Pendrell Corp
Form 10-Q
May 01, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from __________ to __________

Commission File Number 001-33008

PENDRELL CORPORATION

(Exact name of registrant as specified in its charter)

Washington	**98-0221142**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer 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 x 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 x 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	x
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 x.

As of April 24, 2015, the registrant had 212,879,250 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 months ended March 31, 2015

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Pendrell Corporation

Condensed Consolidated Balance Sheets

(In thousands, except share data, unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 165,286	$ 168,793
Accounts receivable	69	131
Other receivables net of reserve $2,750 in both periods	214	69
Prepaid expenses and other current assets	953	774
Total current assets	166,522	169,767
Property in service net of accumulated depreciation of $1,306 and $1,227, respectively	3,258	3,372
Other assets	54	54
Intangible assets net of accumulated amortization of $46,893 and $43,567, respectively	107,606	109,702
Goodwill	21,209	21,209
Total	$ 298,649	$ 304,104
LIABILITIES, SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS		
Current liabilities:		
Accounts payable	$ 549	$ 281
Accrued expenses	5,050	5,824
Other liabilities	3,135	6,891
Total current liabilities	8,734	12,996
Deferred tax liability	1,521	1,521
Total liabilities	10,255	14,517
Commitments and contingencies (Note 7)		
Shareholders equity and noncontrolling interests:		
Preferred stock, $0.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		

Class A common stock, $0.01 par value, 900,000,000 shares authorized 270,558,832 and 270,745,381 shares issued, and 212,789,940 and 212,976,489 shares outstanding	2,130	2,132
Class B convertible common stock, $0.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	537	537
Additional paid-in capital	1,954,168	1,952,880
Accumulated deficit	(1,671,694)	(1,671,135)
Total Pendrell shareholders equity	285,141	284,414
Noncontrolling interests	3,253	5,173
Total shareholders equity and noncontrolling interests	288,394	289,587
Total	$ 298,649	$ 304,104

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

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Pendrell Corporation

Condensed Consolidated Statements of Operations

(In thousands, except share and per share data, unaudited)

	Three months ended March 31, 2015	2014
Revenue	$ 25,245	$ 38,135
Operating expenses:		
Cost of revenues	9,112	13,796
Patent administration and related costs	1,127	1,398
Patent litigation	4,557	2,038
General and administrative	5,129	7,849
Stock-based compensation	648	1,881
Amortization of intangible assets	3,596	4,039
Total operating expenses	24,169	31,001
Operating income	1,076	7,134
Interest income	31	20
Interest expense	(41)	(64)
Gain on contingency	1,748	
Other income (expense)	(4)	(5)
Income before income taxes	2,810	7,085
Income taxes	(4,125)	(6,270)
Net income (loss)	(1,315)	815
Net loss attributable to noncontrolling interest	(756)	(915)
Net income (loss) attributable to Pendrell	$ (559)	$ 1,730
Basic income (loss) per share attributable to Pendrell (1)	$	$ 0.01
Diluted income (loss) per share attributable to Pendrell (1)	$	$ 0.01
Weighted average shares outstanding used to compute basic income (loss) per share	265,435,018	263,768,676
Weighted average shares outstanding used to compute diluted income (loss) per share	265,435,018	272,941,964

(1) Per share amounts for the three months ended March 31, 2015 are less than $0.01.

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

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Pendrell Corporation

Condensed Consolidated Statements Changes in Shareholders Equity

(In thousands, except share data, unaudited)

	Common stock Class A shares	Class B shares	Amount	Additional paid-in capital	Accumulated deficit	Shareholders equity	Noncontrolling interests	Total
Balance, December 31, 2013	212,451,224	53,660,000	$ 2,663	$ 1,941,818	$ (1,619,993)	$ 324,488	$ 12,305	$ 336,793
Vesting of Class A common stock issued for Ovidian acquisition				743		743		743
Issuance of Class A common stock from exercise of stock options	16,875			16		16		16
Class A common stock withheld at vesting to cover statutory tax obligations	(128,295)		(1)	(189)	(62)	(252)		(252)
Stock-based compensation and issuance of restricted stock, net of forfeitures	11,741			1,802		1,802		1,802
Net income (loss)					1,730	1,730	(915)	815
Balance, March 31, 2014	212,351,545	53,660,000	$ 2,662	$ 1,944,190	$ (1,618,325)	$ 328,527	$ 11,390	$ 339,917
Balance, December 31, 2014	212,976,489	53,660,000	$ 2,669	$ 1,952,880	$ (1,671,135)	$ 284,414	$ 5,173	$ 289,587

Class A common stock withheld at vesting to cover statutory tax obligations	(37,180)		(1)	(39)		(40)		(40)
Stock-based compensation and issuance of restricted stock, net of forfeitures	(149,369)		(1)	563		562		562
Purchase of noncontrolling interest in Provitro Biosciences LLC				764		764	(1,164)	(400)
Net income (loss)					(559)	(559)	(756)	(1,315)
Balance, March 31, 2015	212,789,940	53,660,000	$ 2,667	$ 1,954,168	$ (1,671,694)	$ 285,141	$ 3,253	$ 288,394

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

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Pendrell Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating activities:		
Net income (loss) including noncontrolling interests	$ (1,315)	$ 815
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation	648	1,881
Amortization of intangibles	3,596	4,039
Depreciation	118	132
Amortization of prepaid compensation from Ovidian Group acquisition		691
Non-cash cost of patents monetized		558
Loss associated with the abandonment and/or disposition of patents	501	441
Other	43	64
Other changes in certain assets and liabilities:		
Accounts receivable	62	(37,698)
Prepaid expenses and other current/non-current assets	(324)	160
Accounts payable	268	781
Accrued expenses and other current/non-current liabilities	(659)	18,929
Net cash provided by (used in) operating activities	2,938	(9,207)
Investing activities:		
Purchases of property and intangible assets	(2,005)	(44)
Net cash used in investing activities	(2,005)	(44)
Financing activities:		
Proceeds from exercise of stock options		16
Payment of statutory taxes for stock awards	(40)	(252)
Payment of accrued obligations for purchased intangible assets	(4,000)	(2,000)
Purchase of noncontrolling interest in Provitro Biosciences LLC	(400)	
Net cash used in financing activities	(4,440)	(2,236)
Net decrease in cash and cash equivalents	(3,507)	(11,487)
Cash and cash equivalents beginning of period	168,793	184,567
Cash and cash equivalents end of period	$ 165,286	$ 173,080

Supplemental disclosures:				
Income taxes paid	$	4,125	$	

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

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Pendrell Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Nature of Business

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

2. Basis of Presentation

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

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

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

Segment Information The Company operates in and reports on one segment (IP management). Operating segments are based upon the Company s internal organization structure, the manner in which its operations are managed, and the criteria used by its Chief Operating Decision Maker. Substantially all of the Company s revenue is generated by operations located within the United States, and the Company does not have any long-lived assets located in foreign countries.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

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

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

3. Provitro

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

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

4. Intangible Assets Patents

During the three months ended March 31, 2014, the Company sold certain patents and has included the gross proceeds in revenue. No patents were sold during the three months ended March 31, 2015. Costs associated with the patents sold, including remaining net book value, obligations to third parties for revenue share and success fees are included in cost of revenues. In future periods, these costs as a percentage of revenues may vary significantly based on the structure and terms under which we acquired the patents that we sell.

For the three months ended March 31, 2015 and 2014, the Company recognized $0.5 million and $0.4 million of losses, respectively, on the abandonment of certain patents that were not part of existing licensing programs or for which the Company chose to no longer allocate resources to their maintenance and enforcement. Costs associated with the abandonment of patents including any remaining net book value are included in patent administration and related costs.

In February 2015, the Company further enhanced its existing portfolios for an additional $2.0 million. No patents were purchased during the three months ended March 31, 2014.

As of March 31, 2015, the Company, through its subsidiaries, continues to hold more than 1,200 issued patents worldwide, with additional patent applications pending.

5. Accrued expenses

The following table summarizes accrued expenses (in thousands):

	March 31, 2015	December 31, 2014

Accrued payroll and related expenses	$ 1,553	$ 2,570
Accrued legal, professional and other expenses	3,497	3,254
	$ 5,050	$ 5,824

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6. Other liabilities

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

	March 31, 2015	December 31, 2014
Installment payment obligation	$	$ 4,000
Restricted stock awards	2,463	2,254
Other	672	637
	$ 3,135	$ 6,891

7. Commitments and Contingencies

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

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

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

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

IPR and CBM Petitions by ContentGuard Defendants In December 2014, Apple filed with the United States Patent and Trademark Office (the USPTO) twenty-nine inter partes review (IPR) petitions and three covered business method (CBM) petitions, through which Apple is challenging the validity of all nine patents asserted in the Amazon Litigation. Also in December 2014, Google filed three CBM petitions, challenging the validity of three of the nine asserted patents. In March 2015, two of Apple s CBM petitions were terminated in view of two substantially identical IPR petitions. In April 2015, ContentGuard filed its preliminary owner responses to all remaining petitions. The USPTO s Patent Trial and Appeal Board (PTAB) will decide in the coming months whether to initiate review proceedings on some or all of the petitions and will administer and hear argument in any initiated proceedings. The Company is unable to predict whether or not proceedings will be initiated, or whether or not such proceedings will impact the timing or outcome of our claims against the ContentGuard Defendants.

ZTE IPRs In early 2012, ContentGuard and its subsidiaries filed lawsuits in United States and German courts, alleging that ZTE Corporation, ZTE (USA) Inc. and ZTE Deutschland GmbH (collectively ZTE) infringed and continue to infringe ContentGuard patents by making, using, selling or offering for sale certain mobile communication and computing devices. ZTE subsequently filed IPR petitions with the USPTO, challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. The PTAB terminated proceedings with respect to two patents, both of which emerged with valid patent claims. ZTE s claims against the other four patents went to trial. Following trial, the PTAB rejected ZTE s remaining challenges, and confirmed the validity of all claims in the four patents. ZTE s time for appeal expired with no appeals filed. As a result, the decisions of the PTAB, as against ZTE, are now final. Nonetheless, all four affirmed patents have been challenged in new IPRs filed by Apple, as described in the paragraph above. The Company is unable to predict whether, and to what extent, the PTAB will allow Apple to challenge these previously affirmed patents in new proceedings.

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

J&J Collection In November 2012, the Company obtained an arbitration judgment in the U.K. against Jay and Jayendra (Pty), a South African corporation (J&J Group) for approximately $4.0 million. J&J Group submitted multiple appeals to the U.K. courts, the last of which was rejected in July 2013. In December 2014, the Company obtained an enforcement judgment against J&J Group from a South African court. J&J Group s time to appeal the enforcement judgment expired with no appeals filed, and the Company has commenced action to enforce the judgment. Due to the uncertainty of collection, the Company has not recognized the gain associated with the judgment. The Company is unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

8. Stock-based Compensation

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

Stock-based compensation expense included in the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014 was as follows (in thousands):

	Three months ended March 31,	
	2015	**2014**
Stock options	$ 462	$ 1,304
Restricted stock awards (1)	186	577
Total stock-based compensation expense	$ 648	$ 1,881

(1) Stock-based compensation expense includes $0.2 million related to 250,000 Class A common stock restricted stock awards that are required to be treated as a liability for the three months ended March 31, 2015 and 2014. As of March 31, 2015 and December 31, 2014, $2.5 million and $2.3 million, respectively, were accrued for such awards.

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Stock Options and Stock Appreciation Rights The Company s stock option and SARs activity for the three months ended March 31, 2015 is summarized as follows:

	Number of shares of Class A common stock underlying options and SARs	Weighted average exercise price
Outstanding December 31, 2014	25,554,026	$ 1.96
Forfeited	(846,752)	$ 1.64
Outstanding March 31, 2015 (1)	24,707,274	$ 1.97
Exercisable March 31, 2015 (1)	17,690,415	$ 1.78
Vested and expected to vest March 31, 2015 (1)	24,406,423	$ 1.97

(1) In connection with the departure of the Company s former CEO, Mr. Benjamin G. Wolff, in November 2014, the exercise period for Mr. Wolff s vested stock options was extended until December 15, 2015. Excluding Mr. Wolff s 8,927,500 vested options with a weighted average exercise price of $1.42 and a weighted average remaining life of 0.71 years, the weighted average exercise price for all other outstanding, exercisable, and vested and expected to vest options and stock appreciation rights, is as follows:

	Number of Options/SARs	Weighted average exercise price
Outstanding at March 31, 2015	15,779,774	$ 2.28
Exercisable at March 31, 2015	8,762,915	$ 2.15
Vested and expected to vest at March 31, 2015	15,478,923	$ 2.29

Restricted Stock The Company s restricted stock activity for three months ended March 31, 2015 is summarized as follows:

	Number of shares of Class A common stock underlying restricted stock awards	Weighted average fair value per share
Unvested December 31, 2014	2,559,514	$ 1.67
Granted (1)	88,131	$ 1.38

Vested	(208,506)	$	1.89
Forfeited	(330,003)	$	1.68
Unvested March 31, 2015	2,109,136	$	1.63

(1) Represents shares issued to the Company s Board of Directors as compensation for service. These awards have a grant date fair value of $0.1 million and vest upon issuance.

9. Gain on Contingency

During 2012, as part of the Company s exit from the satellite business, the Company sold its partially completed medium earth orbit (MEO) satellites, related equipment, and contracts (collectively, the MEO Assets). Under the sales agreement, the Company is entitled to a substantial portion of any proceeds that the buyer generates from the resale of the MEO Assets. In January 2015, the buyer resold the MEO Assets and as a result, the Company is entitled to receive up to $6.0 million, contingent upon the buyer s receipt of payment. On January 14, 2015, the buyer received a portion of the sales proceeds, resulting in the Company s receipt of approximately $1.7 million, and a corresponding gain on contingency for the three months ended March 31, 2015. Due to the uncertainty of collection, the Company has not recognized the gain that may be generated if the Company receives additional proceeds from the sale.

10. Income Taxes

The Company recorded a tax provision of $4.1 million and $6.3 million for the three months ended March 31, 2015 and 2014, respectively, related to foreign taxes withheld on revenue generated from license agreements executed with third party licensees domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. However, due to uncertainty regarding the Company s ability to utilize the deduction or credit resulting from the foreign withholding, at March 31, 2015 and 2014, the Company established a full valuation allowance against the related deferred tax asset. The Company anticipates that it will not have a U.S. federal income tax liability for fiscal 2015.

Personal Holding Company Determination The Internal Revenue Code imposes an additional tax on the undistributed income of personal holding companies. A personal holding company is a corporation with five or fewer individual shareholders whose ownership exceeds 50% of the corporation s outstanding shares, measured by share value (Concentrated Ownership), and which generates personal holding company income (PHCI) that constitutes 60% or more of its adjusted ordinary gross income. Broadly, PHCI includes such things as dividends, interest, rents and royalties. 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 significant number of shares held by the Company s largest shareholders and the type of income that the Company generates, the Company must continually assess share ownership of the Company and its consolidated subsidiary ContentGuard to determine whether or not there is Concentrated Ownership of either corporation.

The Company does not anticipate any PHC tax liability from operations for the three months ended March 31, 2015. If either Pendrell or ContentGuard is determined to be a PHC in the future, generates net PHCI, and does not distribute to its shareholders a proportionate dividend in the full amount of the net PHCI, then the undistributed net PHCI will be taxed (at 20% under current law).

11. 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 potential dilutive Common Shares. Prior to the satisfaction of vesting conditions, unvested restricted stock awards are considered contingently issuable and are excluded from weighted average Common Shares outstanding used for computation of basic 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, and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options exercise prices were greater than the average market price of the Company s Class A common shares for the period) because their inclusion would have been anti-dilutive.

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

	Three months ended March 31,	
	2015	**2014**
Net income (loss) attributable to Pendrell	$ (559)	$ 1,730
Weighted average common shares outstanding	266,488,886	266,028,239
Less: weighted average unvested restricted stock awards	(1,053,868)	(2,259,563)

Shares used for computation of basic income (loss) per share	265,435,018	263,768,676
Add back: weighted average unvested restricted stock awards and units		5,226,453
Add back: dilutive stock options and stock appreciation rights		3,946,835
Shares used for computation of diluted income (loss) per share (1)	265,435,018	272,941,964
Basic income (loss) per share attributable to Pendrell (2)	$	$ 0.01
Diluted income (loss) per share attributable to Pendrell (2)	$	$ 0.01

(1) Stock options, stock appreciation rights, restricted stock awards and units totaling 26,816,410 and 9,847,290 for the three months ended March 31, 2015 and 2014, respectively, were excluded from the calculation of diluted loss per share as their inclusion was anti-dilutive.

(2) Per share amounts for the three months ended March 31, 2015 are less than $0.01.

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

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

Special Note Regarding Forward-Looking Statements

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

Overview

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

During the first quarter of 2015, we licensed our memory and storage patents to SK hynix Inc. to permit the manufacture and distribution of embedded Multimedia Cards (eMMC). The license covers more than 145 patents and patents pending, and enables SK hynix to use both standards essential and implementation technologies. We have now completed three license agreements since acquiring the bulk of our memory and storage patent portfolio from Nokia in 2013, from which we received license fees and are entitled to future royalties. As a result of a license agreement signed in the first quarter of 2015, we expect to record additional royalty revenue in the second quarter of 2015. We believe the pace at which we have concluded these licenses reflects the importance of our inventions, our leadership in the development of breakthrough next-generation memory solutions, and our commitment to entering into licenses on a reasonable and non-discriminatory basis. As memory and storage components become smaller and more sophisticated, our team of Finnish innovators continue to invent new technologies.

We also continue to pursue and advance our other licensing programs. However, the programs supported by our DRM patents (digital media and digital cinema) have been slowed by ContentGuard s ongoing litigation with Amazon, Apple, DirecTV, Google, Huawei, HTC, Motorola Mobility and Samsung (the ContentGuard Defendants), which ContentGuard felt compelled to file after negotiations with ContentGuard Defendants did not yield negotiated license agreements. In March 2015, the federal judge presiding over the litigation issued claim construction rulings, in which he interpreted the language in ContentGuard s patents in a manner that fully preserves the breadth of ContentGuard s patented technologies. The claim construction ruling establishes a solid definitional framework for the upcoming jury trials, which remain scheduled for September 2015. Progress in other licensing negotiations is difficult to predict while the litigation remains unresolved.

ContentGuard s claims also elicited IPR petitions and CBM petitions from Apple and Google. Two of those 35 petitions have already been terminated, and we have filed preliminary responses to the remaining 33 petitions. Of those remaining petitions, 19 are targeted against the patents that previously withstood challenges by ZTE. The United States Patent and Trademark Office will decide in the coming months whether to initiate review proceedings on some or all of the remaining petitions. We are unable to predict whether or not proceedings will be initiated, or whether or not such proceedings will impact the timing or outcome of the ContentGuard litigation.

The ContentGuard litigation and related validity petitions have not impacted ContentGuard s continued work on Yovo®, our next-generation ephemeral photo and messaging application. Yovo® facilitates ephemeral posts on social networking sites, as well as private messaging via text and email. Designed for integration with Facebook and Twitter, Yovo® offers features such as forward lock, full encryption, screen capture scrambling and a self-destruct timer that allows a sender to grant viewing rights for as little as one second and as long as 24 hours. Yovo® follows on the heels of the ContentGuard mobile digital content protection application for business users that was initially launched in December 2013 and updated in May 2014. These mobile applications, based on technologies developed by ContentGuard over the past fifteen years, are designed to address consumer demand for enhanced Internet privacy through solutions that restrict access to and limit the life of content. Our continuing development of these ephemeral content protection solutions reflects our commitment to continued innovation, including the development of products to commercialize our IP rights.

As reported in our 2014 Form 10-K, we have slowed our exploratory activity and reduced our costs by eliminating certain positions, eliminating annual maintenance costs by abandoning certain patent assets that do not support our existing licensing programs, and lowering facilities costs. As a result, we ended the first quarter of 2015 with overhead costs that are lower than the first quarter of 2014, while retaining the resources we deem critical to the generation of revenue from our existing assets and the continued thoughtful and measured assessment of opportunities to commercialize unique technologies and related businesses or otherwise invest our capital in opportunities which may be unrelated to our historical IP monetization activities.

Critical Accounting Policies

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

Results of Operations

The following table is provided to facilitate the discussion of our results of operations for the three months ended March 31, 2015 and 2014 (in thousands):

	Three months ended March 31,	
	2015	**2014**
Revenue	$ 25,245	$ 38,135
Cost of revenues	9,112	13,796
Patent administration and related costs	1,127	1,398
Patent litigation	4,557	2,038
General and administrative expenses	5,129	7,849
Stock-based compensation	648	1,881
Amortization of intangibles	3,596	4,039
Interest income	31	20
Interest expense	41	64
Gain on contingency	1,748	
Other expense	4	5
Income taxes	4,125	6,270

Revenue. Revenue of $25.2 million for the three months ended March 31, 2015 decreased by $12.9 million, or 34%, as compared to $38.1 million for the three months ended March 31, 2014. The decrease was primarily due to larger licensing transactions during the three months ended March 31, 2014.

Cost of revenues. Cost of revenues of $9.1 million for the three months ended March 31, 2015 decreased by $4.7 million, or 34%, as compared to $13.8 million for the three months ended March 31, 2014. This decrease was primarily due to the decrease in revenue in 2015 as compared to 2014.

Patent administration and related costs. Patent administration and related costs of $1.1 million for the three months ended March 31, 2015 decreased by $0.3 million, or 19%, as compared to $1.4 million for the three months ended March 31, 2014. This decrease was primarily due to a reduction in patent maintenance and prosecution costs resulting from the abandonment of patents during the first quarter of 2015 and throughout 2014 that were not part of existing licensing programs.

Patent litigation. Patent litigation expenses of $4.6 million for the three months ended March 31, 2015 increased by $2.6 million, or 124%, as compared to $2.0 million for the three months ended March 31, 2014. This increase was primarily due to costs incurred by our subsidiary, ContentGuard, in its litigation efforts against Amazon, Apple, Google, HTC, Huawei, Motorola Mobility and Samsung as it prepared for its March 2015 Markman hearing and upcoming jury trials scheduled for September 2015. We anticipate that patent litigation expense for the three months ended June 30, 2015 will be less than that reported for the corresponding period in the prior year.

General and administrative. General and administrative expenses of $5.1 million for the three months ended March 31, 2015 decreased by $2.7 million, or 35%, as compared to $7.8 million for the three months ended March 31, 2014. The decrease was primarily due to (i) $0.8 million reduction in employment expenses resulting from a lower headcount, (ii) $0.7 million reduction in amortized prepaid compensation expense associated with the acquisition of the Ovidian Group LLC (Ovidian) in June 2011 (which was fully amortized as of June 2014), (iii) $0.5 million reduction in professional fees and other expenses, (iv) $0.4 million decrease in expenses associated with researching acquisition opportunities, and (v) $0.3 million reduction in expenses associated with Provitro.

Stock-based compensation. Stock-based compensation of $0.6 million for the three months ended March 31, 2015 decreased by $1.3 million, or 66%, as compared to $1.9 million for the three months ended March 31, 2014. The decrease was primarily due to the vesting of awards during the second quarter of 2014 and the accelerated vesting of awards in November 2014 associated with the departure of our CEO, for which no expense was incurred in the first quarter of 2015.

Amortization of intangibles. Amortization of intangibles of $3.6 million for the three months ended March 31, 2015 decreased by $0.4 million, or 11%, as compared to $4.0 million for the three months ended March 31, 2014, primarily due to the abandonment of certain patents during the first quarter of 2015 and throughout 2014 that were not part of existing licensing programs.

Interest income. Interest income for the three months ended March 31, 2015 and 2014 was nominal and primarily related to interest earned on money market funds.

Interest expense. Interest expense for the three months ended March 31, 2015 and 2014 consisted of interest expense resulting from installment payment obligations associated with intangible assets acquired during 2013.

Gain on contingency. Gain on contingency for the three months ended March 31, 2015 was due to the receipt of $1.7 million from the disposition of assets associated with our prior satellite business.

Other expense. Other expense for the three months ended March 31, 2015 and 2014 was due to losses on foreign currency transactions.

Income taxes. We recorded a tax provision of $4.1 million and $6.3 million for the three months ended March 31, 2015 and 2014, respectively, related to foreign taxes withheld on revenue generated from license agreements executed with third party licensees domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future U.S. income tax liabilities, subject to certain limitations. However, due to uncertainty regarding our ability to utilize the deduction or credit resulting from the foreign withholding, at March 31, 2015 and 2014, we established a full valuation allowance against the related deferred tax asset. We anticipate that we will not have a U.S. federal income tax liability for fiscal 2015.

Liquidity and Capital Resources

Overview. As of March 31, 2015, we had cash and cash equivalents of $165.3 million. Our primary expected cash needs for the next twelve months include ongoing operating costs associated with commercialization of our IP assets, expenses in connection with legal proceedings, and other general corporate purposes. We may also use our cash, and may incur debt or issue equity, to acquire or invest in other businesses or assets.

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

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Cash Flows. The following table is provided to facilitate the discussion of our liquidity and capital resources for the three months ended March 31, 2015 and 2014 (in thousands):

	Three months ended March 31, 2015	Three months ended March 31, 2014
Net cash provided by (used in):		
Operating activities	$ 2,938	$ (9,207)
Investing activities	(2,005)	(44)
Financing activities	(4,440)	(2,236)
Net decrease in cash and cash equivalents	(3,507)	(11,487)
Cash and cash equivalents beginning of period	168,793	184,567
Cash and cash equivalents end of period	$ 165,286	$ 173,080

The decrease in cash and cash equivalents for the three months ended March 31, 2015 of $3.5 million was primarily due to $18.6 million of general corporate expenditures, a $4.1 million payment of foreign withholding taxes, a $4.0 million payment of an accrued obligation associated with the 2013 acquisition of our memory and storage technologies portfolio and a $2.0 million acquisition of intangible assets partially offset by revenue generated by operations during the quarter of $25.2 million. The decrease in cash and cash equivalents for the three months ended March 31, 2014 of $11.5 million was primarily due to $9.5 million of general corporate expenditures and a $2.0 million payment of an accrued obligation associated with the 2013 acquisition of our memory and storage technologies portfolio, as revenue generated by operations during the quarter was collected in April 2014.

For the three months ended March 31, 2015, the $2.9 million of cash provided by operating activities consisted primarily of our net loss of $1.3 million adjusted for various non-cash items, including (i) $3.6 million of amortization expense associated with patents and other intangibles, (ii) $0.6 million of stock-based compensation expense and (iii) $0.5 million of non-cash loss associated with the abandonment of patents, offset by a decrease in accrued expenses and other current/non-current liabilities of $0.7 million.

For the three months ended March 31, 2014, the $9.2 million of cash used in operating activities consisted primarily of our net income of $0.8 million adjusted for various non-cash items, including (i) $4.0 million of amortization expense associated with patents and other intangibles, (ii) $1.9 million of stock-based compensation expense and (iii) $0.7 million of amortized prepaid compensation expense associated with our acquisition of Ovidian in June 2011, which was more than offset by the increase in accounts receivable of $37.7 million and the corresponding increase in accrued expenses and other current/non-current liabilities of $18.9 million.

For the three months ended March 31, 2015, the $2.0 million of cash used in investing activities was primarily due to the acquisition of intangible assets. For the three months ended March 31, 2014, the $44,000 of cash used in investing activities was primarily due to the acquisition of property and equipment.

For the three months ended March 31, 2015, the $4.4 million of cash used in financing activities consisted of a $4.0 million payment of an accrued obligation associated with the 2013 purchase of intangible assets and a $0.4 million payment to acquire the minority partner s interest in Provitro. For the three months ended March 31, 2014, the $2.2 million of cash used in financing activities consisted of a $2.0 million payment of an accrued obligation associated with the 2013 purchase of intangible assets and $0.2 million utilized to pay statutory taxes related to vesting of restricted stock awards, partially offset by proceeds from the exercise of stock options.

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

Risks and Uncertainties

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

Inflation

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

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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 March 31, 2015, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of $165.3 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 have a current yield of less than 1%.

	March 31, 2015 (in thousands)
Cash	$ 29,874
Money market funds	135,412
	$ 165,286

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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

IPR and CBM Petitions by ContentGuard Defendants In December 2014, Apple filed with the United States Patent and Trademark Office (the USPTO) twenty-nine inter partes review (IPR) petitions and three covered business method (CBM) petitions, through which Apple is challenging the validity of all nine patents asserted in the Amazon Litigation. Also in December 2014, Google filed three CBM petitions, challenging the validity of three of the nine asserted patents. In March 2015, two of Apple s CBM petitions were terminated in view of two substantially identical IPR petitions. In April 2015, ContentGuard filed its preliminary owner responses to all remaining petitions. The USPTO s Patent Trial and Appeal Board (PTAB) will decide in the coming months whether to initiate review proceedings on some or all of the petitions and will administer and hear argument in any initiated proceedings. We are unable to predict whether or not proceedings will be initiated, or whether or not such proceedings will impact the timing or outcome of our claims against the ContentGuard Defendants.

ZTE IPRs In early 2012, ContentGuard and its subsidiaries filed lawsuits in United States and German courts, alleging that ZTE Corporation, ZTE (USA) Inc. and ZTE Deutschland GmbH (collectively ZTE) infringed and continue to infringe ContentGuard patents by making, using, selling or offering for sale certain mobile communication and computing devices. ZTE subsequently filed IPR petitions with the USPTO, challenging the validity of six U.S. patents asserted by ContentGuard against ZTE. The PTAB terminated proceedings with respect to two patents, both of which emerged with valid patent claims. ZTE s claims against the other four patents went to trial. Following trial, the PTAB rejected ZTE s remaining challenges, and confirmed the validity of all claims in the four patents. ZTE s time for appeal expired with no appeals filed. As a result, the decisions of the PTAB, as against ZTE, are now final. Nonetheless, all four affirmed patents have been challenged in new IPRs filed by Apple, as described in the paragraph above. We are unable to predict whether, and to what extent, the PTAB will allow Apple to challenge these previously affirmed patents in new proceedings.

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

J&J Collection In November 2012, we obtained an arbitration judgment in the U.K. against Jay and Jayendra (Pty), a South African corporation (J&J Group) for approximately $4.0 million. J&J Group submitted multiple appeals to the U.K.

courts, the last of which was rejected in July 2013. In December 2014, we obtained an enforcement judgment against J&J Group from a South African court. J&J Group s time to appeal the enforcement judgment expired with no appeals filed, and we have commenced action to enforce the judgment. Due to the uncertainty of collection, we have not recognized the gain associated with the judgment. We are unable to anticipate the timing or outcome of the collection proceedings against J&J Group.

Item 1A. Risk Factors

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

Risks Related to our Patents and Monetization Activities

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

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

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

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

We may have a limited number of prospective licensees.

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

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

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

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

We may choose to pursue litigation or other enforcement action to protect our intellectual property rights, such as the litigation we initiated against the ContentGuard Defendants. Enforcement proceedings are typically protracted and complex, and might require cooperation of inventors and others who are unwilling or unable to assist with enforcement. Litigation also involves several stages, including the potential for a prolonged appeals process. The costs are typically substantial, and the outcomes are unpredictable. We may receive a ruling or judgment, or we may enter into licenses or settlement agreements that might compel us to revalue the IP assets that we are enforcing or the goodwill value of our enforcing subsidiary, which in turn might result in a reduction to the financial statement carrying value of such assets through a corresponding impairment charge which would adversely affect our results of operations and our financial position. Enforcement actions will likely divert our managerial, technical, legal and financial resources from business operations. In certain cases, we may conclude that these costs and risks outweigh the potential benefits that would arise from successful enforcement, in which event we may opt not to pursue enforcement.

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

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

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

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

We may not recover costs of our commercialization activities.

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

Future innovations could make our inventions obsolete.

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

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

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

Delays in issuance of patents could harm our business.

We may acquire and pursue additional patents and related intellectual property rights. If we do, our patent applications will add to a growing number of patent applications, which may result in longer delays in obtaining approval of such patent applications. The application delays could cause delays in recognizing revenue from new patents and could cause us to miss opportunities to license or enforce patents before other competing technologies are developed or introduced into the market.

Changes in patent law could adversely impact our business.

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

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

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

Risks Related to our Acquisition Activities

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

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

We may not capitalize on acquired assets.

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

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

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

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

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

Risks Related to our Operations

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

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

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

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

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

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

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

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

Rights of minority shareholders may limit future value.

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

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

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

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

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

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.

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Risks Related to the Tax Losses Generated from Our Former Satellite Communications Business

Our ability to benefit from our United States federal income tax loss carryforward may be impacted by changes in the tax laws.

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

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

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

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

The Internal Revenue Code imposes an additional tax on the undistributed income of a Personal Holding Company (PHC). In general, a corporation will be classified as a PHC if more than 50% of its outstanding shares, measured by value, are owned directly or indirectly by five or fewer individuals and at least 60% of its adjusted gross income is Personal Holding Company Income (PHCI). Broadly, PHCI includes income such as dividends, interest, rents and royalties, among others. We believe that any income from ContentGuard s resolution of its claims against the ContentGuard Defendants will be classified as PHCI. Due to the significant number of shares held by our largest shareholders, we must continually assess share ownership of Pendrell and each of our consolidated subsidiaries, including ContentGuard. To date neither Pendrell, as the parent company, nor any of our consolidated subsidiaries have incurred a PHC tax obligation. However, it is possible that action or inaction by significant shareholders could result in a future PHC tax liability. The PHC tax, which is in addition to the income tax, is currently levied at 20% of the net PHCI not distributed to the corporation s shareholders.

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

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

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

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

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Risks Related to Our Class A Common Stock

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

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

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

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

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

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

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

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

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

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

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Class A common stock securities purchases described in the table below represent the withholding of restricted stock to satisfy tax withholding obligations upon the vesting of the related restricted stock.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
January 1 January 31, 2015		$		
February 1 February 28, 2015	15,677	1.11		
March 1 March 31, 2015	21,503	1.03		
	37,180	$ 1.07		

Item 6. Exhibits

Ex. 10.1*	Pendrell Corporation 2015 Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 13, 2015).
Ex. 10.2*	Retention Agreement effective February 16, 2015 between Pendrell Corporation and R. Gerard Salemme (incorporated herein by reference to Exhibit 10.16 of the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2015).
Ex. 31.1	Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
Ex. 31.2	Certification of the principal accounting and financial officer required by Rule 13a-14(a) or Rule 15d-14(a).
Ex. 32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350).
Ex. 101	The following financial information from Pendrell Corporation s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 is formatted in XBRL: (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Changes in Shareholders Equity, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

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SIGNATURES

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

PENDRELL CORPORATION

(Registrant)

Date: May 1, 2015

By: /s/ STEVEN A. EDNIE

Steven A. Ednie

Vice President and Chief Financial Officer

Principal Financial and Accounting Officer

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