

Pendrell Corp
Form 10-Q
October 31, 2014
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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, 2014

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 24, 2014, the registrant had 213,162,495 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, 2014

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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, 2014 | December 31, 2013 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 179,572 | \$ 184,567 |
| Accounts receivable | 208 | 402 |
| Other receivables net of reserve \$2,750 in both periods | 236 | 38 |
| Prepaid expenses and other current assets | 797 | 1,722 |
| Total current assets | 180,813 | 186,729 |
| Property in service net of accumulated depreciation of \$1,107 and \$722, respectively | 3,495 | 3,778 |
| Other assets | 54 | 75 |
| Intangible assets net of accumulated amortization of \$42,644 and \$31,272, respectively | 125,493 | 139,687 |
| Goodwill | 21,725 | 21,725 |
| Total | \$ 331,580 | \$ 351,994 |
| LIABILITIES, SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS | | |
| Current liabilities: | | |
| Accounts payable | \$ 270 | \$ 166 |
| Accrued expenses | 6,219 | 5,671 |
| Other liabilities | 6,643 | 2,669 |
| Total current liabilities | 13,132 | 8,506 |
| Deferred tax liability | 1,488 | 1,488 |
| Other non-current liabilities | | 5,207 |
| Total liabilities | 14,620 | 15,201 |
| 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 270,841,451 and 270,220,116 shares issued, and 213,072,559 and 212,451,224 shares outstanding | 2,133 | 2,126 |
| 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 for both periods | 537 | 537 |
| Additional paid-in capital | 1,948,979 | 1,941,818 |
| Accumulated deficit | (1,644,231) | (1,619,993) |
| Total Pendrell shareholders equity | 307,418 | 324,488 |
| Noncontrolling interests | 9,542 | 12,305 |
| Total shareholders equity and noncontrolling interests | 316,960 | 336,793 |
| Total | \$ 331,580 | \$ 351,994 |

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, | |
|--|---|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | \$ 618 | \$ 781 | \$ 41,688 | \$ 12,575 |
| Operating expenses: | | | | |
| Cost of revenues | | 114 | 13,866 | 7,872 |
| Patent administration and related costs | 1,189 | 878 | 4,237 | 2,977 |
| Patent litigation | 2,717 | 920 | 6,686 | 3,011 |
| General and administrative | 5,394 | 6,933 | 20,228 | 21,738 |
| Stock-based compensation | 1,443 | 2,883 | 5,195 | 10,001 |
| Amortization of intangible assets | 3,971 | 4,090 | 12,001 | 11,805 |
| Total operating expenses | 14,714 | 15,818 | 62,213 | 57,404 |
| Operating loss | (14,096) | (15,037) | (20,525) | (44,829) |
| Interest income | 24 | 24 | 68 | 104 |
| Interest expense | (43) | (63) | (149) | (129) |
| Other income (expense) | (2) | 5 | (14) | (40) |
| Loss before income taxes | (14,117) | (15,071) | (20,620) | (44,894) |
| Income tax expense | | | (6,270) | |
| Net loss | (14,117) | (15,071) | (26,890) | (44,894) |
| Net loss attributable to noncontrolling interest | (855) | (843) | (2,763) | (2,478) |
| Net loss attributable to Pendrell | \$ (13,262) | \$ (14,228) | \$ (24,127) | \$ (42,416) |
| Basic and diluted loss per share attributable to Pendrell | \$ (0.05) | \$ (0.05) | \$ (0.09) | \$ (0.16) |
| Weighted average shares outstanding used to compute basic and diluted loss per share | 264,627,862 | 263,089,771 | 264,169,947 | 261,680,596 |

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 | Additional | Accumulated | Shareholders' | Noncontrolling | Total | | |
|--|---------------------|-------------------|--------------------|----------------------|-----------------------|---------------|------------------|--------------|
| | Class A | Class B | Amount | paid-in | deficit | equity | interests | Total |
| | shares | shares | | capital | | | | |
| Balance, December 31, 2012 | 211,682,074 | 53,660,000 | \$ 2,655 | \$ 1,929,526 | \$ (1,563,999) | \$ 368,182 | \$ 7,678 | \$ 375,860 |
| Vesting of Class A common stock issued for Ovidian acquisition | | | | 1,148 | | 1,148 | | 1,148 |
| Issuance of Class A common stock from exercise of stock options | 98,750 | | 1 | 104 | | 105 | | 105 |
| Class A common stock withheld at vesting to cover statutory tax obligations | (567,728) | | (6) | (1,722) | (932) | (2,660) | | (2,660) |
| Stock-based compensation and issuance of restricted stock, net of forfeitures | 1,104,107 | | 11 | 9,819 | | 9,830 | | 9,830 |
| Noncontrolling interest in Provitro | | | | | | | 7,545 | 7,545 |
| Net loss | | | | | (42,416) | (42,416) | (2,478) | (44,894) |
| Balance, September 30, 2013 | 212,317,203 | 53,660,000 | \$ 2,661 | \$ 1,938,875 | \$ (1,607,347) | \$ 334,189 | \$ 12,745 | \$ 346,934 |
| | 212,451,224 | 53,660,000 | \$ 2,663 | \$ 1,941,818 | \$ (1,619,993) | \$ 324,488 | \$ 12,305 | \$ 336,793 |

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| | | | | | | | | | |
|--|-------------|------------|----------|--------------|----------------|------------|----------|--|------------|
| Balance, December 31, 2013 | | | | | | | | | |
| 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 |

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, | |
|--|--|-------------------|
| | 2014 | 2013 |
| Operating activities: | | |
| Net loss including noncontrolling interests | \$ (26,890) | \$ (44,894) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation | 5,195 | 10,001 |
| Amortization of prepaid compensation from Ovidian acquisition | 1,380 | 2,073 |
| Amortization of intangible assets | 12,001 | 11,805 |
| Depreciation | 396 | 339 |
| Unrealized foreign exchange (gains) losses | 1 | (8) |
| Non-cash cost of patents monetized | 579 | 252 |
| Loss associated with the abandonment and/or disposition of patents | 1,615 | 46 |
| Other | 149 | 130 |
| Other changes in certain assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 194 | 8,037 |
| Prepaid expenses and other current/non-current assets | 748 | 663 |
| Accounts payable | 104 | (51) |
| Accrued expenses and other current/non-current liabilities | 1,740 | 2,935 |
| Net cash used in operating activities | (2,788) | (8,672) |
| Investing activities: | | |
| Purchases of property and intangible assets | (114) | (2,294) |
| Acquisition of Provitro, net of cash acquired | | (9,204) |
| Net cash used in investing activities | (114) | (11,498) |
| Financing activities: | | |
| Proceeds from exercise of stock options | 378 | 105 |
| Payment of statutory taxes for stock awards | (471) | (2,660) |
| Payment of accrued obligations for purchase intangible assets | (2,000) | |
| Net cash used in financing activities | (2,093) | (2,555) |
| Net decrease in cash and cash equivalents | (4,995) | (22,725) |
| Cash and cash equivalents beginning of period | 184,567 | 213,753 |
| Cash and cash equivalents end of period | \$ 179,572 | \$ 191,028 |

Supplemental disclosures:

| | | |
|--|----------|-------|
| Income taxes paid | \$ 6,270 | \$ |
| Income taxes received | | 745 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Accrued obligations for purchases of property and intangible assets | | 5,573 |

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 frequently 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, 2013 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, 2013 (2013 Form 10-K), filed with the Securities and Exchange Commission on March 11, 2014. 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 2013 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, 2014 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.

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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Reclassifications Certain prior period amounts have been reclassified to conform to current year presentation. Such reclassifications relate to the Company's presentation of expenses in its condensed consolidated statements of operations, including the presentation of cost of revenues and patent litigation as separate captions; as such costs were previously included in patent administration, litigation and related costs. The reclassifications had no effect on previously reported net loss of the Company or the noncontrolling interest holder.

Accounting Policies There have been no material changes or updates in the Company's existing accounting policies from the disclosures included in its 2013 Form 10-K. The following is a summary of the key components of the Company's condensed consolidated statements of operations:

Revenue The Company derives its operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services, or a combination thereof. Although revenue may occur in different forms, the Company regards its IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could include consulting and licensing activities, or the acquisition of a patent portfolio could lead to licensing, consulting and patent sales revenue. As a result of the unpredictable nature, form and frequency of its transactions, the Company's revenue may fluctuate substantially from period to period.

Cost of revenue Cost of revenue consists of certain costs that are variable in nature and are directly attributable to the Company's revenue generating activities including (i) payments to third parties to whom the Company has an obligation to share revenue, (ii) commissions, and (iii) success fees. Additionally, in periods when patent sales occur, these costs include the net book value and other related costs associated with the sold patents. Depending on the patents being monetized, revenue share payments as a percentage of revenues may vary significantly.

Patent administration and related costs Patent administration and related costs are comprised of (i) patent-related maintenance and prosecution costs incurred to maintain the Company's patents, (ii) other costs that support its patent monetization efforts, and (iii) costs associated with the abandonment of patents, including the write-off of any remaining net book value.

Patent litigation Patent litigation costs consist of costs and expenses incurred in connection with the Company's patent-related enforcement and litigation activities. These may include non-contingent or contingent fee obligations to external counsel.

General and administrative General and administrative expenses are primarily comprised of (i) personnel costs, (ii) general legal fees, (iii) professional fees, (iv) acquisition investigation costs, and (v) general office related costs.

Stock-based compensation Stock-based compensation expense includes expense associated with the granting of 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 expensed over the requisite service period for awards expected to vest.

Amortization of intangible assets Amortization of intangible assets reflects the expensing of the cost to acquire intangible assets which are capitalized and amortized ratably over their estimated useful lives. Estimating the economic useful lives of the Company's intangible assets depends on various factors including the remaining statutory life of the underlying assets as well as their expected period of benefit.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Compliance with this ASU is required for annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this ASU in 2014 did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation-Stock Compensation (Topic 718)-Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2014-12 requires that a

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performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Compliance with this ASU is required for annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU in 2014 did not have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, which supersedes existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize as revenue the amount that an entity expects to be entitled for goods or services at the time the goods or services are transferred to customers. ASU 2014-09 defines a five step process to achieve this core principle that will likely require more judgment and estimates within the revenue recognition process than are required under existing GAAP. Compliance with this ASU is required for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is not permitted. The Company is currently assessing the impact, if any, of implementing this guidance on its consolidated financial position and results of operations.

3. Business Combinations

On February 21, 2013, the Company acquired a 68.75% interest in Provitro Biosciences LLC (Provitro). Accordingly, the activities of Provitro from the acquisition date through September 30, 2013 have been included in the Company's condensed consolidated statement of operations for the three and nine months ended September 30, 2013. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs associated with the acquisition of Provitro of \$0.4 million, are included in general and administrative expenses for the nine months ended September 30, 2013.

The Company has yet to generate revenue from the activities of Provitro, but has continued to (i) advance the Provitro technology and related laboratory processes, (ii) assess potential markets for timber bamboo, and (iii) engage with third parties regarding the commercialization of the Provitro technology. Provitro incurred operating expenses of \$0.3 million and \$0.9 million during the three months ended September 30, 2014 and 2013, respectively and \$2.0 million and \$2.3 million during the nine months ended September 30, 2014 and 2013, respectively. These operating expenses are included in general and administrative expenses. The acquisition of Provitro was not material to the Company's results of operations or cash flows.

4. Intangible Assets

The Company has used, and may continue to use, different structures and forms of consideration for its acquisitions. Acquisitions may be consummated through the use of cash, equity, seller financing, third party debt, earn-out obligations, revenue sharing, profit sharing or some combination of these types of consideration. Consequently, the acquisition values reflected in the Company's investing activities may represent lower amounts than would be reflected, for example, in a situation where cash alone was utilized to complete the acquisition.

During the nine months ended September 30, 2013, the Company expanded its patent holdings through the acquisition of additional patents covering memory and storage technologies for electronic devices. Although no patents were purchased during the nine months ended September 30, 2014, the Company was issued 23 patents and filed applications for an additional 61 patents.

During the nine months ended September 30, 2014 and the three and nine months ended September 30, 2013, the Company sold certain patents and has included the gross proceeds in revenue. Costs associated with the patents sold, including any remaining net book value, are included in cost of revenues. Certain of the patents sold, as well as certain of those licensed, were subject to obligations to pay a substantial portion of the net proceeds to third parties. These

costs are also included in cost of revenues. In future periods, these third party payments as a percentage of revenues may vary significantly based on the structure utilized for any given acquisition.

During the three and nine months ended September 30, 2014, the Company abandoned certain patents that were not part of existing licensing programs or for which the Company determined that it would no longer allocate resources to their maintenance and enforcement. Losses on the abandonment of patents for the three and nine months ended September 30, 2014 were \$0.3 million and \$1.6 million, respectively. For the three and nine months ended September 30, 2013, patents with a combined book value of less than \$0.1 million were abandoned. Costs associated with the abandonment of patents, including any remaining net book value, are included in patent administration and related costs.

As of September 30, 2014, the Company, through its subsidiaries, continues to hold more than 1,500 issued patents worldwide, with additional patent applications pending.

Table of Contents**5. Accrued Expenses**

The following table summarizes accrued expenses (in thousands):

| | September 30, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| Accrued payroll and related expenses | \$ 3,283 | \$ 2,242 |
| Accrued legal, professional and other expenses | 2,936 | 3,429 |
| | \$ 6,219 | \$ 5,671 |

6. Other Liabilities

From time to time the Company agrees to make contingent and non-contingent future payments in connection with acquisition transactions. The Company recognizes the contingent portion of these future payment obligations as liabilities when they are estimable and it is probable that they will be paid. At September 30, 2014, other current liabilities include an installment payment obligation of \$4.0 million due in 2015 related to the 2013 acquisition of the Company's memory and storage technologies portfolio. Additionally, other current liabilities include approximately \$2.0 million of expense related to restricted stock awards.

At December 31, 2013, installment payment obligations included in current and non-current liabilities were \$2.0 million and \$4.0 million, respectively. Additionally, other non-current liabilities include approximately \$1.4 million of expense related to restricted stock awards.

7. Commitments and Contingencies

Purchase and Lease Commitments The Company's contractual obligations include installment payment obligations arising from the 2013 acquisition of the Company's memory and storage technologies portfolio of which \$4.0 million is due in 2015. Additionally, the Company has contractual obligations under operating lease agreements for its main office in Kirkland, Washington, and offices in California, Texas, Washington, D.C. and Finland.

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

Enforcement Action against Amazon et. al. On December 18, 2013, the Company's ContentGuard Holdings, Inc. (ContentGuard) subsidiary filed a patent infringement lawsuit against Amazon.com, Inc., Apple Inc., Blackberry Corporation (fka Research in Motion Corporation), Huawei Device USA, Inc. and Motorola Mobility LLC in the Eastern District of Texas, in which ContentGuard alleged that the defendants have infringed and continue to infringe nine of its patents by making, using, selling or offering for sale certain mobile communication and computing devices (the Amazon Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Amazon Litigation adding certain affiliates of the original defendants, along with HTC Corporation, HTC America Inc., Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC. In August 2014, DirecTV intervened in the case and thereby became an additional defendant, against whom the Company has asserted additional infringement claims. The Company is unable to anticipate the timing or outcome of

the Amazon Litigation.

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

ZTE Enforcement Actions 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 with the United States Patent and Trademark Office petitions

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for inter partes review (IPR), challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. In August 2013 and November 2013, the Patent Trial and Appeal Board (PTAB), which hears all IPR challenges, terminated the proceedings with respect to two patents, both of which emerged with valid patent claims. In June 2014 and July 2014, following trials in February 2014, the PTAB rejected ZTE s remaining challenges, confirming the validity of all claims in the four remaining patents. ZTE s time for appeal expired with no appeals filed. As a result, the decisions of the PTAB are now final. Meanwhile, in response to the claims filed in Germany, in which ContentGuard GmbH alleged infringement of three German 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, while the opposition proceeding in Germany is continuing. The Company is unable to anticipate the timing or outcome of the opposition proceedings.

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. The Company has commenced a collection action in South Africa (where J&J Group is domiciled), but due to the uncertainty of collection, it has not recognized the gain associated with the judgment. The Company is unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

8. Stock-based Compensation

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

Stock-based compensation expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 was as follows (in thousands):

| | Three months ended | | Nine months ended | |
|---|--------------------|-----------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Stock options | \$ 1,180 | \$ 1,352 | \$ 3,629 | \$ 4,313 |
| Restricted stock awards (1) | 263 | 1,531 | 1,566 | 5,688 |
| Total stock-based compensation expense | \$ 1,443 | \$ 2,883 | \$ 5,195 | \$ 10,001 |

- (1) Stock-based compensation expense for both the three and nine months ended September 30, 2014 and 2013, includes \$0.2 million and \$0.6 million of expense, respectively, related to 250,000 Class A common stock restricted stock awards that are required to be treated as a liability. As of September 30, 2014 and December 31, 2013, \$2.0 million and \$1.4 million, respectively, were accrued for such awards.

Stock Options and Stock Appreciation Rights The Company s stock option and SARs activity for the nine months ended September 30, 2014 is summarized as follows:

| | | Number of shares of Class A common stock underlying options and SARs | Weighted average exercise price |
|-----------------------------|--------------------|---|--|
| Outstanding | December 31, 2013 | 28,496,463 | \$ 2.17 |
| Granted (1) | | 4,344,000 | \$ 1.50 |
| Exercised | | (760,937) | \$ 1.17 |
| Forfeited | | (5,087,611) | \$ 2.76 |
| Outstanding | September 30, 2014 | 26,991,915 | \$ 1.98 |
| Exercisable | September 30, 2014 | 14,342,904 | \$ 1.92 |
| Vested and expected to vest | September 30, 2014 | 26,426,388 | \$ 1.99 |

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(1) The stock options granted during the nine months ended September 30, 2014 have a grant date fair value of \$3.5 million and vest at a rate of 25% per year over four years.

Restricted Stock The Company's restricted stock activity for nine months ended September 30, 2014 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, 2013 | 5,912,116 | \$ 1.62 |
| Granted | | 588,587 | \$ 1.27 |
| Vested | | (1,222,624) | \$ 2.10 |
| Forfeited | | (1,238,564) | \$ 1.16 |
| Unvested | September 30, 2014 | 4,039,515 | \$ 1.55 |

Restricted stock granted during the nine months ended September 30, 2014 consists of the following:

| | Number of shares of Class A common stock underlying restricted stock awards granted | Grant date fair value (in thousands) |
|--|--|---|
| Service-based | 250,000 | \$ 328 |
| Market-based | 150,000 | 68 |
| Shares issued as Board of Director compensation | 188,587 | 352 |
| Total restricted stock granted | 588,587 | \$ 748 |

The service-based restricted stock awards vest at a rate of 25% per year over four years. The market-based restricted stock awards fully vest when both of the following have occurred: (i) the average closing price of the Company's Class A common stock, measured over any period of 60 consecutive calendar days, has reached or exceeded \$3.00 per share (the Price Trigger), and (ii) the first anniversary of the grant date has occurred. If the Price Trigger is not achieved by the third anniversary of the grant date, then none of the market-based restricted stock awards will vest.

9. Income Taxes

The Company anticipates it will not have a U.S. federal income tax liability for fiscal 2014 and, therefore, has recorded no tax expense for the three months ended September 30, 2014. For the nine months ended September 30, 2014, the Company recorded a tax provision of \$6.3 million related to foreign taxes withheld on revenue generated from a license agreement executed during the first quarter with a licensee 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. federal 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, 2014, the Company established a full valuation allowance against this deferred tax asset.

The Company had no foreign taxes withheld and no U.S. federal income tax liability for fiscal 2013.

During the three months ended September 30, 2014, the IRS consented to the Company's request for reasonable cause relief regarding the availability of an additional \$95.7 million of net operating losses (NOLs) for future use. The resulting \$32.5 million deferred tax asset was previously recorded as an unrecognized tax benefit at December 31, 2013. Due to uncertainty regarding the Company's ability to utilize the additional NOLs, at September 30, 2014, the Company established a full valuation allowance against this deferred tax asset.

Certain Taxes Payable Irrespective of NOLs Under the Internal Revenue Code and related Treasury Regulations, the Company may carry forward its NOLs in certain circumstances to offset current and future income and thus reduce its federal income tax liability, subject to certain restrictions. To the extent that the NOLs do not otherwise become limited, the Company believes that it will be able to carry forward a significant amount of NOLs. However, these NOLs will not impact all taxes to which the Company may be subject. For instance, state or foreign income taxes and/or revenue based taxes may

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be payable if the Company's income or revenue is attributed to jurisdictions that impose such taxes; the Company's NOLs do not entirely offset its income for alternative minimum tax; and Pendrell or one or more of its corporate subsidiaries may incur federal personal holding company tax liability. This is not an exhaustive list, but merely illustrative of the types of taxes to which the Company's NOLs are not applicable.

Personal Holding Company Determination A personal holding company is a corporation with five or fewer individual shareholders whose ownership exceeds 50% of the corporation's outstanding shares, measured by share value (Concentrated Ownership), and which generates personal holding company income (which includes certain licensing revenue and other types of passive revenues) (PHCI) that constitutes 60% or more of its adjusted ordinary gross income. For a corporate subsidiary, Concentrated Ownership is determined by reference to ownership of the parent corporation(s), and if Concentrated Ownership exists, the subsidiary's income is subject to additional tests to determine whether the income renders the subsidiary a personal holding company. Due to the significant number of shares held by the Company's largest shareholders, 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. In the second quarter of 2014, the Company's assessment of share ownership for 2012 and 2013 initially led it to conclude that ContentGuard was a personal holding company during such years. In the third quarter of 2014, the Company determined that ContentGuard was not a personal holding company in 2012 or 2013 and therefore the Company does not anticipate any resulting personal holding company tax liability for current or prior years. If either Pendrell or ContentGuard is determined to be a personal holding company in the future, generates net PHCI, does not have losses from the immediately preceding year to offset the PHCI, and does not distribute to its shareholders a proportionate dividend in the full amount of the PHCI, then the undistributed net PHCI will be taxed (at 20% under current law).

Tax Benefits Preservation Plan Effective January 29, 2010, the Board of Directors adopted the Tax Benefits Preservation Plan to help the Company preserve its ability to utilize fully its NOLs, to help preserve potential future NOLs, and to thereby reduce potential future federal income tax obligations. If the Company experiences an ownership change, as defined in Section 382 of the Internal Revenue Code, the Company's ability to use the NOLs could be significantly limited.

The Tax Benefits Preservation Plan is intended to act as a deterrent to any person or group acquiring, without the approval of the Company's Board of Directors, beneficial ownership of 4.9% or more of the Company's securities, defined to include: (i) shares of its Class A common stock and Class B common stock, (ii) shares of its preferred stock, (iii) warrants, rights, or options to purchase its securities, and (iv) any interest that would be treated as stock of the Company for purposes of Section 382 or pursuant to Treasury Regulation § 1.382-2T(f)(18). Specifically, if a shareholder acquires more than 4.9% of Pendrell's outstanding capital stock without an exemption from our Board of Directors, all other shareholders receive rights to acquire additional shares at a significant discount to market price, thereby diluting the value of the capital stock acquired by the acquiring shareholder.

Holders of 4.9% or more of the Company's securities outstanding as of the close of business on January 29, 2010 will not trigger the Tax Benefits Preservation Plan so long as they do not (i) acquire additional securities constituting one-half of one percent (0.5%) or more of the Company's securities outstanding as of the date of the Tax Benefits Preservation Plan (as adjusted to reflect any stock splits, subdivisions and the like), or (ii) fall under 4.9% ownership of the Company's securities and then re-acquire securities that increase their ownership to 4.9% or more of the Company's securities. The Board of Directors may exempt certain persons whose acquisition of securities is determined by the Board of Directors not to jeopardize the Company's tax benefits or to otherwise be in the best interest of the Company and its shareholders. The Board of Directors may also exempt certain transactions.

10. Loss per Share

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

Potential dilutive Common Shares consist of the incremental Class A common stock issuable upon the exercise of outstanding stock options (both vested and non-vested), stock appreciation rights, and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options exercise prices were greater than the average market price of the Company s Class A common shares for the period) because their inclusion is 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, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss attributable to Pendrell | \$ (13,262) | \$ (14,228) | \$ (24,127) | \$ (42,416) |
| Weighted average common shares outstanding | 266,520,052 | 265,809,024 | 266,200,724 | 265,553,351 |
| Less: weighted average unvested restricted stock awards | (1,892,190) | (2,719,253) | (2,030,777) | (3,872,755) |
| Shares used for computation of basic loss per share | 264,627,862 | 263,089,771 | 264,169,947 | 261,680,596 |
| 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) | 264,627,862 | 263,089,771 | 264,169,947 | 261,680,596 |
| Basic and diluted loss per share attributable to Pendrell | \$ (0.05) | \$ (0.05) | \$ (0.09) | \$ (0.16) |

(1) Stock options, stock appreciation rights, restricted stock awards and units totaling 31,031,430 for the three and nine months ended September 30, 2014, and 34,009,178 for the three and nine months ended September 30, 2013, were excluded from the calculation of diluted loss per share as their inclusion was anti-dilutive.

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 2013 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 frequently investigate new investment and business acquisition opportunities. We also advise clients on various IP strategies and transactions.

During October 2014, our ContentGuard subsidiary launched Yovo , our next-generation ephemeral photo and messaging application. Yovo facilitates ephemeral posts on social networking sites, as well as private messaging via text and email. Designed for integration with Facebook and Twitter, Yovo offers features such as forward lock, full encryption,

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screen capture scrambling and a self-destruct timer that allows a sender to grant viewing rights for as little as one second and as long as 24 hours. Yovo follows on the heels of the ContentGuard® mobile digital content protection application for business users that was initially launched in December 2013 and updated in May 2014. These mobile applications, based on technologies developed by ContentGuard over the past fifteen years, 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.

During the first nine months of 2014, certain of our subsidiaries entered into agreements to license patents covering memory and storage technologies, from which we received upfront payments and future royalty rights. During the nine months ended September 30, 2013 we did not enter into any new material license agreements.

Until 2012, we had never initiated litigation to protect our IP rights. Since then, our majority owned subsidiary, ContentGuard, has filed suit for patent infringement against Amazon, Apple, Blackberry, Google, Huawei, HTC, Motorola Mobility, Samsung and ZTE after negotiations with these companies failed to yield negotiated license agreements. Recently, we were compelled to assert claims against DirecTV after DirecTV intervened in our case.

ContentGuard's claims against ZTE prompted ZTE to challenge six of ContentGuard's digital rights management (DRM) patents through *inter partes review* (IPR) proceedings at the United States Patent and Trademark Office (USPTO). In August 2013 and November 2013, the USPTO's Patent Trial and Appeal Board (PTAB) terminated the proceedings with respect to two patents, both of which emerged with valid patent claims. The other four patents were the subject of PTAB trials held in February 2014, following which PTAB issued written opinions in late June and early July 2014 rejecting ZTE's remaining challenges, confirming the validity of all claims of the four remaining patents. Thereafter, ZTE's time for appeal expired with no appeals filed. As a result, the decisions of the PTAB are now final.

While we continue to pursue our IP licensing and litigation initiatives, we also continue to advise some of the most respected technology companies in the world on a variety of IP-related matters. We also continue to evaluate acquisition opportunities, some of which are unrelated to our historical IP monetization activities.

Critical Accounting Policies

Critical accounting policies require difficult, subjective or 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 2013 Form 10-K.

Key Components of Results of Operations

Revenue We derive our operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services, or a combination thereof. Although our revenue may occur in different forms, we regard our IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could include consulting and licensing activities, or the acquisition of a patent portfolio could lead to licensing, consulting and patent sales revenue. As a result of the unpredictable nature, form and frequency of our

transactions, our revenue may fluctuate substantially from period to period.

Cost of revenue Cost of revenue consists of certain costs that are variable in nature and are directly attributable to our revenue generating activities including (i) payments to third parties to whom we have an obligation to share revenue, (ii) commissions, and (iii) success fees. Additionally, in periods when patent sales occur, these costs include the net book value and other related costs associated with the sold patents. Depending on the patents being monetized, revenue share payments as a percentage of revenues may vary significantly.

Patent administration and related costs Patent administration and related costs are comprised of (i) patent-related maintenance and prosecution costs incurred to maintain our patents, (ii) other costs that support our patent monetization efforts, and (iii) costs associated with the abandonment of patents, including the write-off of any remaining net book value.

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Patent litigation Patent litigation costs consist of costs and expenses incurred in connection with our patent-related enforcement and litigation activities. These may include non-contingent or contingent fee obligations to external counsel.

General and administrative General and administrative expenses are primarily comprised of (i) personnel costs, (ii) general legal fees, (iii) professional fees, (iv) acquisition investigation costs, and (v) general office related costs.

Stock-based compensation Stock-based compensation expense includes expense associated with the granting of 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 expensed over the requisite service period for awards expected to vest.

Amortization of intangible assets Amortization of intangible assets reflects the expensing of the cost to acquire intangible assets which are capitalized and amortized ratably over their estimated useful lives. Estimating the economic useful lives of our intangible assets depends on various factors including the remaining statutory life of the underlying assets as well as their expected period of benefit.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Compliance with this ASU is required for annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this ASU in 2014 did not have an impact on our financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation-Stock Compensation (Topic 718)-Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Compliance with this ASU is required for annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU in 2014 did not have a material impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers*, which supersedes existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize as revenue the amount that an entity expects to be entitled for goods or services at the time the goods or services are transferred to customers. ASU 2014-09 defines a five step process to achieve this core principle that will likely require more judgment and estimates within the revenue recognition process than are required under existing GAAP. Compliance with this ASU is required for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is not permitted. We are currently assessing the impact, if any, of implementing this guidance on our consolidated financial position and results of operations.

Results of Operations

In February 2013, we acquired a 68.75% interest in Provitro Biosciences LLC, developer of the Provitro proprietary micro-propagation technology designed to facilitate the commercial-scale production of certain plants. Additionally, in March 2013, we acquired from Nokia Corporation 125 patents and patent applications worldwide, 81 of which

Nokia declared essential to standards applicable to memory and storage technologies used in electronic devices. Expenses associated with these acquisitions from their respective acquisition dates have been included in our condensed consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013.

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The following table is provided to facilitate the discussion of our results of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | Three months ended | | Nine months ended | |
|---|--------------------|--------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | \$ 618 | \$ 781 | \$ 41,688 | \$ 12,575 |
| Cost of revenues | | 114 | 13,866 | 7,872 |
| Patent administration and related costs | 1,189 | 878 | 4,237 | 2,977 |
| Patent litigation | 2,717 | 920 | 6,686 | 3,011 |
| General and administrative | 5,394 | 6,933 | 20,228 | 21,738 |
| Stock-based compensation | 1,443 | 2,883 | 5,195 | 10,001 |
| Amortization of intangible assets | 3,971 | 4,090 | 12,001 | 11,805 |
| Interest income | 24 | 24 | 68 | 104 |
| Interest expense | 43 | 63 | 149 | 129 |
| Other income (expense) | (2) | 5 | (14) | (40) |
| Income tax expense | | | 6,270 | |

Revenue. Revenue of \$0.6 million for the three months ended September 30, 2014 decreased by \$0.2 million, or 21%, as compared to \$0.8 million for the three months ended September 30, 2013. The decrease was primarily due to the absence of patent sales during the three months ended September 30, 2014.

Revenue of \$41.7 million for the nine months ended September 30, 2014 increased by \$29.1 million, or more than 200%, as compared to \$12.6 million for the nine months ended September 30, 2013. The increase was primarily due to license agreements covering memory and storage technologies entered into during the nine months ended September 30, 2014 and the absence of licensing revenue during the nine months ended September 30, 2013, partially offset by sales of certain patent portfolios in 2013.

Cost of revenues. We did not incur any cost of revenues for the three months ended September 30, 2014. During the three months ended September 30, 2013, we had cost of revenues of \$0.1 million associated with patent sales.

Cost of revenues of \$13.9 million for the nine months ended September 30, 2014 increased by \$6.0 million, or 76%, as compared to \$7.9 million for the nine months ended September 30, 2013. This increase was primarily due to costs associated with our March 2014 license agreement with Samsung, including payments to third parties to whom we have an obligation to share revenue, partially offset by \$7.9 million of costs related to certain patents sold in 2013.

Patent administration and related costs. Patent administration and related costs of \$1.2 million for the three months ended September 30, 2014 increased by \$0.3 million, or 35%, as compared to \$0.9 million for the three months ended September 30, 2013. Patent administration and related costs of \$4.2 million for the nine months ended September 30, 2014 increased by \$1.2 million, or 42%, as compared to \$3.0 million for the nine months ended September 30, 2013. The increases in patent administration and related costs were primarily due to write-offs of the net book value of patents abandoned in 2014, partially offset by a reduction in patent maintenance and prosecution costs.

Patent litigation. Patent litigation expenses of \$2.7 million for the three months ended September 30, 2014 increased by \$1.8 million, or 195%, as compared to \$0.9 million for the three months ended September 30, 2013. Patent litigation expenses of \$6.7 million for the nine months ended September 30, 2014 increased by \$3.7 million, or 122%, as compared to \$3.0 million for the nine months ended September 30, 2013. The increases in patent litigation

expenses were primarily due to costs incurred by our subsidiary, ContentGuard, in its litigation efforts against Amazon, Apple, Blackberry, DirecTV, Google, HTC, Huawei, Motorola Mobility and Samsung that commenced in December 2013.

General and administrative. General and administrative expenses of \$5.4 million for the three months ended September 30, 2014 decreased by \$1.5 million, or 22%, as compared to \$6.9 million for the three months ended September 30, 2013. The decrease was primarily due to (i) \$0.7 million reduction in employment expenses resulting from a lower headcount, (ii) \$0.7 million reduction in amortized prepaid compensation expense associated with the acquisition of the Ovidian Group LLC (Ovidian) in June 2011 (which was fully amortized as of June 2014), and (iii) \$0.5 million reduction in expenses associated with Provitro, partially offset by (a) \$0.3 million increase in expenses associated with researching acquisition opportunities and (b) \$0.1 million increase in professional fees and other expenses.

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General and administrative expenses of \$20.2 million for the nine months ended September 30, 2014 decreased by \$1.5 million, or 7%, as compared to \$21.7 million general and administrative expenses for the nine months ended September 30, 2013. The decrease was primarily due to (i) \$1.4 million reduction in employment expenses resulting from a lower headcount, (ii) \$0.7 million reduction in amortized prepaid compensation expense associated with the Ovidian acquisition (which was fully amortized as of June 2014), and (iii) \$0.3 million reduction in expenses associated with Provitro, partially offset by (a) \$0.5 million increase in expenses associated with researching acquisition opportunities and (b) \$0.4 million increase in professional fees and other expenses.

Stock-based compensation. Stock-based compensation of \$1.4 million for the three months ended September 30, 2014 decreased by \$1.5 million, or 50%, as compared to \$2.9 million for the three months ended September 30, 2013. Stock-based compensation of \$5.2 million for the nine months ended September 30, 2014 decreased by \$4.8 million, or 48%, as compared to \$10.0 million for the nine months ended September 30, 2013. The decrease in stock-based compensation expense was primarily due to the vesting of awards in June 2013 for which no further expense is being incurred and the recapture of expense related to terminated employees.

Amortization of intangible assets. Amortization of intangible assets of \$4.0 million for the three months ended September 30, 2014 decreased by \$0.1 million, or 3%, as compared to \$4.1 million amortization of intangible assets for the three months ended September 30, 2013, due to sales and abandonments of certain patents during 2014.

Amortization of intangible assets of \$12.0 million for the nine months ended September 30, 2014 increased by \$0.2 million, or 2%, as compared to \$11.8 million for the nine months ended September 30, 2013, primarily due to the March 2013 acquisition of a portfolio of memory and storage technology patents, partially offset by sales and abandonments of certain patents in 2014.

Interest income. Interest income for the three and nine months ended September 30, 2014 and 2013 was nominal and primarily related to interest earned on money market funds.

Interest expense. Interest expense for the three and nine months ended September 30, 2014 and 2013 consisted of interest expense resulting from installment payment obligations associated with intangible assets acquired during 2013.

Other expense. Other expense for the three and nine months ended September 30, 2014 and 2013 was primarily due to gains and losses on foreign currency transactions.

Income tax expense. We anticipate that we will not have a U.S. federal income tax liability for fiscal 2014 and, therefore, we recorded no tax expense in the three months ended September 30, 2014. We recorded a tax provision of \$6.3 million for the nine months ended September 30, 2014 related to foreign taxes withheld on revenue generated from a license agreement executed during the first quarter with a licensee 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. federal 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, 2014, we established a full valuation allowance against this deferred tax asset. We had no foreign taxes withheld and no U.S. federal income tax liability for fiscal 2013.

Liquidity and Capital Resources

Overview. As of September 30, 2014, we had cash and cash equivalents of \$179.6 million. Our primary expected cash needs for the next twelve months include ongoing operating costs associated with commercialization of our IP assets,

product development costs, expenses in connection with legal proceedings, and other general corporate purposes. We also expect to 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, 2014 and 2013 (in thousands).

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| | Nine months ended September, | |
|---|---|-------------|
| | 2014 | 2013 |
| Net cash used in: | | |
| Operating activities | \$ (2,788) | \$ (8,672) |
| Investing activities | (114) | (11,498) |
| Financing activities | (2,093) | (2,555) |
| Net decrease in cash and cash equivalents | (4,995) | (22,725) |
| Cash and cash equivalents beginning of period | 184,567 | 213,753 |
| Cash and cash equivalents end of period | \$ 179,572 | \$ 191,028 |

The decrease in cash and cash equivalents for the nine months ended September 30, 2014 of \$5.0 million was primarily due to \$44.7 million of general corporate expenditures and a \$2.0 million payment of an accrued obligation associated with the 2013 acquisition of our memory and storage technologies portfolio partially offset by revenue generated by operations of \$41.7 million. The decrease in cash and cash equivalents for the nine months ended September 30, 2013 of \$22.7 million was primarily due to the acquisition of our memory and storage technologies portfolio, the acquisition of a controlling interest in Provitro and general corporate expenditures.

For the nine months ended September 30, 2014, the \$2.8 million of cash used in operating activities consisted of our net loss of \$26.9 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 Ovidian acquisition, (v) \$1.8 million increase in accounts payable and accrued expenses (vi) \$0.9 million decrease in accounts receivable and prepaid expenses and (vii) \$0.6 million of depreciation and other noncash expenses.

For the nine months ended September 30, 2013, the \$8.7 million of cash used in operating activities consisted primarily of our net loss of \$44.9 million adjusted for various non-cash items, including (i) \$11.8 million of amortization expense associated with patents and other intangibles, (ii) \$10.0 million of stock-based compensation expense and (iii) \$2.1 million of amortized prepaid compensation expense associated with the Ovidian acquisition, partially offset by \$8.8 million of cash collected from various receivables and a \$2.9 million increase in accrued expenses.

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 and intangible assets. For the nine months ended September 30, 2013, the \$11.5 million of cash used in investing activities was primarily due to \$9.2 million for our acquisition of Provitro and \$2.3 million for the acquisition of property and intangible assets.

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. For the nine months ended September 30, 2013, the \$2.6 million of cash used in financing activities consisted of the payment of statutory taxes related to vesting of restricted stock awards, partially offset by proceeds from the exercise of stock options.

Contractual Obligations. Our primary contractual obligations relate to the installment purchase of the memory and storage technologies portfolio in 2013 as well as operating lease agreements for our main office location in Kirkland, Washington, and other offices in California, Texas, Washington, D.C. and Finland. Our contractual obligations as of September 30, 2014 were as follows (in millions):

| | Years ending December 31, | | | | |
|-----------------------------|----------------------------------|---------------|------------------|------------------|--------------------------------|
| | Total | 2014 | 2015-2016 | 2017-2018 | 2019 and Thereafter |
| Purchase obligations | \$ 4.0 | \$ | \$ 4.0 | \$ | \$ |
| Operating lease obligations | 2.6 | 0.1 | 1.3 | 1.0 | 0.2 |
| Total | \$ 6.6 | \$ 0.1 | \$ 5.3 | \$ 1.0 | \$ 0.2 |

Table of Contents**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

We do not have any off-balance sheet arrangements.

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, 2014, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of \$179.6 million. The primary objective of our investments in money market funds is to preserve principal, while optimizing returns and minimizing risk, and our policies require, at the time of purchase, that we make these investments in short-term, high rated securities which currently yield between zero to 15 basis points.

| | September 30, 2014 (in thousands) |
|--------------------|--|
| Cash | \$ 19,003 |
| Money market funds | 160,569 |
| | \$ 179,572 |

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

Item 4. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

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

were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of 2014 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**

Enforcement Action against Amazon et. al. On December 18, 2013, our ContentGuard subsidiary filed a patent infringement lawsuit against Amazon.com, Inc., Apple Inc., Blackberry Corporation (fka Research in Motion Corporation), Huawei Device USA, Inc. and Motorola Mobility LLC in the Eastern District of Texas, in which ContentGuard alleged that the defendants have infringed and continue to infringe nine of its patents by making, using, selling or offering for sale certain mobile communication and computing devices (the Amazon Litigation). On January 17, 2014, ContentGuard filed an amended complaint in the Amazon Litigation adding certain affiliates of the original defendants, along with HTC Corporation, HTC America Inc., Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC. In August 2014, DirecTV intervened in the case and thereby became an additional defendant, against whom we have asserted additional infringement claims. We are unable to anticipate the timing or outcome of the Amazon Litigation.

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

ZTE Enforcement Actions 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 with the United States Patent and Trademark Office petitions for inter partes review, challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. In August 2013 and November 2013, the PTAB, which hears all IPR challenges, terminated the proceedings with respect to two patents, both of which emerged with valid patent claims. In June 2014 and July 2014, following trials in February 2014, the PTAB rejected ZTE's remaining challenges, confirming the validity of all claims in the four remaining patents. ZTE's time for appeal expired with no appeals filed. As a result, the decisions of the PTAB are now final. Meanwhile, in response to the claims filed in Germany, in which ContentGuard GmbH alleged infringement of three German 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, while the opposition proceeding in Germany is continuing. We are unable to anticipate the timing or outcome of the opposition proceedings.

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. We have commenced a collection action in South Africa (where J&J Group is domiciled), but due to the uncertainty of collection, we have not recognized the 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

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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 2014 and 2032, as well as patent applications. Our portfolio has an average life of approximately ten years. If we fail to develop or acquire new patentable inventions prior to the expiration of our patents, our licensing opportunities will be limited.

We may have a limited number of prospective licensees.

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

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

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

Enforcement proceedings may be costly and ineffective.

We may choose to pursue litigation or other enforcement action to protect our intellectual property rights. We may also choose to litigate to enforce the terms of our existing license agreements, protect our trade secrets, or determine the validity and scope of the proprietary rights of others. Enforcement proceedings are typically protracted and complex, and might require cooperation of inventors and others who are unwilling to assist with enforcement. The costs are typically substantial, and the outcomes are unpredictable. 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 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.

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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. 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 limit the value of our inventions or result in a loss of our proprietary rights and may adversely affect our results of operations and our financial position.

Delays in issuance of patents could harm our business.

We may acquire and pursue additional patents and related intellectual property rights. The number of patent applications has been increasing, which may result in longer delays in obtaining approval of patent applications. The application delays could cause delays in recognizing revenue from these patents and could cause us to miss opportunities to license or enforce patents before other competing technologies are developed or introduced into the market.

Changes in patent law could adversely impact our business.

Patent laws may continue to change, and may alter protections afforded to owners of patent rights, impose additional enforcement risks, increase the costs of enforcement, or increase our licensing cycles. For instance, during 2013, legislative initiatives were introduced to address perceived patent abuses by non-practicing entities. Although legislation was not enacted, it is possible that similar legislation will be introduced in future legislative sessions. 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. The courts' interpretations of patent laws and regulations continue to evolve, and the courts may continue to alter or refine or be required by legislative action to alter or refine their application of 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 the 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.

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

We intend to continue to pursue 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 expect to incur significant transactional expenses, regardless of whether or not acquisitions are consummated. Moreover, the integration of acquired companies prompts significant challenges, and we cannot assure that the integration of acquired businesses with our business will result in the realization of the full benefits we anticipate from such acquisitions. Investigating businesses and assets and integrating newly acquired businesses or assets may be costly and time-consuming, and such activities could divert our attention from other business concerns. In addition, we might lose key employees while integrating new organizations. Acquisitions could also result in potentially dilutive issuances of equity securities or the incurrence of debt, the assumption or incurrence of contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could negatively impact our financial position. We might not be successful in integrating acquired businesses, and might not achieve desired revenues and cost benefits.

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

When we acquire assets or businesses or establish relationships with inventors or strategic partners, we may rely on representations and warranties made by third parties. We also may rely on opinions of lawyers and other professionals. We may not have the opportunity to independently investigate and verify the facts upon which such representations, warranties and opinions are made. By relying on these representations, warranties and opinions, we may be exposed to unforeseen liabilities that could have a material adverse effect on our operating results and financial condition.

Risks Related to our Operations

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

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

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

We have increased our expenditures to develop and expand our business, including expenditures to acquire IP assets, develop new solutions and products and expand the reach and scope of our IP business. We have also incurred, and may continue to incur additional operating expenses to hire new personnel, including employees for IP services, patent research and analysis, development of reporting systems and general and administrative functions. Our financial position will be negatively impacted if we are not successful in generating revenue that is sufficient to offset these expenses.

Failure to effectively manage our business and our growth 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. We must train our personnel, especially our intellectual property consultants, to respond to and support our customers and licensees. If we fail to do so, it could lead to dissatisfaction among our clients and licensees, which could slow our growth or result in a loss of business. Our senior managers and key personnel are not bound by agreements to remain with us for any specified time period. The loss of any of our senior management or other key personnel could harm our ability to implement our business strategy. Moreover, our growth may strain our managerial and operational resources and systems. If we fail to manage our growth 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.

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Rights of minority shareholders may limit future value.

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

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

We have relied on revenues from clients and licensees and existing cash reserves to finance our operations. If we deploy a significant portion of our capital or encounter unforeseen difficulties in the future that deplete our capital resources more rapidly than anticipated, we may need to obtain additional financing. Financing might not be available on favorable terms, if at all, may dilute our existing shareholders, and may prompt us to pursue structural changes that could impact shareholder concentration and liquidity. If we fail to obtain additional capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition.

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

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

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 utilize our Net Operating Losses (NOLs) may be impacted by changes in tax laws.

We generated and now hold substantial NOLs as a result of the disposition of our medium earth orbit satellite assets and the divestiture of certain former subsidiaries associated with the satellite business into a liquidating trust. We intend to carry forward these losses to offset future income and thus reduce our income tax liability. If tax laws are amended to limit or eliminate the ability to carry forward our NOLs, or to alter income tax rates, the value of our NOLs could be significantly impaired.

Our ability to utilize our NOLs is dependent on avoiding ownership changes.

Under existing provisions of the Internal Revenue Code, if we experience an ownership change, our ability to use our NOLs will be significantly limited, which will impair the value of our NOLs. Despite our adoption of certain protections against an ownership shift (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, an ownership change could occur.

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

Our NOLs do not shield us from all taxes.

We believe that some or all of our NOLs will be available in certain circumstances to offset current and future income and thus reduce our federal income tax liability, subject to certain restrictions. However, our NOLs will not shield us from all taxes to which we may be subject. For instance, we may be required to pay state or foreign income taxes if some of our income is generated in jurisdictions that impose such taxes. Similarly, we may be required to pay taxes on revenue generated in jurisdictions that impose revenue-based taxes. Federal personal holding company tax may be payable on Pendrell's or ContentGuard's future net personal holding company income (PHCI) if either corporation becomes a personal holding company. The personal holding company tax is currently 20% of PHCI that is not distributed to the corporation's shareholders. Alternative minimum tax, or AMT, cannot be completely negated by net operating losses, as losses carried forward generally can offset no more than 90% of a corporation's AMT liability. Additionally, our NOLs may not shield us from foreign withholding taxes. This list is not exhaustive, but merely illustrative of the types of taxes to which our NOLs are not applicable.

Risks Related to Our Class A Common Stock

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

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

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

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

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

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

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

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

Our Tax Benefits Preservation Plan, 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.

The Tax Benefits Preservation Plan we have in place 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

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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 that are set forth in our articles of incorporation, including voting, dividend and conversion rights and their rights in the event of a liquidation, merger, consolidation or sale of substantially all of our assets. It also provides 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. In particular, these rights 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 Preservation 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.

Issuer Purchases of Equity Securities

| | | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs |
|-------------|--------------------|----------------------------------|------------------------------|--|---|
| July 1 | July 31, 2014 | | \$ | | |
| August 1 | August 31, 2014 | 1,239 | 1.54 | | |
| September 1 | September 30, 2014 | | | | |
| | | 1,239 | \$ 1.54 | | |

Item 6. Exhibits

- Ex 10.1 Employment Letter Agreement dated August 28, 2014 between Pendrell Corporation and Steven A. Ednie (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 4, 2014).
- Ex. 31.1 Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
- Ex. 31.2

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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, 2014 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.

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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 31, 2014

By:

/S/ Steven A. Ednie
Steven A. Ednie

Vice President and Chief Financial Officer

Authorized Officer and Principal Financial Officer

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