes in certain assets and liabilities:</b>		
Accounts receivable	(199)	(193)
Prepaid expenses and other current/non-current assets	(1,267)	660
Accounts payable	(164)	118
Accrued expenses and other current/non-current liabilities	(5,105)	399
 Net cash provided by (used in) operating activities	 (6,246)	 3,612
<b>Investing activities:</b>		
Purchases of property and intangible assets	(2,011)	(63)
 Net cash used in investing activities	 (2,011)	 (63)
<b>Financing activities:</b>		
Proceeds from exercise of stock options		278
Payment of statutory taxes for stock awards	(40)	(254)
Payment of accrued obligations for purchased intangible assets	(4,000)	(2,000)
Purchase of noncontrolling interest in Provitro Biosciences LLC	(400)	
 Net cash used in financing activities	 (4,440)	 (1,976)
 Net increase (decrease) in cash and cash equivalents	 (12,697)	 1,573
Cash and cash equivalents beginning of period	168,793	184,567
 Cash and cash equivalents end of period	 \$ 156,096	 \$ 186,140
<b>Supplemental disclosures:</b>		

Income taxes paid \$ 4,125 \$ 6,270

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

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**Pendrell Corporation**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Nature of Business**

These condensed consolidated financial statements include the accounts of Pendrell Corporation ( Pendrell ) and its consolidated subsidiaries (collectively referred to as the Company ). The Company s strategy, through its consolidated subsidiaries, is to invest in, acquire and develop businesses with unique technologies that are often protected by intellectual property ( IP ) rights, and that present the opportunity to address large, global markets. The Company s subsidiaries focus on licensing the IP rights they hold to third parties and pursuing relevant product opportunities. The Company regularly evaluates its existing investments to determine whether retention or disposition is appropriate, and investigates new investment and business acquisition opportunities. The Company also advises its clients on various IP strategies and transactions.

**2. Basis of Presentation**

**Interim Financial Statements** The financial information included in the accompanying condensed consolidated financial statements is unaudited and includes all adjustments, consisting of normal recurring adjustments and accruals, considered necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Certain information and footnote disclosures have been condensed or omitted. The financial information as of December 31, 2014 is derived from the Company s audited consolidated financial statements and notes included in Item 8 in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ( 2014 Form 10-K ), filed with the U.S. Securities and Exchange Commission on March 6, 2015. The financial information included in this quarterly report should be read in conjunction with management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes included in the 2014 Form 10-K. Operating results and cash flows for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015 or any other interim period.

**Principles of Consolidation** The consolidated financial statements of the Company include the assets and liabilities of its wholly-owned subsidiaries and subsidiaries it controls or in which it has a controlling financial interest. Noncontrolling interests on the consolidated balance sheets include third-party investments in entities that the Company consolidates, but does not wholly own. Noncontrolling interests are classified as part of equity and the Company allocates net income (loss) and other equity transactions to its noncontrolling interests in accordance with their applicable ownership percentages. All intercompany transactions and balances have been eliminated in consolidation. All information in these financial statements is in U.S. dollars.

In February 2015, the Company acquired the minority partner s interest in Provitro Biosciences LLC ( Provitro ) for nominal consideration resulting in 100% ownership of Provitro. The Company continues to have a minority partner in its ContentGuard Holdings, Inc. ( ContentGuard ) subsidiary.

**Segment Information** The Company operates in and reports on one segment (IP management). Operating segments are based upon the Company s internal organization structure, the manner in which its operations are managed, and the criteria used by its Chief Operating Decision Maker. Substantially all of the Company s revenue is generated by operations located within the

United States, and the Company does not have any long-lived assets located in foreign countries.

***Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

On an ongoing basis, the Company evaluates its estimates, including among others, those related to the fair value of acquired intangible assets and goodwill, the useful lives and potential impairment of intangible assets and property and equipment, the value of stock awards for the purpose of determining stock-based compensation expense, accrued liabilities (including bonus accruals), valuation allowances related to the ability to realize deferred tax assets, allowances for doubtful receivables and certain tax liabilities. Estimates are based on historical experience and other factors, including the current economic environment as deemed appropriate under the circumstances. Estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in estimates used to prepare these financial statements will be reflected in the financial statements in future periods.

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**Accounting Policies** There have been no material changes or updates in the Company's existing accounting policies from the disclosures included in its 2014 Form 10-K.

**3. Provitro**

In February 2013, the Company acquired a 68.75% interest in Provitro, the developer of the Provitro proprietary micro-propagation technology that is designed to facilitate the production on a commercial scale of certain plants, particularly timber bamboo. In February 2015, the Company acquired the minority partner's interest in Provitro for nominal consideration resulting in 100% ownership of Provitro. The assets and liabilities of Provitro were measured at fair value as of the acquisition date. The assets, liabilities and activities of Provitro since the date of acquisition in February 2013 have been included in the Company's consolidated financial statements.

From acquisition through the year ended December 31, 2014, the Company attempted to develop a strategy to commercialize the Provitro technology, but did not generate revenue from the technology. In January 2015, the Company suspended further development of the Provitro technology due to the Company's inability to identify near-term opportunities for commercialization. As a result, the Company began seeking a buyer for Provitro's assets and took an \$11.0 million impairment charge during the fourth quarter of its year ended December 31, 2014. The impairment charge was equal to the sum of its unamortized investment in the Provitro technology and the goodwill associated with its acquisition of Provitro.

**4. Intangible Assets – Patents**

During the three and six months ended June 30, 2015 and 2014, the Company sold certain patents and has included the gross proceeds in revenue. Costs associated with the patents sold, including remaining net book value, obligations to third parties for revenue share and success fees are included in cost of revenues. In future periods, these costs as a percentage of revenues may vary significantly based on the structure and terms under which we acquired the patents that we sell.

For the three and six months ended June 30, 2015, the Company recognized \$0.3 million and \$0.8 million of losses, respectively, on the abandonment of certain patents that were not part of existing licensing programs or for which the Company chose to no longer allocate resources to their maintenance and enforcement. For the three and six months ended June 30, 2014, the Company recognized \$0.9 million and \$1.3 million of losses, respectively. Costs associated with the abandonment of patents including any remaining net book value are included in patent administration and related costs.

In February 2015, the Company further enhanced its existing portfolios for an additional \$2.0 million. No patents were purchased during the six months ended June 30, 2014.

As of June 30, 2015, the Company, through its subsidiaries, continues to hold approximately 1,200 issued patents worldwide, with additional patent applications pending.

**5. Accrued Expenses**

The following table summarizes accrued expenses (in thousands):

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	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Accrued payroll and related expenses	\$ 1,266	\$ 2,570
Accrued legal, professional and other expenses	1,738	3,254
	<b>\$ 3,004</b>	<b>\$ 5,824</b>

**Table of Contents****6. Other Liabilities**

The following table summarizes other current liabilities (in thousands):

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Installment payment obligation	\$	\$ 4,000
Restricted stock awards		2,254
Other	667	637
	\$ 667	\$ 6,891

**7. Commitments and Contingencies**

**Purchase and Lease Commitments** The Company has contractual obligations under operating lease agreements for its main office in Kirkland, Washington, and offices in California, Texas and Finland.

**Litigation** In the opinion of management, except for those matters described below and elsewhere in this report, to the extent so described, litigation, contingent liabilities and claims against the Company in the normal course of business are not expected to involve any judgments or settlements that would be material to the Company's financial condition, results of operations or cash flows.

**Enforcement Action against Amazon et. al.** On December 18, 2013, ContentGuard filed a patent infringement lawsuit against Amazon.com, Inc., Apple Inc., Huawei Device USA, Inc. and Motorola Mobility LLC in the Eastern District of Texas, in which ContentGuard alleged that these entities infringed and continue to infringe nine of its patents by making, using, selling or offering for sale certain mobile communication and computing devices (the Amazon Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Amazon Litigation adding certain affiliates of the original defendants, along with HTC Corporation, HTC America Inc., Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC. In August 2014, DirecTV intervened in the case and thereby became an additional defendant, against whom ContentGuard asserted additional infringement claims. In March 2015, the presiding judge issued claim construction rulings that preserve the breadth of ContentGuard's claims against all defendants. In July 2015, ContentGuard agreed in principle to settle the case against Amazon, and is working with Amazon to document and complete the settlement. Trials against the remaining defendants are scheduled for September 2015. The Company is unable to anticipate the timing or outcome of the Amazon Litigation.

**Google Actions** On January 31, 2014, Google Inc. (Google) filed a declaratory judgment suit in the Northern District of California alleging that Google does not infringe the nine patents asserted in the Amazon Litigation. On February 5, 2014, ContentGuard filed a patent infringement action in the Eastern District of Texas against Google, in which ContentGuard alleged that Google has infringed and continues to infringe the same nine patents. In April 2014, the presiding judge in the Eastern District of Texas, with the endorsement of the presiding judge in the Northern District of California, ruled that all claims by and against Google will be resolved in the Eastern District of Texas, and not in the Northern District of California. The presiding judge also declined to consolidate the Google actions with the Amazon Litigation. In March 2015, the presiding judge issued claim construction rulings that preserve the breadth of ContentGuard's claims against Google. Trial is scheduled for September 2015. The Company is unable to anticipate the timing or outcome of the actions by and against Google.

*IPR and CBM Petitions by ContentGuard Defendants* In December 2014, Apple filed with the United States Patent and Trademark Office (the USPTO) twenty-nine inter partes review ( IPR ) petitions and three covered business method ( CBM ) petitions, through which Apple challenged the validity of all nine patents asserted in the Amazon Litigation. Also in December 2014, Google filed three CBM petitions, challenging the validity of three of the nine asserted patents. Between March and July 2015, all of Apple's IPR and CBM petitions were terminated or withdrawn. All but one of Google's petitions were also terminated or withdrawn, leaving just one Google CBM petition that will proceed to trial before the USPTO's Patent Trial and Appeal Board ( PTAB ). The Company does not believe that the one proceeding that was initiated will impact the timing of the litigated claims against Google and the defendants in the Amazon Litigation (collectively, the ContentGuard Defendants).

*ZTE IPRs* In early 2012, ContentGuard and its subsidiaries filed lawsuits in United States and German courts, alleging that ZTE Corporation, ZTE (USA) Inc. and ZTE Deutschland GmbH (collectively ZTE) infringed and continue to infringe ContentGuard patents by making, using, selling or offering for sale certain mobile communication and computing devices. ZTE subsequently filed IPR petitions with the USPTO, challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. The PTAB terminated proceedings with respect to two patents, both of which emerged with valid



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patent claims. ZTE's claims against the other four patents went to trial. Following trial, the PTAB rejected ZTE's remaining challenges, and confirmed the validity of all claims in the four patents. ZTE's time for appeal expired with no appeals filed. Apple then challenged the same four patents in new IPRs, as described in the paragraph above, which the PTAB rejected. As a result, unless Apple requests PTAB reconsideration within the allowable appeal period, the decisions of the PTAB, as against ZTE and Apple, are final.

*ZTE Enforcement Actions* In response to the claims filed against ZTE in Germany, in which ContentGuard GmbH alleged infringement of three European patents, ZTE filed a nullity action against two of the patents and an opposition proceeding against the third patent. The infringement and nullity proceedings in Germany, along with all U.S. court actions, were put to rest or stayed as the result of a standstill agreement signed by ContentGuard and ZTE in December 2013. ZTE prevailed in the opposition proceeding, resulting in the revocation of one European patent, which ContentGuard has appealed. The revocation has no impact on ContentGuard's claims in Texas against the ContentGuard Defendants.

*J&J Collection* In November 2012, the Company obtained an arbitration judgment in the U.K. against Jay and Jayendra (Pty), a South African corporation ( J&J Group ) for approximately \$4.0 million. J&J Group submitted multiple appeals to the U.K. courts, the last of which was rejected in July 2013. In December 2014, the Company obtained an enforcement judgment against J&J Group from a South African court, and has commenced collection efforts. Due to the uncertainty of collection, the Company has not recognized any gain associated with the judgment. The Company is unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

**8. Stock-based Compensation**

The Company records stock-based compensation on stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock awards issued to employees, directors, consultants and/or advisors based on the estimated fair value on the date of grant and recognizes compensation cost over the requisite service period for awards expected to vest.

Stock-based compensation expense included in the condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 was as follows (in thousands):

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Stock options	\$ 558	\$ 1,145	\$ 1,020	\$ 2,449
Restricted stock awards (1)	231	726	417	1,303
<b>Total stock-based compensation expense</b>	<b>\$ 789</b>	<b>\$ 1,871</b>	<b>\$ 1,437</b>	<b>\$ 3,752</b>

- (1) Stock-based compensation expense for the six months ended June 30, 2015 includes \$0.2 million related to 250,000 Class A common stock restricted stock awards that were required to be treated as a liability. The Company settled the related liability with a \$2.5 million payment in April 2015 and no further expense will be incurred. Stock-based compensation expense for the three and six months ended June 30, 2014 includes \$0.2 million and \$0.4 million, respectively, related to the awards.



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**Stock Options and Stock Appreciation Rights** The Company's stock option and SARs activity for the six months ended June 30, 2015 is summarized as follows:

		<b>Number of shares of Class A common stock underlying options and SARs</b>	<b>Weighted average exercise price</b>
Outstanding	December 31, 2014	25,554,026	\$ 1.96
Granted (1)		4,000,000	\$ 1.34
Exercised		(250,000)	\$ 1.20
Forfeited		(1,719,439)	\$ 1.95
Outstanding	June 30, 2015 (2)	27,584,587	\$ 1.88
Exercisable	June 30, 2015 (2)	17,258,292	\$ 1.78
Vested and expected to vest	June 30, 2015 (2)	27,118,264	\$ 1.88

- (1) During the six months ended June 30, 2015, the Company granted 4.0 million stock options to its new Chief Executive Officer ( CEO ) that vest at a rate of 25% per year over four years, with a portion of the annual vesting to occur only to the extent that the Company meets its performance objectives for the preceding calendar year under the Company's then-applicable incentive plan. Of the 4.0 million options granted, 1.5 million vest upon the achievement of certain performance milestones for which the related performance targets have yet to be established. Accordingly, no compensation expense related to those shares has been recorded. The remaining 2.5 million options have a grant date fair value of \$1.6 million.
- (2) In connection with the departure of the Company's former CEO, Mr. Benjamin G. Wolff, in November 2014, the exercise period for Mr. Wolff's vested stock options was extended until December 15, 2015. Excluding Mr. Wolff's 8,927,500 vested options with a weighted average exercise price of \$1.42 and a weighted average remaining life of 0.46 years, the weighted average exercise price for all other outstanding, exercisable, and vested and expected to vest options and stock appreciation rights is as follows:

	<b>Number of Options/SARs</b>	<b>Weighted average exercise price</b>
Outstanding at June 30, 2015	18,657,087	\$ 2.09
Exercisable at June 30, 2015	8,330,792	\$ 2.15
Vested and expected to vest at June 30, 2015	18,190,764	\$ 2.11

**Restricted Stock** The Company's restricted stock activity for the six months ended June 30, 2015 is summarized as follows:

		<b>Number of shares of Class A common stock underlying restricted stock awards</b>	<b>Weighted average fair value per share</b>
Unvested	December 31, 2014	2,559,514	\$ 1.67
Granted		9,170,148	\$ 0.77
Vested		(377,398)	\$ 3.59
Forfeited		(419,691)	\$ 1.56
Unvested	June 30, 2015	10,932,573	\$ 0.86

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During the six months ended June 30, 2015, the Company granted 9.0 million restricted stock awards to its new CEO and 0.2 million to its board of directors. Restricted stock awards granted during the six months ended June 30, 2015 consist of the following:

	<b>Number of shares of Class A common stock underlying restricted stock awards granted</b>	<b>Grant date fair value (in thousands)</b>
Service-based	3,500,000	\$ 4,690
Performance-based (1)	3,500,000	670
Market-based	2,000,000	1,500
Shares issued as board of director compensation	170,148	228
<b>Total restricted stock granted</b>	<b>9,170,148</b>	<b>\$ 7,088</b>

(1) Of the 3.5 million shares of performance-based restricted stock awards granted to the CEO, 3.0 million vest upon the achievement of certain performance milestones for which the related performance targets have yet to be established. Accordingly, no compensation expense related to those shares has been recorded.

The CEO's service-based restricted stock awards vest at a rate of 25% per year over four years. The CEO's performance-based restricted stock awards vest at a maximum rate of 25% per year over four years, but only if and to the extent the Company meets its performance objectives for the preceding calendar year under the Company's then-applicable incentive plan. The CEO's market-based restricted stock awards fully vest when both of the following have occurred: (i) the average closing price of the Company's Class A common stock, measured over any period of 60 consecutive calendar days, has reached or exceeded \$3.00 per share, (the Price Trigger) and (ii) the date is January 1, 2017 or later. If the Price Trigger is not achieved by December 31, 2019, then none of the market-based restricted stock awards will vest.

**9. Gain on Contingency**

During 2012, as part of the Company's exit from the satellite business, the Company sold its partially completed medium earth orbit (MEO) satellites, related equipment, and contracts (collectively, the MEO Assets). Under the sales agreement, the Company is entitled to a substantial portion of any proceeds that the buyer generates from the resale of the MEO Assets. In January 2015, the buyer resold the MEO Assets and as a result, the Company is entitled to receive up to \$6.0 million, contingent upon the buyer's receipt of payment. On January 14, 2015, the buyer received the first of three scheduled payments for the MEO Assets, resulting in the Company's receipt of approximately \$1.7 million, and a corresponding gain on contingency for the six months ended June 30, 2015. On July 13, 2015, the buyer received the second payment for the MEO Assets, which will result in the Company's recognition of an additional \$2.2 million gain on contingency in the third quarter of 2015. Due to the uncertainty of collection, the Company has not recognized the gain that may be generated if the buyer of the MEO Assets makes the third scheduled payment in early 2016.

**10. Income Taxes**

The Company recorded a tax provision of \$4.1 million and \$6.3 million for the six months ended June 30, 2015 and 2014, respectively, related to foreign taxes withheld on revenue generated from license agreements executed with third party licensees domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. However, due to uncertainty regarding the Company's ability to utilize the deduction or credit resulting from the foreign withholding, at June 30, 2015 and 2014, the Company established a full valuation allowance against the related deferred tax asset. The Company anticipates that it will not have a U.S. federal income tax liability for fiscal 2015.

***Personal Holding Company Determination*** The Internal Revenue Code imposes an additional tax on the undistributed income of a Personal Holding Company ( PHC ). In general, a corporation will be classified as a PHC if 50% or more of its outstanding shares, measured by value, are owned directly or indirectly by five or fewer individual shareholders at any time during the second half of the year ( Concentrated Ownership ) and at least 60% of its adjusted ordinary gross income is Personal Holding Company Income ( PHCI ). Broadly, PHCI includes items such as dividends, interest, rents and royalties, among others. Any income from ContentGuard's resolution of its claims against the ContentGuard Defendants will likely be classified as PHCI. For a corporate subsidiary, Concentrated Ownership is determined by reference to ownership of the parent corporation(s), and the subsidiary's income is subject to additional tests to determine whether its income renders the subsidiary a PHC. If a corporation is a PHC, generates positive net PHCI and does not distribute to its shareholders a proportionate dividend in the full amount of the net PHCI, then the undistributed net PHCI is taxed (at 20% under current law).

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Due to the significant number of shares held by the Company's largest shareholders and the type of income that the Company generates, the Company must continually assess share ownership of Pendrell and its consolidated subsidiary ContentGuard to determine whether or not there is Concentrated Ownership of either corporation. For 2015, the Company determined that Pendrell, the parent company, met the Concentrated Ownership test, but that ContentGuard has not yet met the Concentrated Ownership test due to the interest held by its minority shareholder. If Pendrell generates positive net PHCI, or if ContentGuard meets the Concentrated Ownership test and generates positive net PHCI, and they do not distribute such net PHCI to their shareholders, then the undistributed net PHCI will be subject to the PHC tax.

**11. Loss per Share**

Basic loss per share is calculated based on the weighted average number of Class A common stock and Class B common stock (the Common Shares) outstanding during the period. Diluted loss per share is calculated by dividing the loss allocable to common shareholders by the weighted average Common Shares outstanding plus potential dilutive Common Shares. Prior to the satisfaction of vesting conditions, unvested restricted stock awards are considered contingently issuable and are excluded from weighted average Common Shares outstanding used for computation of basic loss per share.

Potential dilutive Common Shares consist of the incremental Class A common stock issuable upon the exercise of outstanding stock options (both vested and non-vested), stock appreciation rights, and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options' exercise prices were greater than the average market price of the Company's Class A common shares for the period) because their inclusion would have been anti-dilutive.

The following table sets forth the computation of basic and diluted loss per share (in thousands, except share and per share data):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net loss attributable to Pendrell	\$ (7,558)	\$ (12,595)	\$ (8,117)	\$ (10,865)
Weighted average common shares outstanding	266,499,739	266,048,476	266,494,342	266,038,413
Less: weighted average unvested restricted stock awards	(1,032,415)	(1,944,614)	(1,043,082)	(2,101,218)
Shares used for computation of basic loss per share	265,467,324	264,103,862	265,451,260	263,937,195
Add back: weighted average unvested restricted stock awards and units				
Add back: dilutive stock options and stock				

appreciation rights

Shares used for computation of diluted loss per share (1)	265,467,324	264,103,862	265,451,260	263,937,195
Basic and diluted loss per share attributable to Pendrell	\$ (0.03)	\$ (0.05)	\$ (0.03)	\$ (0.04)

- (1) Stock options, stock appreciation rights, restricted stock awards and units totaling 38,517,160 and 33,076,030 for the three and six months ended June 30, 2015 and 2014, respectively, were excluded from the calculation of diluted loss per share as their inclusion was anti-dilutive.



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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes included in our 2014 Form 10-K.

### **Special Note Regarding Forward-Looking Statements**

With the exception of historical facts, the statements contained in this management's discussion and analysis are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause the actual results of Pendrell Corporation (Pendrell, together with its consolidated subsidiaries, us or we) to differ materially from those contemplated by the relevant forward-looking statements. Factors that might cause or contribute to such a difference include, but are not limited to, those discussed in the section entitled Risk Factors (Part II, Item 1A of this Form 10-Q) and elsewhere in this quarterly report. The forward-looking statements included in this document are made only as of the date of this report, and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

### **Overview**

Through our consolidated subsidiaries, we have invested in, acquired and developed businesses with unique technologies that are often protected by intellectual property (IP) rights, and that present the opportunity to address large, global markets. Our subsidiaries create value from our innovations, both by making our IP available for use by third parties and by developing and bringing to market products using our IP. We regularly evaluate our existing investments to determine whether retention or disposition is appropriate, and we investigate new investment and business acquisition opportunities. We also advise clients on various IP strategies and transactions.

During the first quarter of 2015, we licensed our memory and storage patents to SK hynix Inc. to permit the manufacture and distribution of embedded Multimedia Cards (eMMC). The license covers more than 169 patents and patents pending, and enables SK hynix to use both standards essential and implementation technologies. We have now completed three license agreements since acquiring the bulk of our memory and storage patent portfolio from Nokia in 2013, from which we received license fees and are entitled to future royalties. As a result of a license agreement signed in the first quarter of 2015, we recorded additional royalty revenue in the second quarter of 2015. We believe the pace at which we have concluded these licenses reflects the importance of our inventions, our leadership in the development of breakthrough next-generation memory solutions, and our commitment to entering into licenses on a reasonable and non-discriminatory basis. As memory and storage components become smaller and more sophisticated, our team of Finnish innovators continue to invent new technologies.

We also continue to pursue and advance our other licensing programs. However, the programs supported by our digital rights management (DRM) patents (in digital media and digital cinema) have been slowed by ContentGuard's ongoing litigation in Texas, which ContentGuard felt compelled to file after negotiations with the defendants did not yield negotiated license agreements. The claim construction and discovery phases of the litigation are completed, with jury trials scheduled for September 2015.

Meanwhile, ContentGuard successfully opposed numerous IPR petitions and CBM petitions filed by Apple and Google in response to ContentGuard's litigation against them. Apple and Google filed a total of 35 petitions, and the United States Patent and Trademark Office initiated proceedings on only one of those petitions. The other 34 petitions were either withdrawn or terminated. We do not anticipate that the one initiated proceeding will impact the timing or outcome of ContentGuard's litigation.

In June 2015, we completed the terms of engagement for our chief executive officer, Lee Mikles. Mr. Mikles had been our Interim Chief Executive Officer and President since November 2014. During his service in an interim capacity, he gained a deeper appreciation for the Company's potential, as reflected by his willingness to provide his talent and experience for a compensation package that is substantially equity-based, and thus tied to our future performance, with only minimal cash compensation. His resulting compensation package, which is essentially composed entirely of restricted stock, restricted stock units and stock options, also allows us to preserve additional cash to pursue initiatives.

While we focus on bringing the ContentGuard litigation to a successful conclusion, the ContentGuard product development team continues its work on Yovo®, our next-generation ephemeral photo and messaging application now

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supporting both iOS and Android. Yovo® is a social DRM application that enables groups to upload or share live photos from their smart phones to form a group story. Yovo® follows on the heels of the ContentGuard mobile digital content protection application for business users that was initially launched in December 2013 and updated in May 2014. These mobile applications, based on technologies developed by ContentGuard over the past fifteen years, including numerous new invention filings, are designed to address consumer demand for enhanced Internet privacy through solutions that restrict access to and limit the life of content. Our continuing development of these ephemeral content protection solutions reflects our commitment to continued innovation, including the development of products to commercialize our IP rights.

We continued to reduce our costs during the second quarter by eliminating certain positions, eliminating annual maintenance costs by abandoning certain patent assets that do not support our existing licensing programs, and lowering facilities costs. As a result, we ended the second quarter of 2015 with overhead costs that are substantially lower than the second quarter of 2014, while retaining the resources we deem critical to the generation of revenue from our existing assets and the continued thoughtful and measured assessment of opportunities to commercialize unique technologies and related businesses or otherwise invest our capital in opportunities which may be unrelated to our historical IP monetization activities.

**Critical Accounting Policies**

Critical accounting policies require difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties affecting the application of these policies include significant estimates and assumptions made by us using information available at the time the estimates are made. Actual results could differ materially from those estimates. Our critical accounting policies involve judgments associated with our accounting for the fair value of financial instruments, asset impairment, valuation of goodwill and intangible assets, contract settlements, revenue recognition, stock-based compensation, income taxes, contingencies and business combinations. There have been no significant changes to our critical accounting policies disclosed in our 2014 Form 10-K.

**Results of Operations**

The following table is provided to facilitate the discussion of our results of operations for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue	\$ 2,147	\$ 2,935	\$ 27,392	\$ 41,070
Cost of revenues	942	70	10,054	13,866
Patent administration and related costs	682	1,650	1,809	3,048
Patent litigation	485	1,931	5,042	3,969
General and administrative	3,681	6,985	8,810	14,834
Stock-based compensation	789	1,871	1,437	3,752
Amortization of intangible assets	3,589	3,991	7,185	8,030
Interest income	34	24	65	44
Interest expense	1	42	42	106
Gain on contingency			1,748	

Other expense	2	7	6	12
Income tax expense			4,125	6,270

*Revenue.* Revenue of \$2.1 million for the three months ended June 30, 2015 decreased by \$0.8 million, or 27%, as compared to \$2.9 million for the three months ended June 30, 2014. Revenue of \$27.4 million for the six months ended June 30, 2015 decreased by \$13.7 million, or 33%, as compared to \$41.1 million for the six months ended June 30, 2014. The decrease was primarily due to larger licensing transactions during the three and six months ended June 30, 2014.

*Cost of revenues.* Cost of revenues of \$0.9 million for the three months ended June 30, 2015 increased by \$0.8 million, or more than 100%, as compared to \$0.1 million for the three months ended June 30, 2014. The increase was primarily due to higher revenue share obligations associated with revenue for the three months ended June 30, 2015 as compared to 2014. Cost of revenues of \$10.1 million for the six months ended June 30, 2015 decreased by \$3.8 million, or 27%, as compared to \$13.9 million for the six months ended June 30, 2014. The decrease for the six months ended June 30, 2015 was primarily due to the decrease in revenue in 2015 as compared to 2014.

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*Patent administration and related costs.* Patent administration and related costs of \$0.7 million for the three months ended June 30, 2015 decreased by \$1.0 million, or 59%, as compared to \$1.7 million for the three months ended June 30, 2014. Patent administration and related costs of \$1.8 million for the six months ended June 30, 2015 decreased by \$1.2 million, or 41%, as compared to \$3.0 million for the six months ended June 30, 2014. The decrease for both the three and six months was primarily due to a reduction in patent maintenance and prosecution costs resulting from the abandonment of patents during 2015 and throughout 2014 that were not part of existing licensing programs.

*Patent litigation.* Patent litigation expenses of \$0.5 million for the three months ended June 30, 2015 decreased by \$1.4 million, or 75%, as compared to \$1.9 million for the three months ended June 30, 2014. The decrease during the three months ended June 30, 2015 was primarily due to a reduction in hourly attorney fees as we prepare for our upcoming jury trials in September 2015.

Patent litigation expenses of \$5.0 million for the six months ended June 30, 2015 increased by \$1.0 million, or 27%, as compared to \$4.0 million for the six months ended June 30, 2014. This increase was primarily due to costs incurred by our subsidiary, ContentGuard, in its litigation efforts against the ContentGuard Defendants as it prepared for its March 2015 Markman hearing and upcoming jury trials scheduled for September 2015. In the absence of monetary recovery from one or more of the ContentGuard Defendants, we anticipate that patent litigation expense for the remainder of 2015 will be less than that reported for the corresponding period in the prior year.

*General and administrative.* General and administrative expenses of \$3.7 million for the three months ended June 30, 2015 decreased by \$3.3 million, or 47%, as compared to \$7.0 million for the three months ended June 30, 2014. The decrease was primarily due to (i) \$1.3 million reduction in employment expenses resulting from a lower headcount, (ii) \$0.7 million reduction in amortized prepaid compensation expense associated with the acquisition of the Ovidian Group LLC ( Ovidian ) in June 2011 (which was fully amortized as of June 2014), (iii) \$0.7 million reduction in expenses associated with Provitro, (iv) \$0.4 million decrease in expenses associated with researching acquisition opportunities, and (v) \$0.2 million reduction in other expenses.

General and administrative expenses of \$8.8 million for the six months ended June 30, 2015 decreased by \$6.0 million, or 41%, as compared to \$14.8 million for the six months ended June 30, 2014. The decrease was primarily due to (i) \$2.1 million reduction in employment expenses resulting from a lower headcount, (ii) \$1.4 million reduction in amortized prepaid compensation expense associated with the acquisition of Ovidian in June 2011 (which was fully amortized as of June 2014), (iii) \$1.1 million reduction in expenses associated with Provitro, (iv) \$0.8 million decrease in expenses associated with researching acquisition opportunities, and (v) \$0.6 million reduction in professional fees and other expenses.

*Stock-based compensation.* Stock-based compensation of \$0.8 million for the three months ended June 30, 2015 decreased by \$1.1 million, or 58%, as compared to \$1.9 million for the three months ended June 30, 2014. Stock-based compensation of \$1.4 million for the six months ended June 30, 2015 decreased by \$2.4 million, or 62%, as compared to \$3.8 million for the six months ended June 30, 2014. The decrease for both the three and six months was primarily due to the vesting of awards during the second quarter of 2014 and the accelerated vesting of awards in November 2014 associated with the departure of our former CEO for which no expense was incurred in 2015, partially offset by expense associated with awards issued in June 2015 to our new CEO.

*Amortization of intangibles.* Amortization of intangibles of \$3.6 million for the three months ended June 30, 2015 decreased by \$0.4 million, or 10%, as compared to \$4.0 million for the three months ended June 30, 2014. Amortization of intangibles of \$7.2 million for the six months ended June 30, 2015 decreased by \$0.8 million, or 11%, as compared to \$8.0 million for the six months ended June 30, 2014. The decrease for both the three and six months

was primarily due to the abandonment of certain patents during 2015 and throughout 2014 that were not part of existing licensing programs, as well as the elimination of the amortization of the Provitro technology that was written down to zero in the fourth quarter of fiscal 2014.

*Interest income.* Interest income for the three and six months ended June 30, 2015 and 2014 was nominal and primarily related to interest earned on money market funds.

*Interest expense.* Interest expense for the three and six months ended June 30, 2015 and 2014 consisted of interest expense resulting from installment payment obligations associated with intangible assets acquired during 2013. The payment obligation was satisfied in March 2015 and no further interest expense is being incurred.

*Gain on contingency.* Gain on contingency for the six months ended June 30, 2015 was due to the receipt of \$1.7 million from the disposition of assets associated with our prior satellite business.

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*Other expense.* Other expense for the three and six months ended June 30, 2015 and 2014 was due to losses on foreign currency transactions.

*Income taxes.* We recorded a tax provision of \$4.1 million and \$6.3 million for the six months ended June 30, 2015 and 2014, respectively, related to foreign taxes withheld on revenue generated from license agreements executed with third party licensees domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. However, due to uncertainty regarding our ability to utilize the deduction or credit resulting from the foreign withholding, at June 30, 2015 and 2014, we established a full valuation allowance against the related deferred tax asset. We anticipate that we will not have a U.S. federal income tax liability for fiscal 2015.

**Liquidity and Capital Resources**

*Overview.* As of June 30, 2015, we had cash and cash equivalents of \$156.1 million. Our primary expected cash needs for the next twelve months include ongoing operating costs associated with commercialization of our IP assets, expenses in connection with legal proceedings, and other general corporate purposes. We may also use our cash, and may incur debt or issue equity, to acquire or invest in other businesses or assets.

We believe our current balances of cash and cash equivalents and cash flows from operations will be adequate to meet our liquidity needs for the foreseeable future. Cash and cash equivalents in excess of our immediate needs are held in interest bearing accounts with financial institutions.

*Cash Flows.* The following table is provided to facilitate the discussion of our liquidity and capital resources for the six months ended June 30, 2015 and 2014 (in thousands):

	<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Net cash provided by (used in):</b>		
Operating activities	\$ (6,246)	\$ 3,612
Investing activities	(2,011)	(63)
Financing activities	(4,440)	(1,976)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(12,697)</b>	<b>1,573</b>
Cash and cash equivalents beginning of period	168,793	184,567
<b>Cash and cash equivalents end of period</b>	<b>\$ 156,096</b>	<b>\$ 186,140</b>

For the six months ended June 30, 2015, the \$6.2 million of cash used in operating activities consisted primarily of operating expenses of \$34.3 million adjusted for various non-cash items including (i) \$7.2 million of amortization expense associated with patents and other intangibles, (ii) \$1.4 million of stock-based compensation expense, (iii) \$0.8 million of non-cash loss associated with the abandonment of patents, (iv) \$0.2 million of depreciation expense and (v) \$0.1 million of cost associated with patents sold as well as (a) a \$5.3 decrease in accounts payable and accrued expenses, (b) a \$4.1 million payment of foreign withholding taxes, and (c) a \$1.4 million increase in accounts receivable, prepaids and other current/non-current assets, partially offset by revenue generated by operations during the period of \$27.4 million and a \$1.7 million gain on contingency.

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For the six months ended June 30, 2014, the \$3.6 million of cash provided by operating activities consisted primarily of revenue generated by operations of \$41.1 million, partially offset by foreign taxes paid of \$6.3 million and operating expenses of \$47.5 million adjusted for various non-cash items, including (i) \$8.0 million of amortization expense associated with patents and other intangible assets, (ii) \$3.8 million of stock-based compensation expense, (iii) \$1.9 million of non-cash loss associated with the abandonment and/or sale of patents, (iv) \$1.4 million of amortized prepaid compensation expense associated with the acquisition of Ovidian in June 2011, (v) \$0.7 million increase in prepaid expenses, and (vi) \$0.5 million increase in accounts payable and accrued expenses.

For the six months ended June 30, 2015, the \$2.0 million of cash used in investing activities was primarily due to the acquisition of intangible assets. For the six months ended June 30, 2014, the \$0.1 million of cash used in investing activities was primarily due to the acquisition of property placed in service.

For the six months ended June 30, 2015, the \$4.4 million of cash used in financing activities consisted primarily of a \$4.0 million payment of an accrued obligation associated with the 2013 purchase of intangible assets and a \$0.4 million payment to acquire the minority partner's interest in Provitro. For the six months ended June 30, 2014, the \$2.0 million of



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cash used in financing activities consisted of a \$2.0 million payment of an accrued obligation associated with the 2013 purchase of intangible assets and \$0.3 million utilized to pay statutory taxes related to vesting of restricted stock awards, partially offset by \$0.3 million in proceeds from the exercise of stock options.

*Contractual Obligations.* We have contractual obligations under operating lease agreements for our main office in Kirkland, Washington, and offices in California, Texas and Finland.

**Risks and Uncertainties**

Certain risks and uncertainties that could materially affect our future results of operations or liquidity are discussed under Part II Other Information, Item 1A. Risk Factors in this quarterly report.

**Inflation**

The impact of inflation on our condensed consolidated financial condition and results of operations was not significant during any of the periods presented.

**Off-Balance Sheet Arrangements**

Other than as disclosed above under Contractual Obligations, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial position, results of operations or cash flows that are material to investors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have assessed our vulnerability to certain market risks, including interest rate risk associated with our accounts receivable, accounts payable, other liabilities, and cash and cash equivalents and foreign currency risk associated with our cash held in foreign currencies.

As of June 30, 2015, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of \$156.1 million. The primary objective of our investments in money market funds is to preserve principal, while minimizing risk, and our policies require, at the time of purchase, that we make these investments in short-term, high rated securities which have a current yield of less than 1%.

	<b>June 30, 2015</b> <b>(in thousands)</b>
Cash	\$ 20,657
Money market funds	135,439
	<b>\$ 156,096</b>

Our primary foreign currency exposure relates to cash balances in foreign currencies. Due to the small balances we hold, we have determined that the risk associated with foreign currency fluctuations is not material to us.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we have evaluated our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting during the second quarter of 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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*Enforcement Action against Amazon et. al.* On December 18, 2013, ContentGuard filed a patent infringement lawsuit against Amazon.com, Inc., Apple Inc., Huawei Device USA, Inc. and Motorola Mobility LLC in the Eastern District of Texas, in which ContentGuard alleged that these entities infringed and continue to infringe nine of its patents by making, using, selling or offering for sale certain mobile communication and computing devices (the Amazon Litigation ). On January 17, 2014, ContentGuard filed an amended complaint in the Amazon Litigation adding certain affiliates of the original defendants, along with HTC Corporation, HTC America Inc., Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC. In August 2014, DirecTV intervened in the case and thereby became an additional defendant, against whom ContentGuard asserted additional infringement claims. In March 2015, the presiding judge issued claim construction rulings that preserve the breadth of ContentGuard's claims against all defendants. In July 2015, ContentGuard agreed in principle to settle the case against Amazon, and is working with Amazon to document and complete the settlement. Trials against the remaining defendants are scheduled for September 2015. We are unable to anticipate the timing or outcome of the Amazon Litigation.

*Google Actions* On January 31, 2014, Google Inc. ( Google ) filed a declaratory judgment suit in the Northern District of California alleging that Google does not infringe the nine patents asserted in the Amazon Litigation. On February 5, 2014, ContentGuard filed a patent infringement action in the Eastern District of Texas against Google, in which ContentGuard alleged that Google has infringed and continues to infringe the same nine patents. In April 2014, the presiding judge in the Eastern District of Texas, with the endorsement of the presiding judge in the Northern District of California, ruled that all claims by and against Google will be resolved in the Eastern District of Texas, and not in the Northern District of California. The presiding judge also declined to consolidate the Google actions with the Amazon Litigation. In March 2015, the presiding judge issued claim construction rulings that preserve the breadth of ContentGuard's claims against Google. Trial is scheduled for September 2015. We are unable to anticipate the timing or outcome of the actions by and against Google.

*IPR and CBM Petitions by ContentGuard Defendants* In December 2014, Apple filed with the United States Patent and Trademark Office (the USPTO ) twenty-nine inter partes review ( IPR ) petitions and three covered business method ( CBM ) petitions, through which Apple challenged the validity of all nine patents asserted in the Amazon Litigation. Also in December 2014, Google filed three CBM petitions, challenging the validity of three of the nine asserted patents. Between March and July 2015, all of Apple's IPR and CBM petitions were terminated or withdrawn. All but one of Google's petitions were also terminated or withdrawn, leaving just one Google CBM petition that will proceed to trial before the USPTO's Patent Trial and Appeal Board ( PTAB ). We do not believe that the one proceeding that was initiated will impact the timing of the litigated claims against Google and the defendants in the Amazon Litigation (collectively, the ContentGuard Defendants ).

*ZTE IPRs* In early 2012, ContentGuard and its subsidiaries filed lawsuits in United States and German courts, alleging that ZTE Corporation, ZTE (USA) Inc. and ZTE Deutschland GmbH (collectively ZTE ) infringed and continue to infringe ContentGuard patents by making, using, selling or offering for sale certain mobile communication and computing devices. ZTE subsequently filed IPR petitions with the USPTO, challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. The PTAB terminated proceedings with respect to two patents, both of which emerged with valid patent claims. ZTE's claims against the other four patents went to trial. Following trial, the PTAB rejected ZTE's remaining challenges, and confirmed the validity of all claims in the four patents. ZTE's time for appeal expired with no appeals filed. Apple then challenged the same four patents in new IPRs, as described in the paragraph

above, which the PTAB rejected. As a result, unless Apple requests PTAB reconsideration within the allowable appeal period, the decisions of the PTAB, as against ZTE and Apple, are final.

*ZTE Enforcement Actions* In response to the claims filed against ZTE in Germany, in which ContentGuard GmbH alleged infringement of three European patents, ZTE filed a nullity action against two of the patents and an opposition proceeding against the third patent. The infringement and nullity proceedings in Germany, along with all U.S. court actions, were put to rest or stayed as the result of a standstill agreement signed by ContentGuard and ZTE in December 2013. ZTE prevailed in the opposition proceeding, resulting in the revocation of one European patent, which ContentGuard has appealed. The revocation has no impact on ContentGuard's claims in Texas against the ContentGuard Defendants.

*J&J Collection* In November 2012, we obtained an arbitration judgment in the U.K. against Jay and Jayendra (Pty), a South African corporation ( J&J Group ) for approximately \$4.0 million. J&J Group submitted multiple appeals to the U.K. courts, the last of which was rejected in July 2013. In December 2014, we obtained an enforcement judgment against J&J Group from a South African court, and have commenced collection efforts. Due to the uncertainty of collection, we have not recognized any gain associated with the judgment. We are unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

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### **Item 1A. Risk Factors**

The risks below address some of the factors that may affect our future operating results and financial performance. If any of the following risks develop into actual events, then our business, financial condition, results of operations or prospects could be materially adversely affected.

#### ***Risks Related to our Patents and Monetization Activities***

***Success of our licensing efforts depends on our ability to enter into new license agreements or otherwise enforce our intellectual property rights.***

Our licensing business depends on sustaining and growing our IP licensing revenue. IP licensing revenues are dependent on our ability to enter into new license agreements with, or otherwise enforce our intellectual property rights against, users of our patented inventions. If users refuse to sign or renew license agreements, we may need to resort to litigation or other measures to compel the payment of fair consideration, which may or may not be effective. This risk applies not only to new license agreements, but to existing license agreements with fixed expiration dates. If we fail to sign or renew license agreements on terms that are favorable to us or obtain favorable outcomes through litigation or other enforcement actions, our business opportunity could be negatively impacted.

***If we fail to expand our portfolios, revenue opportunities from our IP monetization efforts will be limited.***

Patents have finite lives. Our IP portfolio currently consists of patents that expire between 2015 and 2032, as well as patent applications. Our portfolio has an average remaining life of approximately six years. If we fail to develop or acquire new patentable inventions prior to the expiration of our patents, our licensing opportunities will be limited.

***We may have a limited number of prospective licensees.***

The patent portfolios that we own and may acquire in the future may be applicable to only a limited number of prospective licensees. As such, if we are unable to enter into licenses with this limited group, and if we fail to expand the breadth and depth of our patent portfolios, licensing revenue will be adversely impacted.

***Our licensing cycle is lengthy, and our licensing efforts may be unsuccessful.***

The process of licensing to customers can be lengthy, sometimes spanning a number of years. We expect to incur significant legal and sales expenses prior to entering into license agreements and generating license revenues. We also expect to spend considerable resources educating prospective licensees on the benefits of a license arrangement with us. As such, we may incur significant losses in any particular period before any associated revenue is generated. Moreover, if our portfolio is not demonstrably applicable to prospective licensees' products or services, whether due to poor quality, lack of breadth or otherwise, parties may refuse to enter into license agreements.

***Enforcement proceedings may be costly and ineffective and could lead to impairment of our IP assets.***

We may choose to pursue litigation or other enforcement action to protect our intellectual property rights, such as the litigation we initiated against the ContentGuard Defendants. Enforcement proceedings are typically protracted and complex, and might require cooperation of inventors and others who are unwilling or unable to assist with enforcement. Litigation also involves several stages, including the potential for a prolonged appeals process. The costs are typically substantial, and the outcomes are unpredictable. We may receive a ruling or judgment, or we may enter into licenses or settlement agreements that might compel us to revalue the IP assets that we are enforcing or the goodwill value of our enforcing subsidiary, which in turn might result in a reduction to the financial statement

carrying value of such assets through a corresponding impairment charge which would adversely affect our results of operations and our financial position. Enforcement actions will likely divert our managerial, technical, legal and financial resources from business operations. In certain cases, we may conclude that these costs and risks outweigh the potential benefits that would arise from successful enforcement, in which event we may opt not to pursue enforcement.

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### ***Our business could be negatively impacted if our inventions are not incorporated into products.***

Our licensing revenues have been generated from manufacturers and distributors of products that incorporate our patented inventions. Our business prospects could be negatively impacted if prospective licensees do not include our inventions in their products, or if they later modify their products to eliminate use of our inventions.

### ***As we incorporate our IP into product offerings, we could face new risks.***

As we seek to commercialize our IP through product offerings, we could face risks that we have not previously confronted, including IP infringement risks, product liability risks, and other risks. The outcome of proceedings arising from or related to such risks could have a material adverse effect on our results of operations or cash flows in any particular period. In addition, any growth associated with product offerings is largely dependent on the timing and market acceptance of any new product offerings, including our ability to continually modernize our products and bring those products to market. If any products we offer are not commercially successful, our results of operation and reputation could be adversely affected.

### ***We may not recover costs of our commercialization activities.***

We may incur significant costs to advance our commercialization efforts that might not be recovered if our efforts are unsuccessful. Our failure to recover such costs could adversely affect our results of operations and our financial position.

### ***Future innovations could make our inventions obsolete.***

Our success depends, in part, on continued demand for products that incorporate our patented inventions. Changes in technology or customer requirements could render our patented inventions obsolete or unmarketable.

### ***Challenges to the validity or enforceability of our key patents could significantly harm our business.***

Our assets include patents that are integral to our business and revenues. Prospective licensees or competitors may challenge the validity, scope, enforceability and ownership of our patents. Their challenges may include review requests in the relevant patent and trademark office, such as the inter partes review and covered business method proceedings initiated by certain ContentGuard Defendants. Review proceedings are costly and time-consuming, and we cannot predict their outcome or consequences. Such proceedings may narrow the scope of our claims or may cancel some or all of our claims. If some or all of our patent claims are canceled, we could be prevented from enforcing or earning future revenues from such patents. Even if our claims are not canceled, enforcement actions against alleged infringers, such as our litigation against the ContentGuard Defendants, may be stayed pending resolution of reviews, or courts or tribunals reviewing our patent claims could make findings adverse to our interests based on facts presented in review proceedings. Irrespective of outcome, review challenges may result in substantial legal expenses and diversion of management's time and attention away from our other business operations. Adverse decisions could impair the value of our inventions or result in a loss of our proprietary rights and may adversely affect our results of operations and our financial position.

### ***Delays in issuance of patents could harm our business.***

We may acquire and pursue additional patents and related intellectual property rights. If we do, our patent applications will add to a growing number of patent applications, which may result in longer delays in obtaining approval of such patent applications. The application delays could cause delays in recognizing revenue from new patents and could

cause us to miss opportunities to license or enforce patents before other competing technologies are developed or introduced into the market.

***Changes in patent law could adversely impact our business.***

Patent laws may continue to change, and may alter protections afforded to owners of patent rights, impose additional enforcement risks, increase the costs of enforcement, or increase our licensing cycles. For instance, during 2013, legislative initiatives were introduced to address perceived patent abuses by non-practicing entities. Although legislation was not enacted, similar legislation has been introduced in 2015. Even if legislative initiatives do not directly impact our business, such initiatives might encourage manufacturers to infringe our IP rights, lengthen our licensing cycles, increase the likelihood that we will litigate to enforce our IP rights, or make it more difficult and expensive to license our patents or enforce our patents against parties using our inventions without a license. Moreover, increased focus on the growing number of patent-related lawsuits may result in legislative changes which increase our costs and related risks of asserting patent enforcement actions.



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***Changes of interpretations of patent law could adversely impact our business.***

Our success in review and enforcement proceedings relies in part on the historically consistent application of patent laws and regulations. Interpretations of patent laws and regulations by the courts and applicable regulatory bodies have evolved, and may continue to evolve, particularly with the introduction of new laws and regulations. Changes or potential changes in judicial interpretation could have a negative impact on our ability to monetize our patent rights.

***Risks Related to our Acquisition Activities***

***We may over-estimate the value of assets or businesses we acquire.***

We make investments from which we intend to generate a return. We estimate the value of these investments prior to acquisition, using both objective and subjective methodologies. If we over-estimate such value, we may not generate desired returns on our investment, or we may need to adjust the value of the investments to fair value and record a corresponding impairment charge, either of which could adversely affect our results of operations and our financial position.

***We may not capitalize on acquired assets.***

Even if we accurately value the investments we make, we must succeed in generating a return on the investments. For instance, our subsidiaries that own IP rights must commercialize, license, or otherwise monetize the IP rights in order to generate a return on our investment. Our success in generating a return, particularly with respect to our IP rights, depends on effective efforts of our employees and outside professionals, which typically requires complex analysis, the exercise of sound professional judgment and effective education of prospective licensees and customers. If we do not generate desired returns on our investments or if we are compelled to adjust the value of the investments to fair value and record a corresponding impairment charge, it could adversely affect our results of operations and our financial position.

***We may pursue other acquisition or investment opportunities that do not yield desired results.***

We intend to continue investigating potential acquisitions that support our business objectives and strategy. Acquisitions are time-consuming, complex and costly. The terms of acquisition agreements tend to be heavily negotiated. As a result, we may incur significant transactional expenses, regardless of whether or not acquisitions are consummated. Moreover, the integration of acquired companies prompts significant challenges, and we can provide no assurances that the integration of acquired businesses with our business will result in the realization of the full benefits we anticipate from such acquisitions. Investigating businesses and assets and integrating newly acquired businesses or assets may be costly and time-consuming, and such activities could divert our attention from other business concerns. In addition, we might lose key employees while integrating new organizations. Acquisitions could also result in potentially dilutive issuances of equity securities or the incurrence of debt, the assumption or incurrence of contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could negatively impact our financial position. We might not be successful in integrating acquired businesses and might not achieve desired revenues and cost benefits.

***We rely on representations, warranties and opinions from third parties that might not be accurate.***

When we acquire assets or businesses or establish relationships with inventors or strategic partners, we may rely on representations and warranties made by third parties. We also may rely on opinions of lawyers and other professionals. We may not have the opportunity to independently investigate and verify the facts upon which such

representations, warranties and opinions are made. By relying on these representations, warranties and opinions, we may be exposed to unforeseen liabilities that could have a material adverse effect on our operating results and financial condition.

***Risks Related to our Operations***

***Our financial and operating results have been and may continue to be uneven.***

Our operating results may fluctuate and, as such, our operating results are difficult to predict. You should not rely on quarterly or annual comparisons of our results of operations as an indication of our future performance. Factors that could cause our operating results to fluctuate during any period or that could adversely affect our operating results include the timing of license, sales and consulting agreements, compliance with such agreements, the terms and conditions for payment under those agreements, our ability to protect and enforce our intellectual property rights, changes in demand for products that incorporate our inventions, the time period between commencement and completion of license negotiations or enforcement proceedings, revenue recognition principles, and changes in accounting policies.

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***Our revenues have not and may not offset our operating expenses.***

Through 2014, we developed and expanded our business by acquiring IP assets, developing new solutions and products and expanding the reach and scope of our IP business. We also incurred expenses to hire new personnel, including employees for IP services, patent research and analysis, development of reporting systems and general and administrative functions and to pay legal fees for IP enforcement activities. As a result, our costs exceeded our revenues, and although we have recently scaled back our expansion efforts, we anticipate that costs will continue to exceed revenues until and unless we generate additional revenue from our existing assets. If we are not successful in generating revenue that is sufficient to offset our expenses, our financial position will be negatively impacted.

***Failure to effectively manage the composition of our employee base could strain our business.***

Our success depends, in large part, on continued contributions of our key managers and employees, many of whom are highly skilled and would be difficult to replace. Our success also depends on our ability to attract, train and retain highly skilled personnel, and on the abilities of new personnel to function effectively, both individually and as a group. Recently, we terminated the employment of certain individuals (including IP consultants) who we believe were redundant or unnecessary to advance our current and anticipated business initiatives. If we misjudged our ongoing personnel needs or lose any of our remaining senior managers or key personnel, it could lead to dissatisfaction among our clients or licensees, which could slow our growth or result in a loss of business. Moreover, if we fail to manage the composition of our employee base effectively or otherwise strain our relationships with our personnel, our business and financial results may be materially harmed.

***Our provision of IP-related services could result in professional liability that may damage our reputation.***

Our provision of IP-related services typically involves complex analysis and the exercise of professional judgment. As a result, we are subject to the risk of professional liability. If a client questions the quality of our work, the client could threaten or bring a lawsuit to recover damages or contest its obligation to pay fees. Litigation alleging that we performed negligently or breached any other obligations to a client could expose us to legal liabilities and, regardless of outcome, could be costly, distract our management and damage our reputation.

***Rights of minority shareholders may limit future value.***

The governing documents for certain subsidiaries which we do not wholly own describe certain actions that require unanimous consent of their respective shareholders. For instance, we entered into a voting agreement with Time Warner that survives so long as Time Warner holds a material interest in ContentGuard, and which requires the prior written consent of both us and Time Warner before ContentGuard commits its patents to a standards body or patent pool, grants any license that facilitates copyright theft, undertakes certain litigation, or sells or transfers any material patents free of these three restrictions. Historically, shareholder consent requirements have not adversely impacted our business, but circumstances could change. Moreover, we may enter into investments in the future that involve similar or more restrictive governance provisions. If our interests and the interests of our partners or other shareholders in these investments diverge, we may be unable to capitalize on business opportunities or prevented from realizing favorable returns on investments.

***If we need financing and cannot obtain financing on favorable terms, our business may suffer.***

We have relied on revenues from clients and licensees and existing cash reserves to finance our operations. If we deploy a significant portion of our capital or encounter unforeseen difficulties in the future that deplete our capital resources more rapidly than anticipated, we may need to obtain additional financing. Financing might not be available

on favorable terms, if at all, may dilute our existing shareholders, and may prompt us to pursue structural changes that could impact shareholder concentration and liquidity. If we fail to obtain additional capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition.

***Future changes in standards, rules, practices or interpretation may impact our financial results.***

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These principles are subject to interpretations by the SEC and various accounting bodies. In addition, we are subject to various taxation rules in many jurisdictions. The existing taxation rules are generally complex, voluminous, frequently changing and often ambiguous. Changes to existing taxation rules, changes to the financial accounting standards, or any changes to the interpretations of these standards or rules, or changes in practices under these standards and rules, may adversely affect our reported financial results or the way we conduct our business.

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**Table of Contents*****Unauthorized use or disclosure of our confidential information could adversely affect our business.***

We rely primarily on a combination of license agreements, nondisclosure agreements, other contractual relationships and patent, trademark, trade secret and copyright laws to protect our confidential and proprietary information, our technology and our intellectual property. We cannot be certain that these protections have not been and will not be breached, that we will be able to timely detect unauthorized use or transfer of our trade secrets or intellectual property, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If we are unable to detect in a timely manner the unauthorized use or disclosure of our proprietary or other confidential information or if we are unable to enforce our rights under our agreements or applicable laws, the misappropriation of such information could harm our business.

***Risks Related to the Tax Losses Generated from Our Former Satellite Communications Business******Our ability to benefit from our United States federal income tax loss carryforward may be impacted by changes in the tax laws.***

We have substantial historical net operating losses ( NOLs ) for United States federal income tax purposes. A significant portion of our NOL was triggered when we disposed of our satellite business. We believe these NOLs can be carried forward to offset certain future taxable income. However, our ability to benefit from these historical NOLs is dependent on the generation of future taxable income during the loss carryforward period. The NOL carryforward period begins to expire in 2025 with the bulk of the NOLs expiring in 2032. If the tax laws are amended to limit or eliminate our ability to carryforward the NOLs for any reason, or to lower income tax rates, the value of the NOLs may be significantly reduced.

***An Ownership Change under Section 382 of the Internal Revenue Code may significantly limit Pendrell's ability to use its NOLs to offset future taxable income.***

Our use of our NOLs will be significantly limited if we undergo a Tax Ownership Change, as defined in Section 382 of the Internal Revenue Code. Broadly, Pendrell will have a Tax Ownership Change if, over a three-year testing period, the portion of all stock of Pendrell, by value, owned by one or more 5% shareholder increases by more than 50 percentage points. For purposes of this test, shareholders that own less than 5% of the stock of Pendrell are aggregated into one or more separate public groups, each of which is treated as a 5% shareholder. In general, shares traded within a public group are not included in the Tax Ownership Change test. Despite our adoption of certain protections against a Tax Ownership Change (such as our Tax Benefits Preservation Plan), we cannot control the trading activity of our significant shareholders. If significant shareholders divest their shares in a manner or at times that do not account for the loss-limiting provisions of the Internal Revenue Code or regulations adopted thereunder, a Tax Ownership Change could occur. If a Tax Ownership Change occurs when the value of the Class A Common Stock is low, Pendrell will be permanently unable to use most of its NOLs.

***Our NOLs cannot be used to offset the Personal Holding Company tax.***

The Internal Revenue Code imposes an additional tax on the undistributed income of a Personal Holding Company ( PHC ). In general, a corporation will be classified as a PHC if 50% or more of its outstanding shares, measured by value, are owned directly or indirectly by five or fewer individual shareholders at any time during the second half of the year ( Concentrated Ownership ) and at least 60% of its adjusted ordinary gross income is Personal Holding Company Income ( PHCI ). Broadly, PHCI includes items such as dividends, interest, rents and royalties, among others. Any income from ContentGuard's resolution of its claims against the ContentGuard Defendants will likely be classified as PHCI. It is possible that action or inaction by significant shareholders at the Pendrell or ContentGuard

level could result in ContentGuard meeting the Concentrated Ownership test for the year. If Pendrell generates positive net PHCI, or if ContentGuard meets the Concentrated Ownership test and generates positive net PHCI, including through the resolution of its claims against the ContentGuard Defendants, Pendrell or ContentGuard will be subject to the PHC tax on undistributed net PHCI. The PHC tax, which is in addition to the income tax, is currently levied at 20% of the net PHCI not distributed to the corporation's shareholders.

***Our NOLs cannot be used to completely offset the Alternative Minimum Tax or other taxes.***

We may also be subject to the corporate Alternative Minimum Tax ( AMT ) in a year in which we have net taxable income because the AMT cannot be completely offset by available NOLs, as losses carried forward generally can offset no more than 90% of a corporation's AMT liability. In addition, our federal NOLs will not shield us from foreign withholding taxes, state and local income taxes, or revenue-based taxes incurred in jurisdictions that impose such taxes.

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***Our ability to utilize our NOLs is dependent on the generation of future taxable income.***

Our ability to utilize our NOLs is dependent upon the generation of future taxable income before the expiration of the carry forward period attributable to the NOLs, which begin to expire in 2025. We did not generate taxable income in 2013 or 2014 and we may not generate sufficient taxable income in future years to use the NOLs before they begin expiring.

***Risks Related to Our Class A Common Stock***

***Future sales of our Class A common stock could depress the market price.***

The average trading volume of our Class A common stock is low in relation to the number of outstanding shares of Class A common stock. As a result, the market price of our Class A common stock could decline as a result of sales of a large number of shares. These sales might also make it more difficult for us to sell shares in the future at a time and price that we deem appropriate.

***A sale of a large number of shares by our largest shareholders could depress the market price of our Class A common stock.***

A small number of our shareholders hold a majority of our Class A common stock and our Class B common stock, which is convertible at the option of the holders into Class A common stock. The sale or prospect of the sale of a substantial number of these shares could have an adverse effect on the market price of our Class A common stock.

***The interests of our controlling shareholder may conflict with the interests of other Class A holders.***

Eagle River Satellite Holdings, LLC, together with its affiliates Eagle River Investments, LLC, Eagle River, Inc. and Eagle River Partners, LLC (collectively, Eagle River ) controls approximately 65% of the voting power of our outstanding capital stock. As a result, Eagle River has control over the outcome of matters requiring shareholder approval, including the election of directors, amendments to our governing documents, the adoption or prevention of mergers, consolidations or sales of all or substantially all of our assets, or control changes. Eagle River is not restricted or prohibited from competing with us.

***We are a controlled company within the meaning of the NASD Marketplace Rules and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.***

Eagle River controls approximately 65% of the voting power of our outstanding capital stock. As a result, we are a controlled company within the meaning of the Nasdaq Global Select Market corporate governance standards, and therefore may elect not to comply with certain Nasdaq Global Select Market corporate governance requirements, including (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement that the compensation of officers be determined, or recommended to the board of directors for determination, by a majority of the independent directors or a compensation committee comprised solely of independent directors, and (iii) the requirement that director nominees be selected, or recommended for the board of directors selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process. We do not currently rely on any of these exemptions, but reserve the right to do so in the future. If we choose to do so, our shareholders may not have the same protections afforded to shareholders of companies that are subject to all of the Nasdaq Global Select Market corporate governance requirements.

***Our Tax Benefits Preservation Plan ( Tax Benefits Plan ), as well as certain provisions in our restated articles of incorporation, may discourage takeovers, which could affect the rights of holders of our Class A common stock.***

Our Tax Benefits Plan is intended to act as a deterrent against any person or group acquiring or otherwise obtaining beneficial ownership of more than 4.9% of our securities without the approval of our board of directors. In addition, our articles of incorporation require us to take all necessary and appropriate action to protect certain rights of our common shareholders, including voting, dividend and conversion rights and rights in the event of a liquidation, merger, consolidation or sale of substantially all of our assets. Our articles of incorporation also provide that we will not avoid or seek to avoid the observance or performance of those rights by charter amendment, entry into an inconsistent agreement or reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution or the issuance or sale of securities. The rights protected by these provisions of the articles of incorporation include our Class B common shareholders' right to ten votes per share on matters submitted to a vote of our shareholders and option to convert each share of Class B common stock into one share of Class A common stock. The provisions of the Tax Benefits Plan and our articles of incorporation could discourage takeovers of our company, which could adversely affect the rights of our shareholders.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Class A common stock securities purchases described in the table below represent the fulfillment of a contractual obligation to repurchase from an employee 250,000 shares of Class A common stock for \$2.5 million, or \$10 per share, in April 2015.

		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
April 1	April 30, 2015	250,000	\$ 10.00		
May 1	May 31, 2015				
June 1	June 30, 2015				
		250,000	\$ 10.00		

**Item 6. Exhibits**

- Ex. 3.1 Articles of Amendment to the Articles of Incorporation of Pendrell Corporation (incorporated herein by reference to Exhibit 3.1 of our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 19, 2015).
- Ex. 3.2 Amendment No. 1 to the Bylaws of Pendrell Corporation (incorporated herein by reference to Exhibit 3.2 of our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 19, 2015).
- Ex. 10.1\* Employment Letter Agreement between Pendrell Corporation and Lee E. Mikles signed June 8, 2015 to be effective June 1, 2015 (incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 9, 2015).
- Ex. 31.1 Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
- Ex. 31.2 Certification of the principal accounting and financial officer required by Rule 13a-14(a) or Rule 15d-14(a).
- Ex. 32.1 Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350).
- Ex. 101 The following financial information from Pendrell Corporation's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PENDRELL CORPORATION**

(Registrant)

Date: July 31, 2015

By: /s/ STEVEN A. EDNIE  
**Steven A. Ednie**

**Vice President and Chief Financial Officer**

**Principal Financial and Accounting Officer**

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