

Pendrell Corp  
Form 10-Q  
November 01, 2013  
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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, 2013**

**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 25, 2013, the registrant had 212,384,662 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, 2013**

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 191,028	\$ 213,753
Accounts receivable, net of allowance for doubtful accounts of \$0 in both periods	493	8,471
Other receivables net of reserve \$2,750 in both periods	68	856
Prepaid expenses and other current assets	1,739	689
<b>Total current assets</b>	<b>193,328</b>	<b>223,769</b>
Property in service net of accumulated depreciation of \$722 and \$464, respectively	3,851	946
Other assets	75	67
Intangible assets net of accumulated amortization of \$27,212 and \$15,456, respectively	143,747	135,424
Goodwill	21,725	21,209
<b>Total</b>	<b>\$ 362,726</b>	<b>\$ 381,415</b>
<b>LIABILITIES, STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS</b>		
Current liabilities:		
Accounts payable	\$ 524	\$ 285
Accrued expenses	6,223	2,382
Other liabilities	2,600	647
<b>Total current liabilities</b>	<b>9,347</b>	<b>3,314</b>
Deferred tax liability	1,488	1,488
Other non-current liabilities	4,957	753
<b>Total liabilities</b>	<b>15,792</b>	<b>5,555</b>
Commitments and contingencies (Note 7)		
Stockholders equity and noncontrolling interests:		

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Preferred stock, \$0.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		
Class A common stock, \$0.01 par value, 900,000,000 shares authorized, 270,086,095 and 269,450,966 shares issued, 212,317,203 and 211,682,074 shares outstanding	2,124	2,118
Class B convertible common stock, \$0.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	537	537
Additional paid-in capital	1,938,875	1,929,526
Accumulated deficit	(1,607,347)	(1,563,999)
<b>Total Pendrell stockholders equity</b>	<b>334,189</b>	<b>368,182</b>
Noncontrolling interests	12,745	7,678
<b>Total stockholders equity and noncontrolling interests</b>	<b>346,934</b>	<b>375,860</b>
<b>Total</b>	<b>\$ 362,726</b>	<b>\$ 381,415</b>

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

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenue	\$ 781	\$ 1,023	\$ 12,575	\$ 25,515
Operating expenses:				
Patent administration, litigation and related costs	1,912	1,360	13,860	4,769
General and administrative	6,933	7,109	21,738	22,464
Stock-based compensation	2,883	1,768	10,001	4,848
Amortization of intangible assets	4,090	3,589	11,805	9,882
Total operating expenses	15,818	13,826	57,404	41,963
Operating income (loss)	(15,037)	(12,803)	(44,829)	(16,448)
Interest income	24	58	104	178
Interest expense	(63)		(129)	(2,483)
Gain on deconsolidation of subsidiaries				48,685
Gain on settlement of Boeing litigation				10,000
Gain (loss) associated with disposition of assets		(4)		5,599
Other income (expense)	5	220	(40)	1,584
Income (loss) before income taxes	(15,071)	(12,529)	(44,894)	47,115
Income tax benefit				1,004
Net income (loss)	(15,071)	(12,529)	(44,894)	48,119
Net loss attributable to noncontrolling interests	(843)	(380)	(2,478)	(68)
Net income (loss) attributable to Pendrell	\$ (14,228)	\$ (12,149)	\$ (42,416)	\$ 48,187
Basic income (loss) per share attributable to Pendrell	\$ (0.05)	\$ (0.05)	\$ (0.16)	\$ 0.19
Diluted income (loss) per share attributable to Pendrell	\$ (0.05)	\$ (0.05)	\$ (0.16)	\$ 0.18
Weighted average shares outstanding used to compute basic income (loss)	263,089,771	256,741,845	261,680,596	256,486,019

per share

Weighted average shares outstanding  
used to compute diluted income (loss)

per share	263,089,771	256,741,845	261,680,596	263,772,311
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****Pendrell Corporation****Condensed Consolidated Statements of Comprehensive Income (Loss)****(In thousands, unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ (15,071)	\$ (12,529)	\$ (44,894)	\$ 48,119
Other comprehensive income (loss):				
Cumulative translation adjustments				(1,019)
Reclassification of cumulative translation adjustment loss included in net income				12,679
Comprehensive income (loss)	(15,071)	(12,529)	(44,894)	59,779
Comprehensive loss attributable to noncontrolling interests	843	380	2,478	68
Comprehensive income (loss) attributable to Pendrell	\$ (14,228)	\$ (12,149)	\$ (42,416)	\$ 59,847

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



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**Pendrell Corporation**

**Condensed Consolidated Statements Changes in Stockholders' Equity**

(In thousands, except share data, unaudited)

	Common stock		Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit	Stockholders' equity	Noncontrolling interests	Total
	Class A shares	Class B shares								
Balance, December 31, 2017	206,696,021	53,660,000	\$ 3,497	\$ 2,794,970	\$ (877,833)	\$ (11,660)	\$ (1,603,941)	\$ 305,033	\$ 7,745	\$ 312,037
Issuance of Class A common stock for cash				1,892				1,892		1,892
Exercise of stock options and warrants	590,375		6	734				740		1,380
Repurchase of Class A common stock held at end of period										
Provision for deferred tax liabilities based on issuance of restricted stock	(88,056)		(1)		(219)			(220)		(1,096)
Share-based compensation expense	(315,382)		15	4,601	6			4,622		4,240
Change in comprehensive income						11,660		11,660		11,660
Change in noncontrolling interests							48,187	48,187	(68)	47,506
Balance, December 31, 2018	206,882,958	53,660,000	\$ 3,517	\$ 2,802,197	\$ (878,046)	\$	\$ (1,555,754)	\$ 371,914	\$ 7,677	\$ 379,451

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ce, ber 31,	211,682,074	53,660,000	\$ 2,655	\$ 1,929,526	\$	\$	\$(1,563,999)	\$ 368,182	\$ 7,678	\$ 375
g of A on stock for in ition				1,148				1,148		1
ce of A on stock xercise k options arrants	98,750		1	104				105		
A on stock ld at g to cover ry tax tions	(567,728)		(6)	(1,722)			(932)	(2,660)		(2)
based ensation suance of ted stock, ures	1,104,107		11	9,819				9,830		9
ontrolling t in ro ss							(42,416)	(42,416)	7,545	7 (44
ce, ber 30,	212,317,203	53,660,000	\$ 2,661	\$ 1,938,875	\$	\$	\$(1,607,347)	\$ 334,189	\$ 12,745	\$ 346

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

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

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income (loss) including noncontrolling interests	\$ (44,894)	\$ 48,119
<b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b>		
Stock-based compensation	10,001	4,848
Amortization of prepaid compensation from Ovidian Group acquisition	2,073	2,261
Amortization of intangibles	11,805	9,882
Depreciation	339	152
Unrealized foreign exchange gains	(8)	(442)
Non-cash cost of patents monetized	252	
Gain on deconsolidation of subsidiaries		(48,685)
Gain associated with disposition of assets		(5,599)
Other	176	
<b>Other changes in certain assets and liabilities, net of acquisitions:</b>		
Accounts receivable	8,037	(9,551)
Other receivables	788	248
Prepaid expenses and other current/non-current assets	(125)	(365)
Accounts payable	(51)	674
Accrued interest payable		1,704
Other accrued liabilities	2,935	(6,144)
<b>Net cash used in operating activities</b>	<b>(8,672)</b>	<b>(2,898)</b>
<b>Investing activities:</b>		
Purchases of property and intangible assets	(2,294)	(29,372)
Proceeds associated with disposition of assets		15,647
Acquisition of Provitro, net of cash acquired	(9,204)	
<b>Net cash used in investing activities</b>	<b>(11,498)</b>	<b>(13,725)</b>
<b>Financing activities:</b>		
Proceeds from exercise of stock options	105	740
Payment of statutory taxes for stock awards	(2,660)	(220)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,555)</b>	<b>520</b>
Effect of foreign exchange rate changes on cash		725

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Net decrease in cash and cash equivalents	(22,725)	(15,378)
Cash and cash equivalents beginning of period	213,753	230,377
Cash and cash equivalents end of period	\$ 191,028	\$ 214,999
Supplemental disclosures:		
Income taxes paid	\$	\$ 2,156
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, through its consolidated subsidiaries, invests in, acquires and develops 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 continuously 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 through its IP advisory subsidiary.

**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, 2012 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, 2012 ( 2012 Form 10-K ), filed with the U.S. Securities and Exchange Commission on March 8, 2013. 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 2012 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, 2013 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), other comprehensive 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.

**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, 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.

**Reclassifications** Certain prior period amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on previously reported net income (loss).

**Updates to Accounting Policies** Except as outlined below, there have been no material changes or updates in the Company's existing accounting policies from the disclosures included in its 2012 Form 10-K.

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*Revenue Recognition* The Company derives its operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services.

The Company's patent licensing agreements typically provide for the payment of contractually determined upfront license fees representing all or a majority of the revenue that will be generated from such agreements for nonexclusive, nontransferable, limited duration licenses. These agreements typically grant (i) a non-exclusive license to make, sell, distribute, and use certain specified products that read on the Company's patents, (ii) a covenant not to enforce patent rights against the licensee based on such activities, and (iii) the release of the licensee from certain claims.

The Company sells patents from its portfolios from time to time. These sales are part of the Company's ongoing operations. Consequently, the related proceeds are recorded as revenue. The Company recognizes the revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) amounts are fixed or determinable, and (iv) collectability is reasonably assured.

Fees earned from IP consulting services are generally recognized as the services are performed.

The timing and amount of revenue recognized from IP monetization activities depend on the specific terms of each agreement and the nature of the deliverables and obligations. Agreements that are deemed to contain multiple elements are accounted for under ASC 605-20, *Revenue Recognition - Multiple Element Arrangements*. This guidance requires consideration to be allocated to each element of an agreement that has stand-alone value using the relative fair value method. The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) all material obligations have been substantially performed pursuant to agreement terms or services have been rendered to the customer, (iii) amounts are fixed or determinable, and (iv) collectability is reasonably assured. As a result of the contractual terms of the Company's patent monetization agreements and the unpredictable nature, form and frequency of monetizing transactions, the Company's revenue may fluctuate substantially from period to period.

*Patent administration, litigation and related costs* Patent administration, litigation and related costs are comprised of patent-related maintenance, prosecution, and enforcement costs incurred to maintain the Company's patents. In periods where there is licensing revenue, these costs include costs associated with generating such licensing revenue. Similarly, in periods where patent sales occur, these costs include the remaining net book value and other related costs associated with the sold patents.

*Research and Development* The Company incurs costs associated with research and development activities and expenses the costs in the period incurred. Research and development expenses during the period were immaterial and are included in general and administrative expenses.

*New Accounting Pronouncements* In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2013-11, *Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ( Update No 2013-11 ). Update No. 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. Update No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. Update No. 2013-11 can be applied prospectively to all unrecognized tax benefits with retrospective application permitted. The retroactive adoption of this statement on January 1, 2013, did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2013, the FASB issued Update No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ( Update No. 2013-02 ). Update No. 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. Update No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The adoption of this statement on January 1, 2013, did not have a material impact on the Company's financial position, results of operations or cash flows.



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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. The Company is continuing to develop the Provitro technology and formulating its strategy for commercialization.

The following table summarizes the allocation of the \$16.6 million cash paid to the assets acquired and liabilities assumed on February 21, 2013 (in thousands):

Tangible assets acquired and liabilities assumed:	
Cash	\$ 7,396
Other current and noncurrent assets, net of liabilities	430
Property in service	2,950
Net tangible assets acquired	10,776
Identifiable intangible assets	12,853
Goodwill	516
Fair value of assets acquired	24,145
Fair value of 31.25% noncontrolling interest	(7,545)
Total purchase price	\$ 16,600

These allocations were based on fair value estimates as of the closing date of the acquisition and are included in the Company's consolidated balance sheet at September 30, 2013. The Company used the cost approach to value the \$12.9 million of definite-lived intangible assets related to the developed Provitro technology. The Company has determined that the expected period of benefit of the developed technology is approximately ten years. Future adjustments may modify the purchase accounting during the measurement period which is not to exceed one year from the acquisition date.

The acquisition of Provitro is not material to the Company's results of operations or cash flows.

**4. Asset Acquisitions and Divestitures**

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. During 2012, the Company acquired patent portfolios covering wireless handset and infrastructure technologies, e-commerce, mobile

applications, video delivery, security, and other technologies.

During the nine months ended September 30, 2013, the Company sold patents in several transactions and has included the gross proceeds in revenue. Cost associated with the patents sold, including any remaining net book value, are included in patent administration, litigation and related costs. Certain of the patents sold were subject to an obligation to pay a substantial portion of the net proceeds to a third party. In future periods, these third party payments as a percentage of revenues may vary significantly based on the structure utilized for any given acquisition.

The net effect of the patent acquisitions and divestures, including the issuance of more than twenty additional patents since the beginning of 2013, resulted in the Company, through its subsidiaries, holding more than 1,600 issued patents worldwide, with additional patent applications pending.

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Prior to 2011, the Company was in the business of developing and operating a next generation global mobile satellite communications system, including the research and development of various wireless technologies. In 2011, the Company began divesting its satellite assets, and during the three months ended March 31, 2012, the Company received the final payment associated with the 2011 sale of its interests in DBSD North America, Inc. and its subsidiaries to DISH Network Corporation. Additionally, during the three months ended March 31, 2012, the Company (i) completed the sale of its real property in Brazil for \$5.6 million, (ii) sold its medium earth orbit ( MEO ) satellite assets ( MEO Assets ) that had been in storage for nominal consideration and (iii) transferred its in-orbit MEO satellite ( F2 ) to a new operator who assumed responsibility for all F2 operating costs effective April 1, 2012. On June 29, 2012, the Company transferred its MEO-related international subsidiaries ( International Subsidiaries ) to a liquidating trust (the Liquidating Trust ). All of the property in Brazil, the MEO Assets and substantially all of the assets of the International Subsidiaries had been written off in prior years.

**5. Accrued expenses**

The following table summarizes accrued expenses (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Accrued payroll and related expenses	\$ 3,657	\$ 1,092
Accrued legal, professional and other expenses	2,566	1,290
	<b>\$ 6,223</b>	<b>\$ 2,382</b>

**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 payments as liabilities when they are estimable and it is probable that they will be paid. Other liabilities, both current and noncurrent, that meet these criteria include installment payment obligations at September 30, 2013, arising from property and intangible asset acquisitions of which \$2.0 million is due in 2014 and \$4.0 million is due in 2015. There were no future payment obligations at December 31, 2012.

**7. Commitments and Contingencies**

**Purchase and Lease Commitments** The Company's contractual obligations include installment payment obligations arising from property and intangible asset acquisitions. Additionally, the Company has operating lease agreements for its main office in Kirkland, Washington, and offices in California, Texas, Washington, DC 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.

**ZTE Enforcement Actions** On February 27, 2012, ContentGuard Holdings, Inc. ( ContentGuard ), a subsidiary of Pendrell, filed a patent infringement lawsuit against ZTE Corporation and ZTE (USA) Inc. (collectively ZTE ) in the Eastern District of Virginia, in which ContentGuard alleged that the defendants have infringed and continue to

infringe six of its patents by making, using, selling or offering for sale certain mobile communication and computing devices. The case was transferred to the federal court in the Southern District of California on May 18, 2012. ContentGuard requested a jury trial and is seeking injunctive relief, damages and pre-judgment and post-judgment interest. On February 12, 2013, ZTE filed petitions for inter partes review ( IPR ) of the six asserted patents with the United States Patent and Trademark Office and moved to stay the action in the Southern District of California. ZTE filed IPR petitions on all six patents in suit, challenging the validity of 290 out of 310 claims. Subsequently, the Patent Trial and Appeal Board ( PTAB ) concluded that there was no merit to ZTE's assertions of invalidity on 103 claims. The inter partes review proceedings have been dismissed in their entirety with respect to one patent. The PTAB has scheduled hearings on the remaining five patents in February and March 2014. The Company cannot anticipate the outcome of either the lawsuit or the United States Patent and Trademark Office review, including possible appeals.

On November 19, 2012, ContentGuard s subsidiary, ContentGuard Europe GmbH, filed a patent infringement lawsuit against ZTE Corporation and ZTE Deutschland GmbH in Mannheim Regional Court in Germany, in which ContentGuard Europe GmbH alleged that the defendants have infringed and continue to infringe three of its patents by making, using, selling or offering for sale certain mobile communication and computing devices. An initial hearing on one of the patents was held in May 2013, with a follow up hearing scheduled for November 2013. Hearings on the other two patents are scheduled for January 2014. The Company cannot anticipate the timing or outcome of these suits.

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*J&J Arbitration* In March 2012, the Company asserted claims in arbitration in London against Jay and Jayendra (Pty) ( J&J Group ) to recover approximately \$2.7 million in costs that J&J Group was required to reimburse the Company pursuant to a MEO satellite asset purchase agreement that was signed in April 2011. In May 2012, J&J Group counterclaimed for breach of contract, seeking approximately \$1.2 million, plus attorney fees and costs. The arbitration was held in September 2012, and judgment was awarded in November 2012, in favor of the Company. J&J Group submitted multiple appeals to the UK 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, the Company has not recognized the gain associated with the judgment.

**8. Stock-based Compensation**

The Company records stock-based compensation on stock options, stock appreciation rights, performance stock awards, performance cash awards, restricted stock awards, restricted stock unit awards and other stock awards 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.

The fair value of stock options and stock appreciation rights is estimated on the date of grant using the Black-Scholes option pricing model ( Black-Scholes Model ) based on the single option award approach. The fair value of restricted stock awards and restricted stock units is determined based on the number of shares granted and either the quoted market price of the Company's Class A common stock on the date of grant for service-based and performance-based awards, or the fair value on the date of grant using the Monte Carlo Simulation model ( Monte Carlo Simulation ) for market-based awards. The fair value of stock options, restricted stock awards and restricted stock units with service conditions are amortized to expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of stock appreciation rights, restricted stock awards and restricted stock units with performance conditions deemed probable of being achieved is amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of restricted stock awards and restricted stock units with performance and market conditions are amortized to expense over the requisite service period using the straight-line method of expense recognition.

Stock-based compensation expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Stock options	\$ 1,352	\$ 1,117	\$ 4,313	\$ 3,091
Restricted stock awards (1)	1,531	651	5,688	1,757
<b>Total stock-based compensation expense</b>	<b>\$ 2,883</b>	<b>\$ 1,768</b>	<b>\$ 10,001</b>	<b>\$ 4,848</b>

- (1) Stock-based compensation expense for the three and nine months ended September 30, 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. Stock-based compensation expense for the three and nine

months ended September 30, 2012, includes \$0.2 million and \$0.4 million, respectively, arising from such awards. As of September 30, 2013, and December 31, 2012, \$1.2 million and \$0.6 million, respectively, were accrued for such awards.

***Stock Options and Stock Appreciation Rights*** The Company has granted stock options and stock appreciation rights ( SARs ) to employees, directors, consultants and/or advisors in connection with their service to the Company.

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The Company's stock option and SARs activity for the nine months ended September 30, 2013 is summarized as follows:

		<b>Number of shares of Class A common stock underlying options and SARs</b>	<b>Weighted average exercise price</b>
Outstanding	December 31, 2012	28,485,375	\$ 2.19
Granted (1)		1,142,000	\$ 1.55
Exercised		(98,750)	\$ 1.08
Forfeited		(1,449,689)	\$ 2.21
Outstanding	September 30, 2013	28,078,936	\$ 2.17
Exercisable	September 30, 2013	10,391,831	\$ 2.10
Vested and expected to vest	September 30, 2013	27,305,460	\$ 2.19

(1) The stock options granted during the nine months ended September 30, 2013 have a grant date fair value of \$1.0 million and vest at a rate of 25% per year over four years.

**Restricted Stock** The Company has granted restricted stock awards to employees and consultants in connection with their service to the Company. The Company's stock grants can be categorized as either service-based awards, performance-based awards, and/or market-based awards.

The Company's restricted stock activity for the nine months ended September 30, 2013 is summarized as follows:

		<b>Number of shares of Class A common stock underlying restricted stock awards</b>	<b>Weighted average fair value per share</b>
Unvested	December 31, 2012	9,808,375	\$ 1.84
Granted		792,489	\$ 1.35
Vested		(4,228,280)	\$ 1.53
Forfeited		(442,342)	\$ 1.79
Unvested	September 30, 2013	5,930,242	\$ 1.62

Restricted stock granted during the nine months ended September 30, 2013 consists of the following:

	<b>Number of shares of Class A common stock underlying restricted stock awards granted</b>	<b>Grant date fair value (in thousands)</b>
Service-based	211,250	\$ 327
Market-based	300,000	285
Shares issued as Board of Director compensation	281,239	455
 Total restricted stock granted	 792,489	 \$ 1,067

The service-based restricted stock awards vest at a rate of 25% per year over four years. The market-based restricted stock awards consist of two awards of 150,000 units each which vest only after designated time periods have elapsed and designated stock prices (each a Price Threshold ) have been met. Specifically, for each 150,000 stock award, (i) 25% vests when at least one year has passed and the Price Threshold has been met, (ii) 25% vests when at least two years have passed and the Price Threshold has been met, (iii) 25% vests when at least three years have passed and the Price Threshold has been met, and (iv) the final 25% vests when at least four years have passed and the Price Threshold has been met. The Price Threshold for one of the 150,000 stock awards is an average closing price of \$3.00 for 20 consecutive trading days. The Price Threshold for the other 150,000 stock award is an average closing price of \$6.00 for 20 consecutive trading days.



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During the nine months ended September 30, 2013, 2,780,164 market-based restricted stock awards vested as a result of the Company's achievement of the market condition of an average closing stock price of \$2.00 for 60 consecutive calendar days and 1,448,116 service-based restricted shares vested as a result of the achievement of service targets. Certain holders of the vested restricted stock awards exercised their right to have their awards net-share settled to cover statutory employee taxes related to the vesting of the restricted stock awards. The settlement of these awards resulted in the Company repurchasing and/or cancelling 1,107,901 shares for \$2.7 million. Of this amount, \$1.0 million was charged to retained earnings and \$1.7 million was charged to additional paid in capital.

**9. Deconsolidation of Subsidiaries**

After the sale of the MEO Assets during the first quarter of 2012, the Company's only remaining satellite-related assets were owned by the International Subsidiaries. The Company determined that the most expeditious method of divesting the MEO Assets was a complete disposition of the International Subsidiaries into the Liquidating Trust.

As a result of the transfer of the International Subsidiaries to the Liquidating Trust, the Company no longer has control or significant influence over the operating decisions of the International Subsidiaries. Accordingly, due to the Company's loss of control, it deconsolidated the International Subsidiaries from its consolidated financial operating results effective June 29, 2012.

As a result of the deconsolidation of the International Subsidiaries, the Company recognized a gain of \$48.7 million principally through the elimination of \$61.9 million of liabilities associated with the International Subsidiaries, including liabilities for uncertain tax positions, net of the recognition of cumulative translation adjustment losses associated with the International Subsidiaries of \$12.7 million previously recognized in accumulated other comprehensive loss in stockholders' equity. The following table summarizes the obligations of the International Subsidiaries, excluding \$10.0 million for liabilities related to uncertain tax positions, prior to the transfer to the Liquidating Trust on June 29, 2012 (in thousands):

	<b>June 29, 2012</b>	<b>December 31, 2011</b>
Accrued expenses	\$ 6,568	\$ 6,519
Accrued interest	30,474	28,092
Capital lease obligations	14,881	14,896
	<b>\$ 51,923</b>	<b>\$ 49,507</b>

The Company continued to accrue expenses associated with contractual obligations of the International Subsidiaries until the liabilities were transferred to the Liquidating Trust. During the nine months ended September 30, 2012, the Company recorded general and administrative expenses related to the International Subsidiaries of \$0.3 million. Additionally, the Company recorded \$2.5 million of interest expense related to the contractual obligations of the International Subsidiaries during the nine months ended September 30, 2012.

**10. Gain on settlement of Boeing Litigation**

The Company was in litigation with The Boeing Company, arising out of agreements with Boeing for the development and launch of its MEO satellites and related launch vehicles. In February 2009, the trial court entered judgment in the Company's favor for approximately \$603.2 million.

On April 13, 2012, the California Court of Appeal overturned the judgment. The reversal was the culmination of a three year Court of Appeal process. The Court of Appeal also ordered the Company to reimburse Boeing for its appellate costs, including the cost of an appellate bond, which would have been material.

On June 25, 2012, the Company settled its litigation against Boeing. As part of the settlement, the Company agreed to withdraw its petition for review to the California Supreme Court in exchange for a \$10.0 million payment from Boeing and Boeing's waiver of its right to appellate costs. The settlement agreement and mutual release between the Company and Boeing fully releases and discharges any and all claims between Boeing and the Company. As a result of the settlement agreement, the Company recorded a gain on litigation settlement of \$10.0 million during the three and nine months ended September 30, 2012.

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**Table of Contents****11. Income Taxes**

The Company anticipates it will not have a tax liability for fiscal 2013 and, therefore, has recorded no tax expense for the three and nine months ended September 30, 2013. The Company recorded no tax expense for the three months ended September 30, 2012 and an income tax benefit of \$1.0 million for the nine months ended September 30, 2012, primarily related to the expiration of the statute of limitations applicable to previously recorded uncertain tax positions related to the International Subsidiaries, including interest and penalties. The associated liabilities for uncertain tax positions were eliminated as part of the deconsolidation of the International Subsidiaries on June 29, 2012.

The disposal of the Company's satellite assets generated net operating losses ( NOLs ) of approximately \$2.4 billion, which the Company believes can be carried forward to offset taxable income for up to 20 years, subject to IRS loss recognition provisions. At September 30, 2013, \$2.1 billion of NOLs were immediately available and begin to expire in 2025 and \$0.3 billion were related to the International Subsidiaries and will not be available until five years following the disposition of the International Subsidiaries by the Liquidating Trust.

***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 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 its NOLs are not applicable.

***Personal Holding Company Determination*** A personal holding company is a corporation with five 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 most royalty revenue and other types of passive revenues) 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 the subsidiary's income is subject to additional tests to determine whether the income renders the subsidiary a personal holding company. Due to the realization of subsidiary-level income, Pendrell's consolidated subsidiary ContentGuard may be a personal holding company. The Company does not anticipate any resulting personal holding company tax liability for current or prior years because if it is determined that ContentGuard is a personal holding company, ContentGuard may pay a dividend to its shareholders (including the Company which is a 90.1% shareholder), rather than incur personal holding company tax. Following a personal holding company determination (if such a determination occurs), if future personal holding company revenues at ContentGuard result in net personal holding company income, and if ContentGuard does not distribute to its shareholders a proportionate dividend in the amount of such income, then the net personal holding company income 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 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 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).

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 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 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.

**Table of Contents****12. Income (Loss) per Share**

**Income (Loss) Per Share** Basic income (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 income (loss) per share is calculated by dividing the income (loss) allocable to common shareholders by the weighted average Common Shares outstanding plus dilutive potential 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 income (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, warrants, and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options exercise prices were greater than the average market price of the Company's Class A common shares for the period) because their inclusion would have been antidilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss) attributable to Pendrell	\$ (14,228)	\$ (12,149)	\$ (42,416)	\$ 48,187
Weighted average common shares outstanding	265,809,024	260,935,935	265,533,351	260,829,278
Less: weighted average unvested restricted stock awards	(2,719,253)	(4,194,090)	(3,872,755)	(4,343,259)
Shares used for computation of basic income (loss) per share	263,089,771	256,741,845	261,680,596	256,486,019
Add back: weighted average unvested restricted stock awards and units				5,805,979
Add back: dilutive stock options and stock appreciation rights				1,480,313
Shares used for computation of diluted income (loss) per share(1)	263,089,771	256,741,845	261,680,596	263,772,311
Basic income (loss) per share attributable to Pendrell	\$ (0.05)	\$ (0.05)	\$ (0.16)	\$ 0.19

Diluted income (loss) per share attributable to Pendrell	\$	(0.05)	\$	(0.05)	\$	(0.16)	\$	0.18
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- (1) Stock options, stock appreciation rights, restricted stock awards and units totaling 34,009,178 for the three and nine months ended September 30, 2013, and 28,305,375 and 26,825,062 for the three and nine months ended September 30, 2012 respectively, were excluded from the calculation of diluted income (loss) per share as their inclusion was anti-dilutive. Warrants totaling 3,172,110 were also excluded from the calculation for the three and nine months ended September 30, 2012. These warrants were exercised in November and December of 2012 and are now reflected as shares outstanding.

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes included in our 2012 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**

We 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. Our subsidiaries focus on licensing the IP rights they hold to third parties and pursuing relevant product opportunities. We continuously evaluate our existing investments to determine whether retention or disposition is appropriate, and frequently investigate new investment and business acquisition opportunities. Our operating subsidiaries hold more than 1,600 issued U.S. and foreign patents. More than twenty new patents have been issued to us during 2013.

In the ordinary course of business, we derive operating revenue from IP monetization and commercialization activities, including patent licensing and patent sales. We also advise our clients on various IP strategies and transactions through our advisory subsidiary, for which we earn advisory fees.

During the third quarter of 2013, we were actively engaged in licensing negotiations in connection with our digital media and wireless technologies IP portfolios. While no material licensing transactions were consummated during the third quarter, we believe that we made significant progress in our ongoing licensing and litigation efforts and we continued to advance our new licensing program for the digital cinema industry. We also invested considerable efforts during the third quarter to pursue new investment and acquisition opportunities, both inside and outside the IP market. Due to the complex and technical nature of licensing discussions, we cannot predict if or when license agreements will be completed. We therefore expect that our revenues will continue to be uneven from quarter to quarter.

If licensing negotiations are not successfully concluded on what we believe are fair and reasonable terms, we may initiate litigation to protect the value of our IP. For instance, our litigation against ZTE Corporation is ongoing, through which we intend to obtain fair and reasonable payment for what we believe is ZTE's use of our patented inventions. An initial hearing on one of the patents was held in May 2013 in Mannheim, Germany, with a follow up hearing scheduled for November 2013. Hearings in Germany on the other patents are scheduled for January 2014.

Our IP advisory business, Ovidian Group LLC, continues to advise some of the most respected technology companies in the world on a variety of IP-related matters. The Ovidian team is also actively engaged in the investigation and analysis of IP investment and acquisition opportunities on our behalf, as well as the development and implementation of many aspects of our IP business strategies.

During the first quarter of 2013, we acquired from Nokia Corporation 125 patents and patent applications worldwide, 81 of which have been declared by Nokia to be essential to standards that are applicable to memory and storage technologies used in electronic devices. We have initiated discussions to license these patents to manufacturers, distributors and users of memory and storage technologies, while we continue the innovation efforts of Nokia through a new wholly owned subsidiary.

In addition, in February 2013, we acquired a 68.75% interest in Provitro Biosciences LLC, which continues to develop the Provitro proprietary micro-propagation technology that facilitates the production on a commercial scale of certain plants, notably timber bamboo. We continue to formulate a strategy for commercialization.



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**Table of Contents****2012 Events**

During 2012 we completed our exit from the satellite business, which included (i) the receipt of the final payment associated with the sale of our interests in DBSD North America, Inc. and our subsidiaries to DISH Network Corporation, (ii) the sale of our medium earth orbit ( MEO ) satellite assets ( MEO Assets ) that had been in storage for nominal consideration, (iii) the transfer of our in-orbit MEO satellite ( F2 ) to a new operator who assumed responsibility for all F2 operating costs effective April 1, 2012, (iv) the sale of our property in Brazil, and (v) the June 29, 2012 deconsolidation of our MEO-related international subsidiaries ( International Subsidiaries ). Our exit from the satellite business generated approximately \$2.4 billion in net operating losses ( NOLs ) which, subject to Internal Revenue Code loss recognition provisions, we believe can be carried forward to offset taxable income for up to 20 years.

**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 2012 Form 10-K other than those disclosed below.

*Revenue Recognition.* We derive our operating revenue from IP monetization activities, including patent licensing and patent sales, and from IP consulting services.

Our patent licensing agreements typically provide for the payment of contractually determined upfront license fees representing all or a majority of the revenues that will be generated from such agreements for nonexclusive, nontransferable, limited duration licenses. These agreements typically grant (i) a non-exclusive license to make, sell, distribute, and use certain specified products that read on our patents, (ii) a covenant not to enforce patent rights against the licensee based on such activities, and (iii) the release of the licensee from certain claims.

We sell patents from our portfolios from time to time. These sales are part of our ongoing operations. Consequently, the related proceeds are recorded as revenue. We recognize the revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) amounts are fixed or determinable, and (iv) collectability is reasonably assured.

Fees earned from IP consulting services are generally recognized as the services are performed.

The timing and amount of revenue recognized from IP monetization activities depend on the specific terms of each agreement and the nature of the deliverables and obligations. Agreements that are deemed to contain multiple elements are accounted for under ASC 605-20, *Revenue Recognition - Multiple Element Arrangements*. This guidance requires consideration to be allocated to each element of an agreement that has stand-alone value using the relative fair value method. We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) all material obligations have been substantially performed pursuant to agreement terms or services have been rendered to the customer, (iii) amounts are fixed or determinable, and (iv) collectability is reasonably assured. As a result of the contractual terms of our patent monetization agreements and the unpredictable nature, form and frequency of monetizing transactions, our revenue may fluctuate substantially from period to period.

*Patent administration, litigation and related costs.* Patent administration, litigation and related costs are comprised of patent-related maintenance, prosecution, and enforcement costs incurred to maintain our patents. In periods where there is licensing revenue, these costs include costs associated with generating such licensing revenue. Similarly, in periods where patent sales occur, these costs include the remaining net book value and other related costs associated with the sold patents.

*Research and Development.* We incur costs associated with research and development activities and expense the costs in the period incurred. Research and development expenses during the period were immaterial and are included in general and administrative expenses.

**Table of Contents****New Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2013-11, *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("Update No. 2013-11"). Update No. 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. Update No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. Update No. 2013-11 can be applied prospectively to all unrecognized tax benefits with retrospective application permitted. The retroactive adoption of this statement on January 1, 2013, did not have a material impact on our financial position, results of operations or cash flows.

In February 2013, the FASB issued Update No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ( Update No. 2013-02 ). Update No. 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. Update No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The adoption of this statement on January 1, 2013, did not have a material impact on our financial position, results of operations or cash flows.

**Results of Operations**

The activities of Provitro from the acquisition date through September 30, 2013, have been included in our condensed consolidated statement of operations for the three and nine months ended September 30, 2013. The assets and liabilities of Provitro were measured at fair value as of the acquisition date and included in our condensed consolidated balance sheet at September 30, 2013. The acquisition did not have a material impact on our financial position, results of operations or cash flows.

The following table is provided to facilitate the discussion of our results of operations for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenue	\$ 781	\$ 1,023	\$ 12,575	\$ 25,515
Patent administration, litigation and related costs	1,912	1,360	13,860	4,769
General and administrative expenses	6,933	7,109	21,738	22,464
Stock-based compensation	2,883	1,768	10,001	4,848
Amortization of intangibles	4,090	3,589	11,805	9,882
Interest income	24	58	104	178
Interest expense	63		129	2,483
Gain on deconsolidation of subsidiaries				48,685
Gain on settlement of Boeing litigation				10,000
Gain (loss) associated with disposition of assets		(4)		5,599
Other income (expense)	5	220	(40)	1,584
Income tax benefit				1,004

*Revenue.* Revenue of \$0.8 million for the three months ended September 30, 2013 decreased by \$0.2 million, or 24%, as compared to \$1.0 million for the three months ended September 30, 2012.

Revenue of \$12.6 million for the nine months ended September 30, 2013 decreased by \$12.9 million, or 51%, as compared to \$25.5 million for the nine months ended September 30, 2012, primarily due to the absence of licensing revenue, partially offset by sales of certain patent portfolios that were not part of existing licensing programs.

*Patent Administration, Litigation and Related Costs.* Patent administration, litigation and related costs of \$1.9 million for the three months ended September 30, 2013 increased by \$0.5 million, or 41%, as compared to \$1.4 million for the three months ended September 30, 2012, primarily due to an increase in patent maintenance and prosecution expenses associated with the increased number of patents owned in 2013.

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Patent administration, litigation and related costs of \$13.9 million for the nine months ended September 30, 2013 increased by \$9.1 million, as compared to \$4.8 million for the nine months ended September 30, 2012. The increase was primarily due to an obligation to pay \$7.4 million of the net proceeds from certain patent sales to a third party. The remaining \$1.7 million increase was due to patent maintenance and prosecution expenses associated with the increased number of patents owned in 2013 as compared to 2012.

In future periods, costs of patents sold as a percentage of revenues may vary significantly based on the structure utilized to acquire the related patents.

*General and Administrative Expenses.* General and administrative expenses are primarily comprised of personnel costs, legal and professional fees, acquisition investigation costs and general office related costs.

General and administrative expenses of \$6.9 million for the three months ended September 30, 2013 decreased by \$0.2 million, or 2%, as compared to \$7.1 million for the three months ended September 30, 2012. The decrease was primarily due to (i) \$0.6 million reduction in legal expenses, primarily due to fees incurred in the Jay and Jayendra (Pty) ( J&J Group ) arbitration in 2012 and (ii) \$0.4 million reduction in consulting and other professional fees, partially offset by \$0.8 million related to operating expenses of Provitro, which we acquired in February 2013.

General and administrative expenses of \$21.7 million for the nine months ended September 30, 2013 decreased by \$0.8 million, or 3%, as compared to \$22.5 million for the nine months ended September 30, 2012. The decrease was primarily due to (i) \$2.2 million reduction in legal expenses, primarily due to fees incurred in the Boeing litigation and J&J Group in 2012, (ii) a \$0.9 million reduction in professional fees and other office related expenses, and (iii) \$0.3 million of costs incurred by the International Subsidiaries in 2012 partially offset by (a) \$2.2 million related to operating expenses of Provitro and (b) \$0.4 million of acquisition related expenses associated with the Provitro acquisition.

*Stock-based Compensation.* Stock-based compensation of \$2.9 million for the three months ended September 30, 2013 increased by \$1.1 million, or 63%, as compared to \$1.8 million for the three months ended September 30, 2012. The increase was due to \$0.5 million related to the addition of executives to the Pendrell team and the granting of stock options and restricted stock to employees during 2012 and \$0.6 million of incremental expense due to the August 2012 modification of restricted stock, which added alternative vesting criteria to 3,175,000 shares of restricted stock previously awarded.

Stock-based compensation of \$10.0 million for the nine months ended September 30, 2013 increased by \$5.2 million, as compared to \$4.8 million for the nine months ended September 30, 2012. The increase was due to \$3.5 million related to the addition of executives to the Pendrell team and the granting of stock options and restricted stock to employees during 2012 and \$1.7 million of incremental expense due to the August 2012 modification of restricted stock.

*Amortization of Intangible Assets.* Amortization of intangible assets of \$4.1 million for the three months ended September 30, 2013 increased by \$0.5 million, or 14%, as compared to \$3.6 million for the three months ended September 30, 2012, primarily due to the acquisition of intangible assets during the first quarter of 2013.

Amortization of intangible assets of \$11.8 million for the nine months ended September 30, 2013 increased by \$1.9 million, or 19%, as compared to \$9.9 million for the nine months ended September 30, 2012, primarily due to the acquisition of intangible assets during 2012 and the first quarter of 2013.

*Interest Income.* Interest income for the three and nine months ended September 30, 2013 and 2012 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, 2013 consists of interest expense resulting from the installment payment obligations associated with property and intangible asset acquired during 2013. Interest expense for the nine months ended September 30, 2012 consisted primarily of interest costs resulting from capital lease obligations associated with certain of our MEO gateway sites prior to their deconsolidation as a result of the transfer of the International Subsidiaries to the Liquidating Trust on June 29, 2012.

*Gain on Deconsolidation of Subsidiaries.* During the nine months ended September 30, 2012, we transferred our International Subsidiaries to the Liquidating Trust and recognized a gain of \$48.7 million on deconsolidation as a result of eliminating \$61.9 million of liabilities associated with the International Subsidiaries, including liabilities for uncertain tax positions, net of cumulative translation adjustment losses of \$12.7 million related to the International Subsidiaries.

*Gain on Settlement of Boeing Litigation.* On June 25, 2012, we settled our litigation against Boeing in exchange for \$10.0 million, which we reflected as a gain on litigation settlement for the nine months ended September 30, 2012.

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*Gain Associated with Disposition of Assets.* During the nine months ended September 30, 2012, we recognized a \$5.6 million gain associated with the disposition of real property and MEO satellite related gateway equipment we owned in Brazil.

*Other Income (expense).* Other income (expense) for the three and nine months ended September 30, 2013, was due to gains (losses) on foreign currency transactions.

Other income for the three months ended September 30, 2012, was primarily due to gains on foreign currency transactions. Other income for the nine months ended September 30, 2012 was due to the release of a \$0.8 million liability associated with our prior ownership of the MEO Assets (sold during the three months ended March 31, 2012) and gains on foreign currency transactions.

*Income Tax Benefit.* We anticipate that we will not have a tax liability for fiscal 2013 and, therefore, we recorded no tax expense in the three and nine months ended September 30, 2013. Income tax benefit of \$1.0 million for the nine months ended September 30, 2012, was primarily due to the expiration of the statute of limitations associated with previously recorded uncertain tax positions related to the International Subsidiaries, including interest and penalties. The associated liabilities for uncertain tax positions were eliminated as part of the deconsolidation of the International Subsidiaries on June 29, 2012.

**Liquidity and Capital Resources**

*Overview.* As of September 30, 2013, we had cash and cash equivalents of \$191.0 million. Our primary expected cash needs for the next twelve months include ongoing operating costs associated with commercialization of our IP assets, expenses associated with the operations of Provitro, 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 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, 2013 and 2012 (in thousands).

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Net cash provided by (used in):		
Operating activities	\$ (8,672)	\$ (2,898)
Investing activities	(11,498)	(13,725)
Financing activities	(2,555)	520
Effect of foreign exchange rate changes on cash		725
Net decrease in cash and cash equivalents	(22,725)	(15,378)
Cash and cash equivalents beginning of period	213,753	230,377

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Cash and cash equivalents	end of period	\$ 191,028	\$ 214,999
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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 Nokia's portfolio of memory and storage technology patents, the acquisition of a controlling interest in Provitro and general corporate expenditures.

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 our acquisition of Ovidian in June 2011, 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, 2012, the \$2.9 million of cash used in operating activities consisted primarily of net income of \$48.1 million adjusted for various non-cash items, including (i) the gain on the deconsolidation of subsidiaries of \$48.7 million, (ii) the reclassification of the \$5.6 million gain on the sale of our real property in Brazil to



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investing activities, (iii) \$9.9 million of amortization expense associated with patents and other intangibles, (iv) \$4.8 million of stock-based compensation expense, and (v) \$2.3 million of amortized prepaid compensation expense associated with our acquisition of Ovidian. Net income was further adjusted by changes in assets and liabilities, including (i) a \$9.6 million increase in accounts receivable, (ii) a \$6.1 million decrease in other accrued expenses, (iii) a \$1.7 million increase in accrued interest payable, and (iv) a \$0.7 million increase in accounts payable.

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, 2012, the \$13.7 million of cash used by investing activities was primarily due to the acquisition of various assets, partially offset by cash received from DISH Network and from the sale of real property in Brazil.

For the nine months ended September 30, 2013, 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. During the nine months ended September 30, 2012, proceeds from the exercise of stock options exceeded the amount paid for statutory taxes related to vesting of restricted stock awards.

*Contractual Obligations.* Our primary contractual obligations relate to installment purchases of property and intangible assets as well as operating lease agreements for our main office location in Kirkland, Washington, and other offices in California, Texas and Finland. Our contractual obligations as of September 30, 2013 were as follows (in millions):

	Years ending December 31,					2018 and Thereafter
	Total	2013	2014-2015	2016-2017		
Purchase obligations	\$ 6.0	\$ 6.0	\$ 6.0	\$ 6.0	\$ 6.0	\$ 6.0
Operating lease obligations	3.4	0.2	1.4	1.2	0.6	0.6
Total	\$ 9.4	\$ 0.2	\$ 7.4	\$ 1.2	\$ 0.6	\$ 0.6

**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, 2013, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of \$191.0 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 20 basis points.

	<b>September 30, 2013</b>	
	<b>(in thousands)</b>	
Cash	\$	24,526
Money market funds		166,502
	\$	191,028

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

**Item 4. Controls and Procedures**

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

Our chief executive officer and chief financial officer have evaluated our disclosure controls and procedures as of September 30, 2013 and have concluded that these disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act (as defined in Rules 13a-15(e) and 15d-15(e)) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

There were no changes in our internal control over financial reporting during the third quarter of 2013 that materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

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

On February 27, 2012, ContentGuard Holdings, Inc. ( ContentGuard ), a subsidiary of Pendrell, filed a patent infringement lawsuit against ZTE Corporation and ZTE (USA) Inc. (collectively ZTE ) in the Eastern District of Virginia, in which ContentGuard alleged that the defendants have infringed and continue to infringe six of its patents by making, using, selling or offering for sale certain mobile communication and computing devices. The case was transferred to the federal court in the Southern District of California on May 18, 2012. ContentGuard requested a jury trial and is seeking injunctive relief, damages and pre-judgment and post-judgment interest. On February 12, 2013, ZTE filed petitions for inter partes review ( IPR ) of the six asserted patents with the United States Patent and Trademark Office and moved to stay the action in the Southern District of California. ZTE filed IPR petitions on all six patents in suit, challenging the validity of 290 out of 310 claims. Subsequently, the Patent Trial and Appeal Board ( PTAB ) concluded that there was no merit to ZTE's assertions of invalidity on 103 claims. The inter partes review proceedings have been dismissed in their entirety with respect to one patent. The PTAB has scheduled hearings on the remaining five patents in February and March 2014. We cannot anticipate the outcome of either the lawsuit or the United States Patent and Trademark Office review, including possible appeals.

On November 19, 2012, ContentGuard's subsidiary, ContentGuard Europe GmbH, filed a patent infringement lawsuit against ZTE Corporation and ZTE Deutschland GmbH in Mannheim Regional Court in Germany, in which ContentGuard Europe GmbH alleged that the defendants have infringed and continue to infringe three of its patents by making, using, selling or offering for sale certain mobile communication and computing devices. An initial hearing on one of the patents was held in May 2013, with a follow-up hearing scheduled for November 2013. Hearings on the other two patents are scheduled for January 2014. We cannot anticipate the timing or outcome of these suits.

*J&J Arbitration*

In March 2012, we asserted claims in arbitration in London against Jay and Jayendra (Pty) ( J&J Group ), a South African corporation, to recover approximately \$2.7 million in costs that J&J Group was required to reimburse to us pursuant to a MEO satellite asset purchase agreement that was signed in April 2011. In May 2012, J&J Group counterclaimed for breach of contract, seeking approximately \$1.2 million, plus attorney fees and costs. The arbitration was held in September 2012, and judgment was awarded in November 2012, in our favor for approximately \$4.0 million, which included our requested reimbursement plus costs and fees of approximately \$1.3 million. J&J Group submitted multiple appeals to the UK 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 cannot anticipate the timing or outcome of the 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 Licensing Activities***

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

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

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### ***If we fail to expand our portfolios, revenue opportunities will be limited.***

Patents have finite lives. Therefore, 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, 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. We expect to incur significant marketing, legal and sales expenses prior to entering into license agreements and generating license revenues. We will also 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 stream begins. 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.***

If our efforts to educate prospective licensees on the benefits of a license arrangement are unsuccessful, we may need to pursue litigation or other enforcement action to protect our intellectual property rights. We may also need 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 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.***

A substantial portion of our revenues are 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.

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

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

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

Our assets include patents that are integral to our business and revenues. Prospective licensees or competitors may challenge the validity, scope, enforceability and ownership of our patents. Their challenges may include review requests in the relevant patent and trademark office. 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, which could negatively impact our stock price, our results of operations, our cash flows, our business and our financial position.

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

We intend to 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 patents before other competing technologies are developed or introduced into the market.

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

Patent laws may continue to change, and may alter the historically consistent protections afforded to owners of patent rights. Such changes may not be advantageous for us and may make it more difficult to obtain adequate patent protection to enforce our patents against parties using our inventions without a license. 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 uniform and 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 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 patent assets or other assets or businesses we acquire.***

We purchase patents and related IP rights, from which we intend to generate a return on our investment. We estimate the value of the IP prior to acquisition, using both objective and subjective methodologies. We also investigate the originality of inventions represented by the patents and patent applications that we acquire. If we over-estimate the value of the acquired IP, or if one or more of the underlying inventions have been described in prior art, we may not generate desired returns on our investment, or we may need to adjust the value of the IP to fair value and record a corresponding impairment charge, either of which could adversely affect our results of operations and our financial position. In severe cases, prior art may render a patent worthless.

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

Even if we accurately value the IP that we purchase, we must succeed in licensing or otherwise monetizing the IP in order to generate a return on our investment. Our success in licensing and otherwise monetizing IP 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. If we do not successfully license or monetize the IP we acquire, we may not generate desired returns on our investment, or we may need to adjust the value of the IP 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 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 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.

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***Risks Related to our Operations***

***Our financial and operating results may be uneven.***

Our quarterly operating results may fluctuate substantially, depending upon the monetization activity in any given period. As such, our operating results are difficult to predict, and 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 ability to achieve our revenue goals 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, revenue recognition principles, and changes in accounting policies.

***Our revenues 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 expand the reach and scope of our IP business. We have also incurred, and will 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, engineers, consultants, lawyers and finance personnel, 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 services could result in professional liability that may damage our reputation.***

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

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

The governing documents for subsidiaries which we do not wholly own describe certain actions that require unanimous consent of their respective shareholders. 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, it is possible that 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.***

For the foreseeable future, we expect to rely on payments from clients and licensees and existing cash reserves to finance our operations. However, if we deploy a significant portion of our capital on future acquisitions, or if we 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, and may dilute our existing shareholders. 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.

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***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 MEO satellite assets and the divestiture of our International Subsidiaries into the Liquidating Trust. We intend to carry forward these losses to offset current and 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 an ownership change could occur.

***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 our revenue in jurisdictions that impose revenue-based taxes on parties who receive payments from licensees or buyers located within their boundaries. Federal personal holding company tax may be payable on ContentGuard net personal holding company income if ContentGuard is a personal holding company and if such income is not distributed to ContentGuard's shareholders, and may be payable on Pendrell's future net personal holding company income if Pendrell becomes a personal holding company. The personal holding company tax is currently 20% of personal holding company income 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. 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.

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

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 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 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 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. Management believes these purchases were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) as a transaction not involving any public offering. The number of investors was limited, the investors were either accredited or otherwise qualified and had access to material information about the registrant.

<b>Date</b>	<b>Title</b>	Number of shares
July 5, 2013	Class A common stock	1,380
August 8, 2013	Class A common stock	1,376

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**Item 6. Exhibits**

- Ex. 31.1 Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
- Ex. 31.2 Certification of the principal accounting and financial officer required by Rule 13a-14(a) or Rule 15d-14(a).
- Ex. 32.1 Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350).
- Ex. 101 The following financial information from Pendrell Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 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 Comprehensive Income (Loss), (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: November 1, 2013

By:

/s/ DAVID H. RINN

**David H. Rinn**

**Vice President and Chief Financial Officer**

**Authorized Officer and Principal Financial  
Officer**