

Pendrell Corp
Form 10-Q
October 30, 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 September 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 October 23, 2015, the registrant had 214,319,590 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 nine months ended September 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)**

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163,617	\$ 168,793
Accounts receivable	173	131
Other receivables net of reserve \$2,750 in both periods	1,477	69
Prepaid expenses and other current assets	418	774
Total current assets	165,685	169,767
Property in service net of accumulated depreciation of \$720 and \$1,227, respectively	155	3,372
Other assets	2,156	54
Intangible assets net of accumulated amortization of \$53,750 and \$43,567, respectively	99,930	109,702
Goodwill	21,209	21,209
Total	\$ 289,135	\$ 304,104
LIABILITIES, SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS		
Current liabilities:		
Accounts payable	\$ 274	\$ 281
Accrued expenses	3,231	5,824
Other liabilities	660	6,891
Total current liabilities	4,165	12,996
Deferred tax liability	1,521	1,521
Total liabilities	5,686	14,517
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 271,940,395 and 270,745,381 shares issued, and 214,171,503 and 212,976,489 shares outstanding	2,144	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	1,957,080	1,952,880
Accumulated deficit	(1,679,259)	(1,671,135)
Total Pendrell shareholders equity	280,502	284,414
Noncontrolling interests	2,947	5,173
Total shareholders equity and noncontrolling interests	283,449	289,587
Total	\$ 289,135	\$ 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)**

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 15,465	\$ 618	\$ 42,857	\$ 41,688
Operating expenses:				
Cost of revenues	87		10,141	13,866
Patent administration and related costs	441	1,189	2,250	4,237
Patent litigation	7,080	2,717	12,122	6,686
General and administrative	4,573	5,394	13,383	20,228
Stock-based compensation	1,834	1,443	3,271	5,195
Amortization of intangible assets	3,579	3,971	10,764	12,001
Total operating expenses	17,594	14,714	51,931	62,213
Operating loss	(2,129)	(14,096)	(9,074)	(20,525)
Interest income	36	24	101	68
Interest expense		(43)	(42)	(149)
Gain on contingency	2,226		3,974	
Other expense	(6)	(2)	(12)	(14)
Income (loss) before income taxes	127	(14,117)	(5,053)	(20,620)
Income tax expense			(4,125)	(6,270)
Net income (loss)	127	(14,117)	(9,178)	(26,890)
Net income (loss) attributable to noncontrolling interest	126	(855)	(1,062)	(2,763)
Net income (loss) attributable to Pendrell	\$ 1	\$ (13,262)	\$ (8,116)	\$ (24,127)
Basic and diluted loss per share attributable to Pendrell (1)	\$	\$ (0.05)	\$ (0.03)	\$ (0.09)
Weighted average shares outstanding used to compute basic and diluted loss per share	265,752,826	264,627,862	265,556,183	264,169,947

(1) Per share amount for the three months ended September 30, 2015 is less than \$0.01.

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)

	Common stock Class A shares	Common stock Class B shares	Amount	Additional paid-in capital	Accumulated deficit	Shareholders' equity	Noncontrolling interests	Total
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				2,229		2,229		2,229
Issuance of Class A common stock from exercise of stock options	448,771		4	374		378		378
Class A common stock withheld at vesting to cover statutory tax obligations	(129,534)		(1)	(359)	(111)	(471)		(471)
Stock-based compensation and issuance of restricted stock, net of forfeitures	302,098		4	4,917		4,921		4,921
Net loss					(24,127)	(24,127)	(2,763)	(26,890)
Balance, September 30, 2014	213,072,559	53,660,000	\$ 2,670	\$ 1,948,979	\$ (1,644,231)	\$ 307,418	\$ 9,542	\$ 316,960
Balance, December 31, 2014	212,976,489	53,660,000	\$ 2,669	\$ 1,952,880	\$ (1,671,135)	\$ 284,414	\$ 5,173	\$ 289,587
	358,350		4	215		219		219

Issuance of Class A common stock from exercise of stock options								
Class A common stock withheld at vesting to cover statutory tax obligations	(38,813)		(1)	(131)	(8)	(140)		(140)
Stock-based compensation and issuance of restricted stock, net of forfeitures	1,125,477		11	3,352		3,363		3,363
Repurchase of restricted stock	(250,000)		(2)			(2)		(2)
Purchase of noncontrolling interest in Provitro Biosciences LLC				764		764	(1,164)	(400)
Net loss					(8,116)	(8,116)	(1,062)	(9,178)
Balance, September 30, 2015	214,171,503	53,660,000	\$ 2,681	\$ 1,957,080	\$(1,679,259)	\$ 280,502	\$ 2,947	\$ 283,449

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)**

	Nine months ended September 30,	
	2015	2014
Operating activities:		
Net loss including noncontrolling interests	\$ (9,178)	\$ (26,890)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	3,271	5,195
Amortization of intangible assets	10,764	12,001
Depreciation	326	396
Amortization of prepaid compensation from Ovidian acquisition		1,380
Non-cash cost of patents monetized	139	579
Loss associated with the abandonment and/or disposition of patents	869	1,615
Loss on the disposition of property	981	
Other	41	150
Other changes in certain assets and liabilities:		
Accounts receivable	(42)	194
Prepaid expenses and other current/non-current assets	(1,298)	748
Accounts payable	(7)	104
Accrued expenses and other current/non-current liabilities	(4,775)	1,740
Net cash provided by (used in) operating activities	1,091	(2,788)
Investing activities:		
Purchases of property and intangible assets	(2,049)	(114)
Proceeds associated with the disposition of property	103	
Net cash used in investing activities	(1,946)	(114)
Financing activities:		
Proceeds from exercise of stock options	219	378
Payment of statutory taxes for stock awards	(140)	(471)
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	(4,321)	(2,093)
Net decrease in cash and cash equivalents	(5,176)	(4,995)
Cash and cash equivalents beginning of period	168,793	184,567
Cash and cash equivalents end of period	\$ 163,617	\$ 179,572

Supplemental disclosures:

Income taxes paid	\$ 4,125	\$ 6,270
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Supplemental disclosure of non-cash activities:

Note receivable for disposition of property	1,900
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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. 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.

In September 2015, the Company sold Provitro's facility and related tangible assets for \$2.0 million, resulting in a \$0.7 million loss which is included in general and administrative expenses for the three months ended September 30, 2015. The purchase price will be paid in installments of which \$0.1 million was paid immediately, \$1.3 million will be paid within twelve months and is included in other current receivables and the remaining \$0.6 million is due in March 2017 and is included in other non-current assets. The Company retained its rights to Provitro's micro-propagation technology. However, it does not expect to generate revenue from the technology in the foreseeable future.

4. Intangible Assets

During the three and nine months ended September 30, 2015 and during the nine months ended September 30, 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 nine months ended September 30, 2015, the Company recognized \$0.1 million and \$0.9 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 nine months ended September 30, 2014, the Company recognized \$0.3 million and \$1.6 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 nine months ended September 30, 2014.

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

It is the Company's policy to evaluate the carrying value of its intangible assets when events or circumstances indicate that the carrying amounts may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. During the three months ended September 30, 2015, certain developments arose indicating it was reasonably possible that a portion of the Company's patents were impaired (see litigation discussion in footnote 7). However, despite these developments, the Company's estimate of undiscounted cash flows continues to indicate that such carrying amounts are expected to be recovered. Further, the Company continues to believe that it is not more likely than not that the carrying amount of its goodwill exceeds its fair value. Nonetheless, it is reasonably possible that the Company's ability to realize its estimated future cash flows may be impacted by the outcome of its trial scheduled with Apple in November 2015. The Company will therefore continue to evaluate the fair value of its intangible assets and goodwill as the Apple trial progresses.

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The following table summarizes accrued expenses (in thousands):

	September 30, 2015	December 31, 2014
Accrued payroll and related expenses	\$ 1,574	\$ 2,570
Accrued legal, professional and other expenses	1,657	3,254
	\$ 3,231	\$ 5,824

6. Other Liabilities

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

	September 30, 2015	December 31, 2014
Installment payment obligation	\$	\$ 4,000
Restricted stock awards		2,254
Other	660	637
	\$ 660	\$ 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.

ContentGuard Enforcement Actions 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 (EDTX), 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 Apple Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Apple 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 (collectively, Samsung). 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 Apple Litigation. On February 5, 2014, ContentGuard filed a patent infringement action in the EDTX against Google, in which ContentGuard alleged that Google has infringed and continues to infringe the same nine patents (the Google Litigation). In April 2014, the

presiding judge in the EDTX, with the endorsement of the presiding judge in the Northern District of California, ruled that the Google Litigation will be resolved in the EDTX, and not in the Northern District of California. Although the presiding judge in the EDTX declined to consolidate the Google Litigation with the Apple Litigation, he has administered the cases in parallel.

Amazon Settlement. In August 2015, ContentGuard settled its claims against Amazon by granting to Amazon a license to use the ContentGuard patents. In connection with the settlement, ContentGuard released Amazon from the Apple Litigation.

DirecTV Settlement. In August 2014, DirecTV intervened in the Apple Litigation and thereby became an additional defendant, against whom ContentGuard asserted additional infringement claims. In October 2015, ContentGuard commenced mediation with DirecTV. If the mediation is unsuccessful, trial against DirecTV will be scheduled for sometime in 2016.

Google and Samsung Verdict. On September 23, 2015, a jury in the Google Litigation found that the patents asserted against Google and Samsung in the Apple Litigation and Google Litigation are valid, but that Samsung products and Google products accused in the litigation do not infringe the patents. The judge entered judgment consistent with the verdict on October 13, 2015. The non-infringement decision, if not reversed or overturned in

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post-trial practice or on appeal, applies to all defendants in the Google Litigation and Apple Litigation that manufacture, sell or distribute Android devices that run Google Play services. The verdict and judgment do not impact the settlement and license with Amazon; nor should the jury verdict impact or delay ContentGuard's upcoming trial against Apple. On October 26, 2015, the Android defendants filed petitions for reimbursement of approximately \$0.9 million of court costs and other expenses. ContentGuard intends to ask the judge to reject certain of the reimbursement requests, but ContentGuard will likely be liable for a portion of the requested amount if the jury verdict is not reversed or overturned in post-trial practice or on appeal. Accordingly, ContentGuard may incur up to \$0.9 million of additional litigation expenses associated with this trial.

Apple Trial. Jury selection in ContentGuard's trial against Apple is scheduled for November 9, 2015, with opening arguments scheduled for November 12, 2015. Even though the United States Patent and Trademark Office (USPTO) has already rejected Apple's challenges to ContentGuard's asserted patents (as described below), and even though the jury in the Google Litigation found the patents valid, Apple will again be allowed to challenge patent validity. Apple will also be required to defend its digital rights management (DRM) applications against ContentGuard's claims of infringement, without any reliance on the verdict in the Google Litigation, as Apple's DRM applications are different than Google's DRM applications.

Post-Trial Activities. ContentGuard is assessing the jury's findings in the Google Litigation and evaluating its options to challenge the verdict and the judgment. The Company is unable to anticipate the outcome of any post-trial activities in the Google Litigation, or the outcome of the trial against Apple or any post-trial activities in the Apple Litigation.

IPR and CBM Petitions filed by Apple and Google In December 2014, Apple filed with 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 Apple 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).

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, 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. The standstill agreement has been extended through the end of the post-trial motion phase of the Google Litigation. ZTE prevailed in the opposition proceeding, resulting in the revocation of one European patent, which ContentGuard has appealed. The revocation has no impact on the Google Litigation or the Apple Litigation.

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.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Stock options	\$ 835	\$ 1,180	\$ 1,855	\$ 3,629
Restricted stock awards (1)	999	263	1,416	1,566
Total stock-based compensation expense	\$ 1,834	\$ 1,443	\$ 3,271	\$ 5,195

- (1) Stock-based compensation expense for the nine months ended September 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 nine months ended September 30, 2014 includes \$0.2 million and \$0.6 million, respectively, related to the awards.

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

		Number of shares of Class A common stock underlying options and SARs	Weighted average exercise price
Outstanding	December 31, 2014	25,554,026	\$ 1.96
Granted (1) / (2)		6,238,300	\$ 1.33
Exercised		(1,045,000)	\$ 1.18
Forfeited		(1,826,188)	\$ 1.93
Outstanding	September 30, 2015 (3)	28,921,138	\$ 1.85
Exercisable	September 30, 2015 (3)	17,597,458	\$ 1.77
Vested and expected to vest	September 30, 2015 (3)	28,404,947	\$ 1.86

- (1) During the nine months ended September 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 July 2015, the Company granted 2.2 million stock options to various employees with a grant date fair value of \$1.4 million. The service-based options are 50% vested after one year, 75% vested after two years and 100% vested after three years.
- (3) 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 8,277,500 vested options with a weighted average exercise price of \$1.45 and a weighted average remaining life of 0.21 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:

	Number of Options/SARs	Weighted average exercise price
Outstanding at September 30, 2015	20,643,637	\$ 2.02
Exercisable at September 30, 2015	9,319,958	\$ 2.05
Vested and expected to vest at September 30, 2015	20,127,447	\$ 2.03

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

		Number of shares of Class A common stock underlying restricted stock awards	Weighted average fair value per share
Unvested	December 31, 2014	2,559,514	\$ 1.67
Granted		9,496,673	\$ 0.79
Vested		(700,372)	\$ 2.53
Forfeited		(420,316)	\$ 1.55
Unvested	September 30, 2015	10,935,499	\$ 0.86

Restricted stock awards granted during the nine months ended September 30, 2015, including 9.0 million restricted stock awards granted to its new CEO, consist of the following:

	Number of shares of Class A common stock underlying restricted stock awards granted	Grant date fair value (in thousands)
Service-based (1)	3,748,700	\$ 5,016
Performance-based (2)	3,500,000	670
Market-based (3)	2,000,000	1,500
Shares issued as board of director compensation	247,973	335
Total restricted stock granted	9,496,673	\$ 7,521

- (1) Of the 3.7 million service-based restricted stock awards granted, 3.5 million were granted to the CEO and vest at a rate of 25% per year over four years. The remaining 0.2 million of service-based restricted stock awards were granted to various employees and vest 50% after one year, 75% after two years and 100% after three years.
- (2) The 3.5 million performance-based restricted stock awards were all granted to the CEO and 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. Of the awards granted, 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.
- (3)

The 2.0 million market-based restricted stock awards were all granted to the CEO and 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.

Table of Contents**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. On July 13, 2015, the buyer received the second payment for the MEO Assets, which resulted in the Company's receipt of an additional \$2.2 million. The funds received have been recorded as a gain on contingency totaling \$3.9 million for the nine months ended September 30, 2015. Due to the uncertainty of collection, the Company has not recognized the gain that may be generated if the buyer receives the third scheduled payment for the MEO Assets in early 2016.

10. Income Taxes

The Company recorded a tax provision of \$4.1 million and \$6.3 million for the nine months ended September 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 September 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.

In October 2015, the Company filed a refund claim for approximately \$10.0 million of taxes previously withheld from payments made to the Company by certain licensees and remitted to the Korean government. The Company filed the refund claim as a result of recent court decisions in Korea. Due to the uncertain nature of the refund claim, the uncertain tax position has not been recorded as an income tax benefit. However, the claim does result in an increase to the Company's unrecognized tax benefits, which if recognized in the future will impact the Company's income tax rate.

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. 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).

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. In this regard, any income from ContentGuard's resolution of the Google Litigation and Apple Litigation will likely be classified as PHCI.

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 unvested), 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.

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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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss) attributable to Pendrell	\$ 1	\$ (13,262)	\$ (8,116)	\$ (24,127)
Weighted average common shares outstanding	267,572,793	266,520,052	266,861,073	266,200,724
Less: weighted average unvested restricted stock awards	(1,819,967)	(1,892,190)	(1,304,890)	(2,030,777)
Shares used for computation of basic loss per share	265,752,826	264,627,862	265,556,183	264,169,947
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)	265,752,826	264,627,862	265,556,183	264,169,947
Basic and diluted loss per share attributable to Pendrell (2)	\$	\$ (0.05)	\$ (0.03)	\$ (0.09)

(1) Stock options, stock appreciation rights, restricted stock awards and units totaling 39,856,637 for the three and nine months ended September 30, 2015 and 31,031,430 for the three and nine months ended September 30, 2014, were excluded from the calculation of diluted loss per share as their inclusion was anti-dilutive.

(2) Per share amount for the three months ended September 30, 2015 is less than \$0.01.

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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.

In September 2015, a jury in the Eastern District of Texas determined that the ContentGuard patents asserted against Google and Samsung in the Apple Litigation and Google Litigation are valid. Unfortunately, the jury also found that Google and Samsung products accused in the litigation do not infringe the ContentGuard patents, which means that neither Google nor Samsung is liable to ContentGuard for damages. We believe the jury wrongly decided the infringement question, and we are therefore assessing the jury's verdict and evaluating our options to challenge the verdict and the resulting judgment.

The non-infringement verdict, if not reversed or overturned on appeal, will apply to all defendants in the Apple Litigation that manufacture, sell or distribute Android devices that run Google Play services. The verdict may also impact our claims against ZTE, given that ZTE's mobile devices run Google Play services. The verdict should not impact or delay ContentGuard's upcoming trial against Apple, because Apple's digital rights management systems are different from Google's system, and the issue of Apple's infringement is therefore independent of any findings regarding infringement by Google or Samsung.

We are currently investigating all post-trial options in the Google Litigation, and preparing diligently for the Apple trial, which is scheduled to commence on November 9, 2015. We remain optimistic that the Apple jury will again validate ContentGuard's patents and hold Apple accountable for infringement. However, as with any jury trial, we are unable to predict the outcome.

While disappointing, the jury verdict in the Google Litigation does not alter our overall strategy or direction. For instance, ContentGuard signed a settlement and patent license agreement with Amazon in August 2015, and is currently in mediation with DirecTV.

We also continue to advance our other licensing programs. 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. In the second quarter of 2015, we recorded additional royalty revenue under a memory program licensing agreement signed in 2014. We believe these licenses reflect 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. Further, as memory and storage components become smaller and more sophisticated, our team of Finnish innovators continue to invent new technologies.

While we focus on bringing the ContentGuard litigation to a successful conclusion, the ContentGuard product development team continues its work on privacy technology and products including Yovo®, a social DRM application that

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enables groups of individuals to upload or share live photos from their smart phones to form a group story. During the third quarter we updated both the Android and iOS versions of Yovo®. We are also using the Yovo® privacy technology to develop Clipfeed, which will target businesses, publishers and brands who want to create and facilitate social videos.

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 and simplify our operations during the third quarter by divesting substantially all of Provitro's assets, by shrinking our corporate headquarters, and by continuing to abandon patent assets that do not support our existing licensing programs. As a result, we ended the third quarter of 2015 with overhead costs that are substantially lower than the third 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 nine months ended September 30, 2015 and 2014 (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenue	\$ 15,465	\$ 618	\$ 42,857	\$ 41,688
Cost of revenues	87		10,141	13,866
Patent administration and related costs	441	1,189	2,250	4,237
Patent litigation	7,080	2,717	12,122	6,686
General and administrative	4,573	5,394	13,383	20,228
Stock-based compensation	1,834	1,443	3,271	5,195
Amortization of intangible assets	3,579	3,971	10,764	12,001
Interest income	36	24	101	68

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Interest expense		43	42	149
Gain on contingency	2,226		3,974	
Other expense	6	2	12	14
Income tax expense			4,125	6,270

Revenue. Revenue of \$15.5 million for the three months ended September 30, 2015 increased by \$14.9 million, or more than 100%, as compared to \$0.6 million for the three months ended September 30, 2014. Revenue of \$42.9 million for the nine months ended September 30, 2015 increased by \$1.2 million, or 3%, as compared to \$41.7 million for the nine months ended September 30, 2014. The increase was primarily due to an increase in licensing revenue during the three and nine months ended September 30, 2015 as compared to 2014.

Cost of revenues. Cost of revenues of \$0.1 million for the three months ended September 30, 2015 increased by \$0.1 million, or 100%, as compared to zero for the three months ended September 30, 2014. The increase was primarily due to higher revenue share obligations for the three months ended September 30, 2015 as compared to 2014. Cost of

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revenues of \$10.1 million for the nine months ended September 30, 2015 decreased by \$3.8 million, or 27%, as compared to \$13.9 million for the nine months ended September 30, 2014. The decrease for the nine months ended September 30, 2015 was primarily due to lower revenue share obligations in the nine months ended September 30, 2015 as compared to 2014.

Patent administration and related costs. Patent administration and related costs of \$0.4 million for the three months ended September 30, 2015 decreased by \$0.8 million, or 63%, as compared to \$1.2 million for the three months ended September 30, 2014. Patent administration and related costs of \$2.3 million for the nine months ended September 30, 2015 decreased by \$1.9 million, or 47%, as compared to \$4.2 million for the nine months ended September 30, 2014. The decrease for both the three and nine 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 do not support our existing licensing programs.

Patent litigation. Patent litigation expenses of \$7.1 million for the three months ended September 30, 2015 increased by \$4.4 million, or 161%, as compared to \$2.7 million for the three months ended September 30, 2014. Patent litigation expenses of \$12.1 million for the nine months ended September 30, 2015 increased by \$5.4 million, or 81%, as compared to \$6.7 million for the nine months ended September 30, 2014. The increase for both the three and nine months was primarily due to cost reimbursements and contingent fees associated with our settlement and license agreement with Amazon.

General and administrative. General and administrative expenses of \$4.6 million for the three months ended September 30, 2015 decreased by \$0.8 million, or 15%, as compared to \$5.4 million for the three months ended September 30, 2014. The decrease was primarily due to (i) \$1.2 million reduction in employment expenses resulting from a lower headcount, (ii) \$0.3 million decrease in expenses associated with researching acquisition opportunities, (iii) \$0.1 million reduction in expenses associated with Provitro, and (iv) \$0.2 million reduction in professional fees and other expenses, partially offset by the \$1.0 million loss on the sale of the Provitro assets and disposal of corporate office assets.

General and administrative expenses of \$13.4 million for the nine months ended September 30, 2015 decreased by \$6.8 million, or 34%, as compared to \$20.2 million for the nine months ended September 30, 2014. The decrease was primarily due to (i) \$3.5 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) \$1.2 million reduction in expenses associated with Provitro, (iv) \$1.1 million decrease in expenses associated with researching acquisition opportunities, and (v) \$0.6 million reduction in professional fees and other expenses partially offset by the \$1.0 million loss on the sale of the Provitro assets and the disposal of corporate office assets.

Stock-based compensation. Stock-based compensation of \$1.8 million for the three months ended September 30, 2015 increased by \$0.4 million, or 27%, as compared to \$1.4 million for the three months ended September 30, 2014. The increase for the three months was due to expense associated with awards issued in June 2015 to our new CEO.

Stock-based compensation of \$3.3 million for the nine months ended September 30, 2015 decreased by \$1.9 million, or 37%, as compared to \$5.2 million for the nine months ended September 30, 2014. The decrease for the nine 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 September 30, 2015 decreased by \$0.4 million, or 10%, as compared to \$4.0 million for the three months ended September 30, 2014. Amortization of intangibles of \$10.8 million for the nine months ended September 30, 2015 decreased by \$1.2 million, or 10%, as compared to \$12.0 million for the nine months ended September 30, 2014. The decrease for both the three and nine months was primarily due to the abandonment of certain patents during 2015 and throughout 2014 that do not support our 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 nine months ended September 30, 2015 and 2014 was nominal and primarily related to interest earned on money market funds.

Interest expense. Interest expense for the nine months ended September 30, 2015 and for the three and nine months ended September 30, 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.

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Gain on contingency. Gain on contingency for the nine months ended September 30, 2015 was due to the receipt of \$3.9 million from the disposition of assets associated with our former satellite business.

Other expense. Other expense for the three and nine months ended September 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 nine months ended September 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 September 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 September 30, 2015, we had cash and cash equivalents of \$163.6 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 nine months ended September 30, 2015 and 2014 (in thousands):

	Nine months ended September 30,	
	2015	2014
Net cash provided by (used in):		
Operating activities	\$ 1,091	\$ (2,788)
Investing activities	(1,946)	(114)
Financing activities	(4,321)	(2,093)
Net increase (decrease) in cash and cash equivalents	(5,176)	(4,995)
Cash and cash equivalents beginning of period	168,793	184,567
Cash and cash equivalents end of period	\$ 163,617	\$ 179,572

For the nine months ended September 30, 2015, the \$1.1 million of cash provided by operating activities consisted primarily of revenue generated by operations of \$42.9 million and a \$3.9 million gain on contingency from the disposition of assets associated with our former satellite business, partially offset by (i) foreign taxes paid of \$4.1 million, (ii) a \$4.8 million decrease in accounts payable and accrued expenses, (iii) a \$1.3 million increase in accounts receivable, prepaids and other current/non-current assets and (iv) operating expenses of \$51.9 million adjusted for

various non-cash items including (a) \$10.8 million of amortization expense associated with patents and other intangibles, (b) \$3.3 million of stock-based compensation expense, (c) \$1.0 million of loss on the sale of the Provitro assets and the disposal of corporate office assets, (d) \$0.9 million of non-cash loss associated with the abandonment of patents, (e) \$0.3 million of depreciation expense, and (f) \$0.1 million of cost associated with patents sold.

For the nine months ended September 30, 2014, the \$2.8 million of cash used by operating activities consisted primarily of operating expenses of \$62.2 million adjusted for various non-cash items, including (i) \$12.0 million of amortization expense associated with patents and other intangible assets, (ii) \$5.2 million of stock-based compensation expense, (iii) \$2.2 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 and (v) \$0.6 million of depreciation and other noncash expenses, as well as foreign taxes paid of \$6.3 million, partially offset by (a) revenue generated by operations of \$41.7 million, (b) \$1.8 million increase in accounts payable and accrued expenses, and (c) \$0.9 million decrease in accounts receivable and prepaid expenses.

For the nine months ended September 30, 2015, the \$1.9 million of cash used in investing activities was primarily due to the \$2.0 million acquisition of intangible assets in February 2015, partially offset by \$0.1 million of proceeds associated with the disposition of property. For the nine months ended September 30, 2014, the \$0.1 million of cash used in investing activities was primarily due to the acquisition of property placed in service.

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For the nine months ended September 30, 2015, the \$4.3 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, partially offset by net proceeds of \$0.1 million related to stock option/award activity. For the nine months ended September 30, 2014, the \$2.1 million of cash used in financing activities consisted of a \$2.0 million payment of an accrued obligation associated with the 2013 purchase of property and intangible assets and \$0.5 million utilized to pay statutory taxes related to vesting of restricted stock awards, offset by \$0.4 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 September 30, 2015, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of \$163.6 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%.

	September 30, 2015	
	(in thousands)	
Cash	\$	28,148
Money market funds		135,469
	\$	163,617

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.

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Changes in Internal Control Over Financial Reporting

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

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

ContentGuard Enforcement Actions 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 (EDTX), 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 Apple Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Apple 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 (collectively, Samsung). 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 Apple Litigation. On February 5, 2014, ContentGuard filed a patent infringement action in the EDTX against Google, in which ContentGuard alleged that Google has infringed and continues to infringe the same nine patents (the Google Litigation). In April 2014, the presiding judge in the EDTX, with the endorsement of the presiding judge in the Northern District of California, ruled that the Google Litigation will be resolved in the EDTX, and not in the Northern District of California. Although the presiding judge in the EDTX declined to consolidate the Google Litigation with the Apple Litigation, he has administered the cases in parallel.

Amazon Settlement. In August 2015, ContentGuard settled its claims against Amazon by granting to Amazon a license to use the ContentGuard patents. In connection with the settlement, ContentGuard released Amazon from the Apple Litigation.

DirecTV Settlement. In August 2014, DirecTV intervened in the Apple Litigation and thereby became an additional defendant, against whom ContentGuard asserted additional infringement claims. In October 2015, ContentGuard commenced mediation with DirecTV. If the mediation is unsuccessful, trial against DirecTV will be scheduled for sometime in 2016.

Google and Samsung Verdict. On September 23, 2015, a jury in the Google Litigation found that the patents asserted against Google and Samsung in the Apple Litigation and Google Litigation are valid, but that Samsung products and Google products accused in the litigation do not infringe the patents. The judge entered judgment consistent with the verdict on October 13, 2015. The non-infringement decision, if not reversed or overturned in post-trial practice or on appeal, applies to all defendants in the Google Litigation and Apple Litigation that manufacture, sell or distribute Android devices that run Google Play services. The verdict and judgment do not impact the settlement and license with Amazon; nor should the jury verdict impact or delay ContentGuard's upcoming trial against Apple. On October 26, 2015, the Android defendants filed petitions for reimbursement of approximately \$0.9 million of court costs and other expenses. ContentGuard intends to ask the judge to reject certain of the reimbursement requests, but ContentGuard will likely be liable for a portion of the requested amount if the jury verdict is not reversed or overturned in post-trial practice or on appeal. Accordingly, ContentGuard may incur up to \$0.9 million of additional litigation expenses associated with this trial.

Apple Trial. Jury selection in ContentGuard's trial against Apple is scheduled for November 9, 2015, with opening arguments scheduled for November 12, 2015. Even though the United States Patent and Trademark Office (USPTO) has already rejected Apple's challenges to ContentGuard's asserted patents (as described below), and even though the jury in the Google Litigation found the patents valid, Apple will again be allowed to challenge patent validity. Apple will also be required to defend its digital rights management (DRM) applications against ContentGuard's claims of

infringement, without any reliance on the verdict in the Google Litigation, as Apple's DRM applications are different than Google's DRM applications.

Post-Trial Activities. ContentGuard is assessing the jury's findings in the Google Litigation and evaluating its options to challenge the verdict and the judgment. We are unable to anticipate the outcome of any post-trial activities in the Google Litigation, or the outcome of the trial against Apple or any post-trial activities in the Apple Litigation.

IPR and CBM Petitions filed by Apple and Google In December 2014, Apple filed with 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 Apple 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).

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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, 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. The standstill agreement has been extended through the end of the post-trial motion phase of the Google Litigation. ZTE prevailed in the opposition proceeding, resulting in the revocation of one European patent, which ContentGuard has appealed. The revocation has no impact on the Google Litigation or the Apple Litigation.

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.

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 nine 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. For instance, following the final resolution of the Google Litigation and Apple Litigation, there will be very few mobile device manufacturers that have not signed a license with ContentGuard or otherwise resolved ContentGuard's claims against them.

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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 Apple Litigation and Google Litigation. 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.

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 ZTE, Apple and Google. 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 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.

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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 and 2015, legislative initiatives were introduced to address perceived patent abuses by non-practicing entities. 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.

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.

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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, costs of enforcement, 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.

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 scaled back our expansion efforts and our costs in 2015, 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 ContentGuard describe certain actions that require unanimous consent of the ContentGuard shareholders. Specifically, 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.

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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.

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 assets. 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 our ability to use 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, a Tax Ownership Change will occur if, over a three-year testing period, the

percentage of our stock, 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 our stock 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 our Class A Common Stock is low, we will be permanently unable to use most of our 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

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(PHCI). Broadly, PHCI includes items such as dividends, interest, rents and royalties, among others. Any income from the Apple Litigation and the Google Litigation will likely be classified as PHCI. It is possible that action or inaction by our significant shareholders or by Time Warner (at the 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 the Apple Litigation and Google Litigation, 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.

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***If we are delisted from Nasdaq, our ability to access the capital markets could be negatively impacted.***

Our common stock is listed for trading on the Nasdaq Global Select Market (Nasdaq). We must satisfy Nasdaq's continued listing requirements, including, among other things, Listing Rule 5450(a)(1) (the Listing Rule), which requires listed companies to maintain a minimum closing bid price of \$1.00 per share. On September 24, 2015, the closing bid price of our Class A Common Stock fell below \$1.00 and has remained below \$1.00. If the closing bid price remains below a \$1.00 for more than 30 consecutive trading days, the Listing Rule provides that we will receive a notice from Nasdaq that we do not comply with the Listing Rule and we will have 180 days to comply with the Listing Rule. We may regain compliance if the price of our Class A Common Stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days at any time during the 180 day cure period. If we fail to comply with the Listing Rule within that time period, and fail to extend the compliance time period, Nasdaq may delist our stock, in which case our stock (i) may be more thinly traded, making it more difficult for our shareholders to sell shares, (ii) may experience greater price volatility, and (iii) may not attract analyst coverage, all which may result in a lower stock price. In addition, delisting could harm our ability to raise capital through financing sources on terms acceptable to us, or at all, and result in the potential loss of confidence by investors, increased employee turnover, and fewer business development opportunities.

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.

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We are a controlled company within the meaning of the Nasdaq 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 corporate governance standards, and therefore may elect not to comply with certain Nasdaq 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 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.

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 withholding of restricted stock to satisfy tax withholding obligations upon the vesting of the related restricted stock.

		Approximate Dollar Total Number of Shares That May Purchased as Purchased Under the Part of Publicly Announced Plans or Programs		
		Total Number of Shares Purchased	Average Price Paid Per Share	Approximate Dollar Total Number of Shares That May Purchased as Purchased Under the Part of Publicly Announced Plans or Programs
July 1	July 31, 2015	1,633	\$ 1.35	

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August 1	August 31, 2015	55,551		1.34
September 1	September 30, 2015	17,094		1.37
		74,278	\$	1.35

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Item 6. Exhibits

- Ex. 10.1 Form of Restricted Stock Unit Agreement under 2012 Equity Incentive Plan.*
- Ex. 10.2 Form of Restricted Stock Award Agreement under 2012 Equity Incentive Plan.*
- 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 September 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: October 30, 2015

By:

/s/ STEVEN A. EDNIE
Steven A. Ednie

Vice President and Chief Financial Officer

Principal Financial and Accounting Officer