Pendrell Corp
Form 10-K
February 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-33008

PENDRELL CORPORATION

(Exact name of registrant as specified in its charter)

Washington	98-0221142
(State or other jurisdiction of	(IRS Employer

incorporation or organization) Identification No.)

2300 Carillon Point, Kirkland, Washington 98033

(Address of principal executive offices including zip code)

(425) 278-7100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, par value $0.01 per share	Not applicable

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No .

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer

Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of June 30, 2017, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $109,412,306

As of February 16, 2018, the registrant had 189,109 shares of Class A common stock and 53,660 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PENDRELL CORPORATION

2017 ANNUAL REPORT ON FORM 10-K

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PART I

This Annual Report on Form 10-K (“Form 10-K”) contains certain forward-looking statements regarding future events and our future operating results that are subject to the safe harbors created under the Securities Act of 1933, as amended (“Securities Act”), and the Securities Exchange Act of 1934, as amended (“Exchange Act”). These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “ other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results 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 under “Item 1A of Part I – Risk Factors” and elsewhere in this Form 10-K. 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.

Item 1. Business.

Overview

Pendrell Corporation (“Pendrell”), with its consolidated subsidiaries, is referred to as “us,” “we,” or the “Company.” Pendrell has, for the past six years, invested in, acquired and monetized intellectual property (“IP”) rights. In 2017, we divested the majority of our largest IP portfolio, known as our “Pendragon” portfolio, but continued to license the digital rights management (“DRM”) patents owned by our subsidiary ContentGuard Holdings, Inc. (“ContentGuard”), and the memory and storage patents owned by our subsidiary Memory Technologies LLC (“MTL”). We will continue efforts to license those DRM and memory patents in the future.

Pendrell was originally incorporated in 2000 as New ICO Global Communications (Holdings) Limited, a Delaware corporation. In July 2011, we changed our name to Pendrell Corporation. On November 14, 2012, we reincorporated from Delaware to Washington. Our principal executive office is located at 2300 Carillon Point, Kirkland, Washington 98033, and our telephone number is (425) 278-7100. Our website address is www.pendrell.com. The information contained in or that can be accessed through our website is not part of this Form 10-K.

Our Business

Revenue Generating Activities

We generate revenues by licensing and selling our IP rights to others. Our subsidiaries hold patents that support three IP licensing programs that we own and manage: (i) memory and storage technologies, (ii) digital media, and (iii) digital cinema.

We acquired most of our memory and storage patents (our “Memory Patents”) and patent applications from Nokia Inc. in March 2013, many of which have been declared essential to standards that are applicable to memory and storage technologies used in electronic devices. These patents cover embedded memory components and storage subsystems. Potential licensees include flash memory component suppliers, solid state disk manufacturers and device vendors. Since 2014, we have entered into license agreements with five leading memory device makers and a number of smaller companies in the memory space. We are in active license discussions with other memory component manufacturers and, early in 2018, filed litigation against Kingston Technology Corporation (“Kingston”) in federal district court alleging infringement of certain of our memory and storage patents (“Kingston Litigation”).

Our digital media program is supported by patents (our “DRM Patents”) and patent applications designed to protect against unauthorized duplication and use of digital content during the transfer of the digital content. The majority of our digital media patents and patent applications came to us through our October 2011 purchase of a 90.1% interest in ContentGuard, where we partnered with Time Warner to expand the development and licensing of ContentGuard’s portfolio of DRM technologies. We have granted digital media licenses to manufacturers, distributors and providers of consumer products, including Amazon, DirecTV, Fujitsu, LG Electronics, Microsoft Corporation, Nokia, Panasonic, Pantech, Sharp, Sony, Toshiba, Time Warner and Xerox Corporation.

Our digital cinema program is supported by DRM Patents and patent applications designed to protect against unauthorized creation, duplication and use of digital cinema content that is distributed to movie theaters globally, many of which also came to us through our acquisition of ContentGuard. Potential digital cinema licensees include distributors and exhibitors of digital content, including motion picture producers, motion picture distributors and equipment vendors. We launched our digital cinema program in June 2013, and signed a significant license with The Walt Disney Company in 2017. We are actively engaged in licensing discussions with other leading feature film studios.

In late 2017, we divested the majority of our “Pendragon portfolio,” which contained patents related to cellular and digital wireless devices and infrastructure. We are actively working to divest the remainder of the portfolio.

We typically license our patents via agreements that cover entire patent portfolios or large segments of portfolios. We expect licensing negotiations with prospective licensees to take approximately 12 to 24 months, and perhaps longer, measured from inception of technical discussions regarding the scope of our patents. If we are unable to secure reasonable, negotiated licenses, we may resort to litigation to enforce our IP rights, as evidenced by the claims we filed in 2016 against SanDisk at the ITC and in federal district court, and the claims we recently filed against Kingston in federal district court.

Our IP revenue generation activities are not limited to licensing and litigation. Patents that we believe may generate greater value through a sales transaction, such as the Pendragon portfolio, may be sold. Although some may characterize patent sale revenue differently than patent license revenue, we regard our IP monetization activities as integrated and not separate revenue streams, and therefore treat sale and license revenue the same for GAAP reporting purposes.

Our IP portfolio currently consists of patents that have already expired and others that expire between 2018 and 2035. See “Revenue opportunities from our IP monetization efforts are limited” under “Item 1A of Part I—Risk Factors.”

Business Outlook

From 2011 through 2015, we focused on acquiring and growing companies that developed or possessed unique, innovative technologies that could be licensed to third parties or could provide a competitive advantage to products we were developing. During the past three years, we moderated those efforts and reduced our costs by eliminating certain positions, reducing certain overhead costs and abandoning patent assets that do not support our existing licensing programs. In December 2017, we delisted from Nasdaq and filed for de-registration of our Class A common stock.

We have explored and continue to explore investment opportunities that are not premised on the value of IP, with the goal of investing our capital in operating companies that can generate solid, stable income streams. Due to high valuations that we attribute to inexpensive and widely available capital, we did not acquire any such operating companies in 2015, 2016 or 2017. We may encounter more suitable opportunities if the cost of capital increases over time. We intend to continue to explore new business opportunities that are better suited for non-listed private companies while keeping our costs contained.

Although our focus has evolved away from companies that develop or possess unique, innovative technologies, we will continue to dedicate effort and resources to generate revenue from our existing IP assets.

Competition

Due to the unique nature of our IP rights, we do not compete directly with other patent holders or patent applicants. However, to the extent that multiple parties seek royalties on the same product or service, we might as a practical matter compete for a share of reasonable royalties from manufacturers and distributors.

As we pursue opportunities that are not premised on the value of IP, we may compete with well-capitalized companies pursuing those same opportunities.

Divestiture of Satellite Assets

When we were formed in 2000, our intent was to develop and operate a next generation global mobile satellite communications system. In 2011, we started selling assets associated with the satellite business and, during 2012, we divested the remaining vestiges of our satellite business, including the sale of our remaining medium earth orbit (“MEO”) satellites and related equipment and our real property in Brazil, the transfer to a liquidating trust (the “Liquidating Trust”) of certain former subsidiaries associated with the satellite business (the “International Subsidiaries”) to address the winding down of the International Subsidiaries, and the settlement of our litigation with The Boeing Company (“Boeing”).

The 2012 divestiture and the corresponding transfer to the Liquidating Trust of the International Subsidiaries triggered tax losses of approximately $2.4 billion, which we believe can be carried forward for up to twenty years. Under the sales agreement for the MEO assets, the Company is entitled to a substantial portion of any proceeds generated from the resale of the MEO assets. In January 2015, the party that acquired the MEO assets from the Company resold the MEO assets and as a result, the Company received $3.9 million during 2015, which has been recorded in gain on contingencies in the statement of operations for the year ended December 31, 2015. On February 23, 2016, that party received the final scheduled payment for the MEO assets, which resulted in the Company’s recognition of an additional $2.0 million gain on contingency in 2016.

Employees

As of December 31, 2017, on a consolidated basis, we had the equivalent of 12 full-time employees located in Washington, California, Finland and Texas.

Available Information

The address of our website is www.pendrell.com. You can find additional information about us and our business on our website. We make available on this website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission (“SEC”). You may read and copy this Form 10-K at the SEC’s public reference room at 100 F Street, NE, Washington, DC 20549-0102. Information on the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. These filings are also accessible on the SEC’s website at www.sec.gov.

We also make available on our website in a printable format the charters for certain of our various Board of Director committees, including the Audit Committee, the Compensation Committee and the Nominating and Governance Committee, and our Code of Conduct and Ethics in addition to our Articles of Incorporation, Bylaws and Tax Benefits Preservation Plan. This information is available in print without charge to any shareholder who requests it by sending a request to Pendrell Corporation, 2300 Carillon Point, Kirkland, Washington 98033, Attn: Corporate Secretary. The material on our website is not incorporated into or part of this Form 10-K.

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 sign new license agreements or otherwise enforce our intellectual property rights.

IP licensing revenues are dependent on our ability to sign new license agreements with, or otherwise enforce our intellectual property rights against, users of our patented inventions. If users refuse to sign license agreements, we may need to resort to litigation or other measures to compel the payment of fair consideration, which to date has not been effective, and may not be effective in the future. 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, the value of our IP could be further impaired.

We may have a limited number of prospective licensees.

We are actively pursuing licenses for our DRM and memory portfolios. However, our portfolios are applicable to only a limited number of prospective licensees. Moreover, many device makers who would have been prospective DRM licensees are shielded by adverse jury verdicts in the patent infringement cases that we filed in the Eastern District of Texas. In the memory and storage space, we believe we have licensed substantially more products than remain unlicensed. As such, we have a limited number of prospective licensees, and if we are unable to sign licenses with this limited group, licensing revenue will be adversely impacted. Moreover, if our portfolios are not demonstrably applicable to prospective licensees' products or services, whether due to poor quality, lack of breadth or otherwise, parties may refuse to sign license agreements.

Revenue opportunities from our IP monetization efforts are limited.

Patents have finite lives. Our IP portfolio currently consists of numerous patents that have already expired, and others that expire between 2018 and 2035. Therefore, our IP revenue opportunities are limited.

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

Licensing our patents takes time, with some license negotiations spanning many years. We have incurred and expect to incur significant legal and sales expenses in our efforts to sign license agreements and generate 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 costs and losses before any associated revenue is generated.

Enforcement proceedings may be costly and ineffective.

We may choose to pursue litigation or other enforcement action to protect our intellectual property rights, such as the ITC and district court actions against SanDisk, and the recently-filed Kingston Litigation. Enforcement proceedings are typically protracted and complex, and might require cooperation of inventors and others who are unwilling or unable to assist with enforcement. Litigation also involves several stages, including the potential for a prolonged appeals process. The costs are typically substantial, and the outcomes are unpredictable. Enforcement actions will likely divert our managerial, technical, legal and financial resources from business operations. In certain cases, we may conclude that these costs and risks outweigh the potential benefits that would arise from successful enforcement, in which event we may opt not to pursue enforcement.

Our business could be negatively impacted by product composition and future innovation.

Our licensing revenues have been generated from manufacturers and distributors of products that use our patented inventions. Our business prospects could be negatively impacted if prospective licensees do not use our inventions in their products, or if they later modify their products to eliminate use of our inventions. Moreover, changes in technology or customer requirements could alter product composition and render our patented inventions obsolete or unmarketable.

Our patent management activities could impact the value of our IP.

We assess our IP portfolio to identify patents and patent applications that are worth preserving and patents and patent applications that are not worth preserving. Our assessment is driven by numerous factors, many of which are not scientific. Our assessment drives decisions to maintain or abandon patents and patent applications. If we make decisions that prompt abandonment of patents and patent applications with value, we could materially impact the value of our IP portfolio and our ability to generate revenue from our IP portfolio.

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

Any third party may challenge the validity, scope, enforceability and ownership of our patents. Challenges may include review requests to patent authorities, such as inter partes review and covered business method proceedings that have been initiated by ZTE, Apple, Google and SanDisk. 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 claims. If patent claims are canceled, we could be prevented from enforcing or earning future revenues from the canceled claims. Even if our claims are not canceled, our enforcement actions against alleged infringers may be stayed pending resolution of reviews, or courts or tribunals reviewing our patent claims could make findings adverse to our interests. 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, including our ability to evaluate and acquire other businesses. 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.

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, the 2012 passage of the America Invents Act provided alleged infringers with new procedures to combat patent infringement claims, including inter partes review and covered business method proceedings to challenge patent validity. In 2013 and 2015, legislative initiatives were introduced to address perceived patent abuses by non-practicing entities, and some legislators continue to express their intention to sponsor or support similar legislation in the future. 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 generate a return on acquired assets.

Even if we accurately value the investments we make, we must succeed in generating a return on the investments. Our success in generating a return depends on effective efforts of our employees and outside professionals. 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 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. We may incur significant transactional expenses, regardless of whether acquisitions are consummated. Moreover, the integration of acquired companies may create 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.

The financing of our acquisition activities could threaten our ability to use NOLs to offset future taxable income.

We have substantial historical net operating losses (“NOLs”) for United States federal income tax purposes. As explained in greater detail below, 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. If and to the extent we finance acquisitions through the sale or issuance of stock, we will likely cause an ownership shift that increases the possibility that a future Tax Ownership Change might occur. If a Tax Ownership Change occurs, we will be permanently unable to use most of our NOLs.

Avoiding a Tax Ownership Change may limit our ability to use our shares in an acquisition which could limit our ability to execute a transaction.

The use of our NOLs will be significantly limited if we undergo a Tax Ownership Change. Given the potential economic benefit of our NOLs, we have taken steps to reduce the risk of a Tax Ownership Change including our Tax Benefit Preservation Plan. Issuing new shares in an acquisition transaction could cause or would increase the risk of a Tax Ownership Change. As a result, if a potential seller or partner requires a large number of shares as part of an acquisition transaction, we may choose not to execute that transaction.

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.

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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. Quarterly or annual comparisons of our results of operations should not be relied upon 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 and sales agreements, compliance with such agreements, the terms and conditions for payment under those agreements, our ability to protect and enforce our intellectual property rights, costs of enforcement, changes in demand for products that incorporate our inventions, the time period between commencement and completion of license negotiations or enforcement proceedings, revenue recognition principles, and changes in accounting policies.

Our revenues may not offset our operating expenses.

We reported operating income in 2016 and 2017, in part because we signed significant licenses in those years and in part because we significantly reduced our year-over-year operating expenses. Moving forward, it is not feasible to reduce operating expenses as dramatically as we did in 2016 and 2017. Moreover, revenue from our IP licensing business continues to be inconsistent. If we are unable to generate revenue sufficient to cover operating costs, we will report a net operating loss in future years.

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 small group of key managers and employees, many of whom are highly skilled and would be difficult to replace. Our success also depends on the ability of our personnel to function effectively, both individually and as a group. At the end of 2015, we terminated the employment of numerous IP professionals whose roles we believe were unnecessary to advance our current and anticipated business strategies. In 2016, we parted ways with our vice president of licensing. 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.

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

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.

Our financial reporting will no longer be subject to an audit.

Historically, our consolidated financial statements were audited by external audit firms registered with the Public Company Accountancy Oversight Board. Having delisted our Class A common stock from Nasdaq and filed for de-registration, we will no longer be required to have our financial statements audited. Moreover, we do not intend to engage external auditors to audit our financial statements. The absence of an external audit could increase the risk that our financial statements are not accurate or reliable.

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.

Our company has an evolving business model, which raises doubt about our ability to increase our revenues and grow our business.

We have shifted our principal focus for growth away from the IP business and are evaluating opportunities that generate solid, stable income streams with greater growth potential. Those opportunities must be considered in light of the risks, expenses, and difficulties frequently encountered by companies in an early stage of development. We may not be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that we will be able to increase our revenues and otherwise grow our business as we execute on new business opportunities in the future.

Risks Related to our Tax Losses

We cannot be certain that our tax losses will be available to offset any future taxable income.

A significant portion of our NOLs were triggered when we disposed of our satellite assets. We believe these NOLs can be carried forward to offset certain future taxable income. However, the NOLs have not been audited or otherwise validated by the Internal Revenue Service (“IRS”). We can make no assurance that we would prevail if the IRS were to challenge the amount or our use of the NOLs. If the IRS were successful in challenging our NOLs, all or some amount of our NOLs would not be available to offset future taxable income which would result in an increase to our future income tax liability. The NOL carryforward period begins to expire in 2025 with the bulk of our NOLs expiring in 2032.

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

Our use of our NOLs will be significantly limited if we undergo a Tax Ownership Change. Broadly, a Tax Ownership Change will occur if, over a three-year testing period, the percentage of our stock, by value, owned by one or more 5% shareholder increases by more than 50 percentage points. For purposes of this test, shareholders that own less than 5% of our stock are aggregated into one or more separate “public groups,” each of which is treated as a 5% shareholder. 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 shareholders acquire or 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, we will be permanently unable to use most of our NOLs.

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 generated taxable income in 2016 and 2017, but we may not generate sufficient taxable income in future years to use the NOLs before they begin expiring.

The value of our NOLs may be reduced by changes in the federal tax laws.

The Tax Cuts and Jobs Act ("TCJA") was signed into law in 2017. TCJA resulted in several changes to federal tax law, including a reduction of the federal tax rate for corporations to 21%. The TCJA did not change our ability to use our NOLs, including potential limitation under Section 382 described above. We believe our NOLs have value to the extent they can be used to offset future taxable income. A lower overall corporate tax rate reduces that value and any further reduction to the federal corporate rate may further reduce that value.

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 is classified as a PHC if 50% or more of its outstanding shares, measured by value, are owned directly or indirectly by five or fewer individual shareholders at any time during the second half of a calendar year ("Concentrated Ownership") and at least 60% of its adjusted ordinary gross income is Personal Holding Company Income ("PHCI"). Broadly, PHCI includes items such as dividends, interest, rents and royalties, among others. Pendrell met the Concentrated Ownership test in 2016 and 2017 and more than 60% of Pendrell's adjusted ordinary gross income was PHCI. Pendrell avoided payment of PHC tax on its PHCI by distributing the PHCI to its shareholders as a dividend in December 2017. ContentGuard did not meet the Concentrated Ownership test in 2016 or 2017 due to the interest held by minority shareholders, but it is possible that ContentGuard could meet the Concentrated Ownership test in 2018. If Pendrell or ContentGuard meets the Concentrated Ownership test, generates positive net PHCI and does not distribute the PHCI as a dividend, Pendrell or ContentGuard will be subject to the PHC tax. The PHC tax, which is in addition to the income tax and cannot be offset by our NOLs, is currently levied at 20% of the net PHCI not distributed to the corporation's shareholders.

Risks Related to Our Class A Common Stock

Continued redemptions of stock will deplete our cash.

During 2017, we selectively purchased some of our Class A common stock from a small number of sophisticated shareholders in private transactions. In total, we redeemed more than 30,000 shares in the aggregate from eight shareholders. We may, within legal constraints, continue to repurchase stock, which will reduce our cash balance, cement our status as a personal holding company, and exacerbate our challenges under Section 382.

Purchases or sales of shares could significantly impact the price of our Class A common stock.

A small number of our shareholders hold a majority of our Class A common stock. Moreover, since we de-listed our Class A common stock from Nasdaq in mid-December 2017, trading in our stock has diminished and the price of our shares has fallen. Because of our concentrated holdings and limited trading volume, future purchases and sales of shares could have a significant impact on the price of our shares.

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

Eagle River Satellite Holdings, LLC ("ERSH"), together with its affiliates Eagle River Investments, LLC ("ERI"), Eagle River, Inc. and Eagle River Partners, LLC ("ERP") (collectively, "Eagle River") controls approximately 68% of the voting power of our outstanding capital stock. Craig O. McCaw, our Executive Chairman, is the sole manager and beneficial member of ERI, which is the sole member of ERSH. Mr. McCaw is the sole shareholder of Eagle River, Inc. and the beneficial member of ERP. Accordingly, 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 have delisted our shares from Nasdaq and are therefore not subject to Nasdaq corporate governance requirements.

Having delisted our Class A common stock from Nasdaq, we need not comply with Nasdaq corporate governance requirements, including (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement that the compensation of officers be determined, or recommended to the board of directors for determination, by a majority of the independent directors or a compensation committee comprised solely of independent directors, and (iii) the requirement that director nominees be selected, or recommended for the board of directors' selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process.

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.

Having delisted, and in light of our pending de-registration, our ability to access the capital markets could be negatively impacted.

In December 2017, we delisted our common stock from Nasdaq, and filed a de-registration notice with the SEC to de-register our Class A common stock. Elimination of our SEC reporting obligations and delisting could harm our ability to raise capital through financing sources on terms acceptable to us, or at all, and result in the potential loss of confidence by investors, increased employee turnover, and fewer business development opportunities.

Having delisted, our trading volume and common stock price may remain depressed.

Our trading volume is relatively low, and since we delisted our shares from Nasdaq in December 2017, the price of our stock has fallen. In the absence of SEC reporting obligations and the absence of a listing on Nasdaq, trading volume may further decrease, in which case the market price of our Class A common stock could decline. More specifically, our stock (i) may be more thinly traded, making it more difficult for our shareholders to sell shares, (ii) may experience greater price volatility, and (iii) may not attract analyst coverage, all of which may result in a lower stock price. For these reasons and others, shareholders may not receive what they view as a fair price for their shares.

Once we have de-registered, it may be more difficult to trade our stock in compliance with laws.

Once we are no longer required to fulfill SEC reporting obligations, we may choose not to file current or periodic reports. Even if we choose to file reports, they likely will not be audited. The absence of those reports or the absence of an audit may mean that material information regarding the Company is not in the public domain, which may make it more difficult to buy or sell shares in compliance with applicable securities laws. For these reasons and others, shareholders may not receive what they view as a fair price for their shares.

If our number of record holders increases, we may be subject to SEC reporting obligations.

We have limited ability to control our shareholders’ acquisition or disposition of shares. If our number of record holders reaches 300 or higher, we would be required to re-register our Class A common stock with the SEC, in which case we would lose the corresponding cost-saving benefits that we anticipate achieving by delisting and de-registering.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.

Our corporate headquarters are located in Kirkland, Washington, where we lease 8,050 square feet in Kirkland under a lease which expires on July 31, 2019. We currently sublease 2,882 square feet of that space and occupy the remaining 5,168 square feet.

We believe our facilities are adequate for our current business and operations.

Item 3. Legal Proceedings.
See Note 7 – “Commitments and Contingencies” of the Notes to the Consolidated Financial Statements included in Item 8 of this report.

Item 4. Mine Safety Disclosures.
Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Our Class A Common Stock

Prior to December 15, 2017, our Class A common stock traded on the Nasdaq Capital Market under the symbol "PCO." On December 15, 2017, we filed a Notification of Removal from Listing and/or Registration on Form 25, which prompted the Nasdaq Capital Market to suspend trading as of close of trading on December 15, 2017. We then filed a Form 15 with the SEC on December 26, 2017 to terminate the registration of our Class A common stock.

Our Class A common stock trades on OTC Pink® under the symbol "PCOA."

At our annual meeting of shareholders in June 2017, our shareholders approved a 1-for-100 reverse stock split of our Class A common stock and Class B common stock that was implemented on November 30, 2017 (the "2017 Reverse Split"). The 2017 Reverse Split reduced our number of record shareholders to less than 300, which allowed us to (i) terminate our Nasdaq listing, effective December 15, 2017, (ii) file to de-register our Class A Stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which we filed on December 26, 2017; and (iii) cease to be a reporting company under the Exchange Act after our notice of de-registration is effective, which will be no later than March 26, 2018.

On September 20, 2017, our Board of Directors (the "Board") announced that we do not currently plan to publish financial information following the expiration of our reporting obligations under the Exchange Act. As a result, we believe this Form 10-K for fiscal year ended December 31, 2017 will be our final financial statement filed with the SEC.

In September 2016, we consummated a 1-for-10 reverse stock split (the "2016 Reverse Split") to remediate a stock price deficiency as required by Nasdaq's continued listing requirements.

As a result of the 2017 and 2016 Reverse Splits, our share count, per share data and price per share reported in this annual report on Form 10-K have been adjusted retrospectively as if both reverse stock splits had been in effect for all periods presented.

The table below sets forth the high and low sales prices of our Class A common stock in U.S. dollars for each of the periods presented. Stock prices represent amounts published by Nasdaq and by OTC Markets®, as applicable. For prices on and after December 15, 2017, the quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions. As of February 6, 2018, the last sales price of our Class A common stock reported by OTC Pink® was $551.61 per share.

	2017		2016	
Period	High	Low	High	Low
First Quarter	$739.00	$609.00	$654.80	$461.00
Second Quarter	$723.00	$597.00	$692.70	$485.00
Third Quarter	$747.00	$621.00	$733.00	$500.00
Fourth Quarter	$739.03	$575.00	$723.00	$605.00

As of February 6, 2018, there were approximately 166 record holders of our Class A common stock.

Market for Our Class B Common Stock

There is no established trading market for our Class B common stock, of which we have 53,660 shares outstanding with two holders of record. Each share of Class B common stock is convertible at any time at the option of its holder into one share of Class A common stock.

Dividends

On November 30, 2017, the Board declared a dividend of $12.32 per share, payable on shares outstanding after the 2017 Reverse Split. The dividend was paid on December 27, 2017 to shareholders of record on December 15, 2017. The Company elected to pay the dividend to shareholders, rather than incur personal holding company tax. See Note 11 – “Income Taxes” for further details.

Prior to 2017, the Company had never paid cash dividends on shares of its Class A or Class B common stock.

Unregistered Sales of Equity Securities and Use of Proceeds

The Class A Stock securities purchases described in the table below represent private stock purchase transactions from a small number of sophisticated shareholders (seven) in private transactions during the fourth quarter of 2017, as well as the fractionalization of shares pursuant to our 2017 Reverse Split:

	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
October 1 – October 31, 2017	2,000	$ 673.00	—	—
November 1 – November 30, 2017	1,945	526.44	—	—
December 1 – December 31, 2017	2,205	616.85	—	—
	6,150	$ 606.52	—	—

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information, as of December 31, 2017, relating to Pendrell’s equity compensation plans pursuant to which grants of stock options, restricted stock, or other rights to acquire shares may be granted from time to time:

Plan Category

	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1) (a)	Weighted-average exercise price of outstanding options, warrants and rights(2) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	18,589	$ 1,489.80	24,743
Equity compensation plans not approved by security holders	—	—	—
Total	18,589	$ 1,489.80	24,743

(1) Excludes 562 shares of restricted stock awards that remain subject to forfeiture.
(2) Excludes the impact of 562 shares of restricted stock awards and 6,089 shares of restricted stock unit awards that have no exercise price.

Performance Measurement Comparison

The following graph shows the total shareholder return as of the dates indicated of an investment of $100 in cash on December 31, 2012 for: (i) our Class A common stock; (ii) the Nasdaq Composite Index; and (iii) the Nasdaq 100 Technology Sector Index.

The stock price performance graph below is not necessarily indicative of future performance.

	2012	2013	2014	2015	2016	2017
Pendrell Corporation	100.00	158.27	108.66	39.46	53.15	46.05
NASDAQ Composite	100.00	141.63	162.09	173.33	187.19	242.29
NASDAQ 100 Technology Sector	100.00	133.55	165.92	180.58	205.54	291.88

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Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with "Item 7— Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and accompanying notes included in this Form 10-K.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Revenue	$42,774	$59,018	$43,519	$42,534	$13,128
Operating expenses:					
Cost of revenues(1)	409	18,156	10,215	14,170	7,872
Patent administration and related costs(1)	916	1,046	2,668	6,386	4,405
Patent litigation(1)	8,695	4,169	13,076	9,880	4,564
General and administrative(1)	7,675	7,508	16,750	27,467	25,939
Stock-based compensation	3,422	3,424	4,507	9,405	12,345
Amortization of intangible assets	2,345	9,498	13,939	15,929	15,864
Contract termination costs(2)	3,161	—	—	—	—
Impairment of intangible assets and goodwill(3)	—	—	103,499	11,013	—
Total operating expenses	26,623	43,801	164,654	94,250	70,989
Operating income (loss)	16,151	15,217	(121,135)	(51,716)	(57,861)
Net interest income (expense)	1,603	696	103	(99)	(64)
Gain on contingencies (4)	—	2,047	6,095	—	—
Other expense	(8)	(11)	(14)	(16)	(55)
Income (loss) before income taxes	17,746	17,949	(114,951)	(51,831)	(57,980)
Income tax benefit (expense)(5)	2,110	—	(2,631)	(6,303)	—
Net income (loss)	19,856	17,949	(117,582)	(58,134)	(57,980)
Net income (loss) attributable to noncontrolling interest	796	186	(7,902)	(7,132)	(2,918)
Net income (loss) attributable to Pendrell	$19,060	$17,763	$(109,680)	$(51,002)	$(55,062)
Basic income (loss) per share attributable to Pendrell	$76.28	$66.38	$(412.79)	$(192.89)	$(210.06)
Diluted income (loss) per share attributable to Pendrell	$74.22	$64.15	$(412.79)	$(192.89)	$(210.06)
Total assets	$208,184	$212,393	$180,892	$304,104	$351,994
Long-term obligations, including current portion of capital lease obligations(6)	$—	7,796	$—	$1,521	$6,695

(1) Amounts in 2013 have been reclassified to conform to the current year presentation of expenses in our consolidated statements of operations, including the presentation of "cost of revenues" and "patent litigation" as separate captions; as such costs were previously included in "patent administration, litigation and related costs" and "general and administrative."

(2)

Contract termination costs during the year ended December 31, 2017 represent the cost associated with the buy-out of the revenue share agreement from the company that sold us the bulk of our memory patents in 2013.

(3) During the fourth quarter of the year ended December 31, 2015, we recorded a non-cash impairment charge of \$103.5 million related to our patents, other intangible assets and goodwill. During the fourth quarter of the year ended December 31, 2014, we recorded a non-cash impairment charge of \$11.0 million related to the goodwill and proprietary micro-propagation technology of Provitro Biosciences LLC (“Provitro”). In early 2015, we suspended further development of the Provitro™ proprietary micro-propagation technology and related laboratory processes that were designed to facilitate production on a commercial scale of certain plants, particularly timber bamboo.

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(4) During the years ended December 31, 2016 and 2015, we recorded gain on contingencies of $2.0 million and $3.9 million, respectively, due to the receipt of contingent payments associated with the disposition of MEO satellites and related launch vehicles of our prior satellite business. During the year ended December 31, 2015, we also recorded a gain on contingency associated with a $1.6 million settlement received from the J&J Group. See Note 10 - “Gain on Contingencies” for further discussion.

(5) During the year ended December 31, 2017, we settled our claim for the partial refund of state income taxes previously paid, resulting in a tax benefit of $2.2 million. During the years ended December 31, 2015 and 2014, we recorded tax provisions of $4.1 million and $6.3 million, respectively, related to foreign taxes withheld on revenue generated from license agreements executed with third party licensees domiciled in foreign jurisdictions. Additionally, during the year ended December 31, 2015, as a result of the impairment of certain indefinite-lived intangible assets, the deferred tax liability associated with the intangible assets was decreased, resulting in a tax benefit of $1.5 million.

(6) Prior to 2015, long-term obligations consisted primarily of deferred tax liabilities. Long-term obligations at December 31, 2013 also included an installment payment obligation arising from the 2013 acquisition of our memory and storage technologies portfolio and expense related to restricted stock awards that is required to be treated as a liability. Long-term obligations at December 31, 2016 consist primarily of revenue share obligations.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
The following discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this 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 our actual results 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 under “Item 1A of Part I—Risk Factors” and elsewhere in this Form 10-K. 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

After more than a decade as a public company, we made the decision in 2017 to “go private” by delisting our Class A common stock from Nasdaq and filing for de-registration. We anticipate the delisting and de-registration will yield annual cost savings of more than one million dollars. As a non-reporting issuer, we also anticipate increased strategic and operational flexibility, with visibility to potential business partnerships that are not available as a reporting company.

As we worked through the delisting and de-registration process in 2017, the market price of our stock dropped to historically low levels: lower than our net book value per share and lower than our cash value per share. We responded by purchasing shares of our Class A common stock from a select number of sophisticated shareholders in private, exempt transactions. Federal and state securities laws limited our ability to aggressively repurchase stock, and those laws continue to impact ongoing stock repurchase efforts. However, within those legal constraints, we intend to repurchase additional shares in 2018 if those repurchases are accretive to our remaining shareholders.

While we work to capitalize on anticipated cost savings and operational flexibility from “going private," we continue our efforts to monetize our DRM Patents and our Memory Patents.

During the third quarter of 2017 we licensed our DRM Patents to The Walt Disney Company for Disney’s digital entertainment offerings. Disney joins Warner Bros and Sony Entertainment as licensees of the DRM Patents. Meanwhile, ContentGuard continues its dialogue with other movie studios and distributors of digital entertainment

Earlier in 2017, we settled our litigation against SanDisk Corporation and its affiliates, including Western Digital, by licensing our Memory Patents to SanDisk and its affiliates. The SanDisk license was the fifth significant Memory Patent license signed since we acquired the Memory Patents in 2013. Prior to 2017, pursuant to the agreement under which we acquired the Memory Patents, we shared a significant portion of license fees from our Memory Patents with the seller. In early 2017, the seller agreed to relinquish its future revenue share rights in exchange for an up-front payment and future installment payments. This resulted in a one-time charge of $3.2 million to expense in our first quarter of 2017, but significantly reduced our cost of revenues on future revenue from our Memory Patents. Our buyout of the seller’s future revenue share rights reflects our confidence in the value of our Memory Patents and our belief that standard compliant unlicensed flash memory component suppliers, solid state disk manufacturers and device vendors will ultimately need to obtain a license from us to continue their commercial activities.

In that regard, our licensing discussions with Kingston reached impasse in 2017, leading to our filing of a patent infringement suit in the federal district court for the Central District of California in early 2018, in which we seek monetary damages for Kingston’s infringement. Kingston has not yet answered our complaint, so we have no indication of whether Kingston will aggressively defend our lawsuit or be willing to negotiate a license to resolve our claims.

Management of our IP portfolio is not detracting us from our primary mission, which is identification of business opportunities that generate solid, stable income streams and greater growth potential. We have evaluated several opportunities. Although we have not reached agreement with any potential owners or partners, we continue to identify and evaluate new business opportunities.

Critical Accounting Policies

Critical accounting policies require difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our estimates and judgments are based on information available at the time the estimates and judgments are made. Actual results could differ materially from those estimates. We make estimates and judgments when accounting for, among other matters, intangible assets, revenue recognition, stock-based compensation, income taxes and contingencies, as more fully described below.

Intangible Assets. We amortize finite-lived intangible assets, including patents, acquired in purchase transactions over their expected useful lives. We evaluate finite-lived intangible assets when events or circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. These events or circumstances could include: a significant change in the business climate, legal factors, operating performance indicators, or changes in technology or customer requirements. Recoverability of an asset or asset group is measured by a comparison of the carrying amount to the future undiscounted net cash flows expected to be generated by the asset or asset group over its life. This comparison requires management to make judgments regarding estimated future cash flows. Our ability to realize the estimated future cash flows may be affected by factors such as changes in operating performance, changes in business strategy, invalidation of patents, unfavorable judgments in legal proceedings and changes in economic conditions. If our estimates of the undiscounted cash flows do not equal or exceed the carrying value of the asset or asset group, we recognize an impairment charge equal to the amount by which the recorded value of the asset or asset group exceeds its fair value.

Revenue Recognition. We derive our operating revenue from IP monetization activities, including patent licensing and patent sales. Additionally, prior to our sale of the Ovidian Group LLC in December 2015, we also derived revenue from IP consulting services. Although our revenue may occur in different forms, we regard our IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could involve consulting and licensing activities, or the acquisition of a patent portfolio can lead to licensing, consulting and patent sales revenue.

Our patent licensing agreements often provide for the payment of contractually determined upfront license fees representing all or a majority of the revenues that will be generated from such agreements for nonexclusive, nontransferable, limited duration licenses. These agreements typically grant (i) a nonexclusive license to make, sell, distribute, and use certain specified products that read on our patents, (ii) a covenant not to enforce patent rights against the licensee based on such activities, and (iii) the release of the licensee from certain claims. Generally, the agreements provide no further obligation for the Company upon receipt of the minimum upfront license fee. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront license fee, and when all other revenue recognition criteria have been met.

Certain of our patent licensing agreements provide for future royalties or future payment obligations triggered upon satisfaction of conditions. Future royalties and future payments are recognized in revenue upon satisfaction of any related conditions, provided that all revenue recognition criteria, as described below, have been met.

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

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

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

Stock-Based Compensation. We record stock-based compensation on stock options, performance stock awards, 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 recognize compensation cost over the requisite service period for awards expected to vest. The fair value of stock options are estimated on the date of grant using the Black-Scholes option pricing model (“Black-Scholes Model”) based on the single option award approach. The fair value of restricted stock awards and restricted stock units is determined based on the number of shares granted and either the quoted market price of our Class A common stock on the date of grant for time-based and performance-based awards, or the fair value on the date of grant using the Monte Carlo Simulation model (“Monte Carlo Simulation”) for market-based awards. The fair value of stock options, restricted stock awards and restricted stock units with service conditions are typically amortized to expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of stock options, restricted stock awards and restricted stock units with performance conditions deemed probable of being achieved and cliff vesting are amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of restricted stock awards and restricted stock units with performance and market conditions are amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of stock-based payment awards as determined by the Black-Scholes Model and the Monte Carlo Simulation are affected by our stock price as well as other assumptions. These assumptions include, but are not limited to, the expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. On January 1, 2017, we elected to change our accounting policy for calculating stock-based compensation based on forfeiture estimates to one that recognizes forfeitures when they occur (see “New Accounting Pronouncements” below). Previously, forfeitures were estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates.

Income Taxes. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Since our utilization of our deferred tax assets is dependent upon future taxable income that is not assured, we have recorded a valuation allowance sufficient to reduce the deferred tax assets to an amount that is more likely than not to be realized. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would decrease or may result in a tax benefit in the period in which we determined that the recovery was more likely than not to occur.

The application of income tax law is inherently complex. As such, we are required to make many assumptions and judgments regarding our income tax positions and the likelihood whether such tax positions would be sustained if challenged. Interpretations and guidance surrounding income tax laws and regulations change over time, and changes in our assumptions and judgments can materially affect amounts recognized in our consolidated financial statements.

Contingencies. The outcomes of legal proceedings and claims brought by and against us are subject to significant uncertainty. We accrue an estimated loss from a loss contingency, such as a legal claim against us, by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We disclose a contingency if there is at least a reasonable possibility that a loss has been incurred. In determining whether a contingent loss should be accrued or disclosed, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position, results of operations or cash flows. For contingencies that might result in a gain, we do not record the gain until realized.

New Accounting Pronouncements

See Note 2 – "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements (Part II, Item 8 of this Form 10-K) for further discussion.

Key Components of Results of Operations

Revenue—We derive our operating revenue from IP monetization activities, including patent licensing, patent sales and, prior to 2016, from IP consulting services, or a combination thereof. Although our revenue may occur in different forms, we regard our IP monetization activities as integrated and not separate revenue streams. Our revenues from IP monetization activities continue to depend in large part on our ability to enter into new license agreements with third parties. Because our licensing agreements often provide for the payment of upfront license fees rather than a royalty stream and as a result of the unpredictable nature, form and frequency of our transactions, our revenue may fluctuate substantially from period to period.

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

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

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

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

Stock-based compensation—Stock-based compensation expense includes expense associated with the granting of stock options, restricted stock awards, restricted stock units and other stock awards issued to employees, directors, consultants and/or advisors based on the estimated fair value on the date of grant and expensed over the requisite service period for awards expected to vest.

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

Results of Operations

The following table is provided to facilitate the discussion of our results of operations for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Year ended December 31,		
	2017	2016	2015
Revenue	$42,774	$59,018	$43,519
Cost of revenues	409	18,156	10,215
Patent administration and related costs	916	1,046	2,668
Patent litigation	8,695	4,169	13,076
General and administrative	7,675	7,508	16,750
Stock-based compensation	3,422	3,424	4,507
Amortization of intangible assets	2,345	9,498	13,939
Contract termination costs	3,161	—	—
Impairment of intangible assets and goodwill	—	—	103,499
Interest income	1,603	696	156
Interest expense	—	—	53
Gain on contingencies	—	2,047	6,095
Other expense	8	11	14
Income tax benefit (expense)	2,110	—	(2,631)

Revenue. Our revenue of $42.8 million for the year ended December 31, 2017 decreased by $16.2 million, or 28%, as compared to $59.0 million for the year ended December 31, 2016. The year over year decrease was primarily due to a decrease in licensing revenue, despite entering into licenses with SanDisk and Disney during the year.

Revenue of $59.0 million for the year ended December 31, 2016 increased by $15.5 million, or 36%, as compared to $43.5 million for the year ended December 31, 2015. The year over year increase was due to an increase in licensing revenue, primarily licenses of our Memory Patents including our May 2016 license agreement with Toshiba.

Cost of Revenues. Cost of revenues of $0.4 million for the year ended December 31, 2017 decreased by $17.8 million, or 98%, as compared to $18.2 million for the year ended December 31, 2016. This decrease was primarily due to lower revenue share obligations. Prior to 2017, we shared revenue with the party from whom we acquired the bulk of our memory patents. In early 2017, that party relinquished its future revenue share rights in exchange for an up-front payment and future installment payments. This resulted in a one-time charge of $3.2 million to expense in 2017 (see “Contract termination costs” below), but significantly reduced our “cost of revenues” from our memory patents.

Cost of revenues of $18.2 million for the year ended December 31, 2016 increased by $8.0 million, or 78%, as compared to $10.2 million for the year ended December 31, 2015. This increase was primarily due to costs associated with our May 2016 license agreement with Toshiba, including payments to third parties to whom we had an obligation to share revenue.

Patent Administration and Related Costs. Patent administration and related costs of $0.9 million for the year ended December 31, 2017 decreased by $0.1 million, or 12%, as compared to $1.0 million for the year ended December 31, 2016. Patent administration and related costs of $1.0 million for the year ended December 31, 2016 decreased by $1.7 million, or 61%, as compared to $2.7 million for the year ended December 31, 2015. The year over year decrease in all instances was primarily due to a decline in the cost of patents abandoned each year as compared to the prior year; as well as a reduction in patent maintenance and prosecution costs resulting from the sale and abandonment of certain patents and applications during current and prior years that were not part of existing licensing programs.

Patent Litigation. Patent litigation expenses of $8.7 million for the year ended December 31, 2017 increased by $4.5 million, or 109%, as compared to $4.2 million for the year ended December 31, 2016. The increase was primarily due to the contingent fees associated with our settlement and license agreement with SanDisk, partially offset by contingent fees incurred in 2016 associated with our settlement and license agreement with DirecTV.

Patent litigation expenses of $4.2 million for the year ended December 31, 2016 decreased by $8.9 million, or 68%, as compared to $13.1 million for the year ended December 31, 2015. The higher patent litigation expenses in 2015 included costs incurred by our subsidiary, ContentGuard, as it prepared for its March 2015 claim construction hearing and jury trials in September 2015 and November 2015 in the Google Litigation and Apple Litigation, as well as trial cost reimbursements, and contingent fees associated with our settlement and license agreement with Amazon. Patent litigation expenses for 2016 included costs and fees associated with our settlement and license agreement with DirecTV and costs incurred to pursue enforcement actions against certain companies with whom we have been unable to secure negotiated licenses.

General and Administrative. General and administrative expenses of $7.7 million for the year ended December 31, 2017 increased by $0.2 million, or 2%, as compared to $7.5 million for the year ended December 31, 2016. The increase was primarily due to a $0.4 million contingent fee incurred in obtaining the 2017 tax refund (discussed below) and a $0.2 million discretionary bonus payment to the Company's CEO in the first quarter of 2017 partially offset by a $0.1 million reduction in employment expenses resulting from a lower headcount in 2017 and a $0.3 million decrease in professional fees and other expenses.

General and administrative expenses of $7.5 million for the year ended December 31, 2016 decreased by $9.3 million, or 55%, as compared to $16.8 million for the year ended December 31, 2015. The decrease was primarily due to (i) $5.5 million reduction in employment expenses resulting from a lower headcount, (ii) $1.0 million loss on the sale of Provitro's assets and the disposal of corporate office assets incurred in 2015, (iii) $0.7 million reduction in expenses associated with Provitro, (iv) $0.9 million reduction in facilities costs and $0.3 million decrease in depreciation expense due to the closure of office locations, and (v) $0.9 million reduction in professional fees and other expenses.

Stock-based Compensation. Stock-based compensation of $3.4 million for the year ended December 31, 2017 remained flat as compared to $3.4 million for the year ended December 31, 2016, as higher valued CEO performance awards offset a reduction in expense for awards that became fully vested in 2016.

Stock-based compensation of $3.4 million for the year ended December 31, 2016 decreased by $1.1 million, or 24%, as compared to $4.5 million for the year ended December 31, 2015. The decrease was primarily due to a lower headcount in 2016 versus 2015, partially offset by expense associated with awards issued in June 2015 to our CEO.

Amortization of Intangible Assets. Amortization of intangible assets of $2.3 million for the year ended December 31, 2017 decreased by $7.2 million, or 75%, as compared to $9.5 million for the year ended December 31, 2016 primarily due to patents being abandoned or becoming fully amortized as they reached their estimated useful life with no additional patents added to our portfolio.

Amortization of intangible assets of $9.5 million for the year ended December 31, 2016 decreased by $4.4 million, or 32%, as compared to $13.9 million for the year ended December 31, 2015 due to a reduction in value of our intangible assets as a result of their impairment during the fourth quarter of 2015, partially offset by a change in their estimated useful lives.

Contract Termination Costs. Contract termination costs of $3.2 million for the year ended December 31, 2017 represent the cost associated with the buy-out of the revenue share agreement from the company that sold us the bulk of our memory patents in 2013.

Impairment of Intangible Assets and Goodwill. During the fourth quarter of the year ended December 31, 2015, we recorded an impairment charge of $103.5 million due to a reduction in the carrying value of our IP and goodwill as a result of the non-infringement verdicts in the Google Litigation and Apple Litigation.

The Company recorded no such impairment charges during the years ended December 31, 2017 and 2016.

Interest Income. Interest income for the years ended December 31, 2017, 2016 and 2015 primarily related to interest earned on money market funds.

Interest Expense. Interest expense of $0.1 million for the year ended December 31, 2015 consisted primarily of interest expense resulting from the installment payment obligations associated with intangible assets acquired during 2013. The payment obligation was satisfied in March 2015 and no further interest expense is being incurred.

Gain on Contingencies. Gain on contingencies of $2.0 million for the year ended December 31, 2016 was due to the receipt of contingent payments associated with the disposition of assets of our prior satellite business. Gain on contingencies of $6.1 million for the year ended December 31, 2015 was due to (i) $3.9 million from the disposition of assets associated with our former satellite business, (ii) $1.6 million, net of collection costs, upon the full and final settlement of all claims against the J&J Group, and (iii) $0.5 million from the release of a tax indemnification liability associated with our acquisition of Ovidian in June 2011.

Other Expense. Other expense for the year ended December 31, 2017, 2016 and 2015 was due to losses on foreign currency transactions.

Income Tax Benefit (Expense). We did not have a U.S. federal income tax liability for the years ended December 31, 2017, 2016 or 2015. However, the Company recorded an income tax benefit of $2.1 million in 2017 primarily related to a state income tax refund. During the fourth quarter of 2017, our ContentGuard subsidiary settled an ongoing dispute with the State of California related to income tax paid to the state prior to our acquisition of ContentGuard. We expect to receive the proceeds from this settlement in the first quarter of 2018.

We recorded a tax provision of $4.1 million for the year end December 31, 2015 related to foreign taxes withheld on revenue generated from a license agreement executed with a licensee domiciled in a foreign jurisdiction. In general, foreign taxes withheld may be claimed as a deduction on future U.S. corporate income tax returns, or as a credit against future US federal income tax liabilities, subject to certain limitations. However, due to our uncertainty regarding our ability to utilize the deduction or credit resulting from the foreign withholding, we established a full valuation allowance against this deferred tax asset. Additionally, during the year ended December 31, 2015, as a result of the impairment of certain indefinite-lived intangible assets, the deferred tax liability associated with these intangibles was decreased, resulting in a tax benefit of $1.5 million, resulting in a net provision for the year ended December 31, 2015 of $2.6 million.

Liquidity and Capital Resources

Overview. As of December 31, 2017, we had cash and cash equivalents of $184.5 million. Our primary expected cash needs for the next twelve months include repurchases of shares from our shareholders, ongoing operating costs associated with commercialization of our IP assets, expenses in connection with legal proceedings, expenses associated with researching new business opportunities and other general corporate purposes. We may also use our cash, and may incur debt or issue equity, to acquire or invest in other businesses or assets.

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

Cash and Cash Equivalents. Cash and cash equivalents were $184.5 million at December 31, 2017, compared to $174.6 million at December 31, 2016. The following table is provided to facilitate the discussion of our liquidity and capital resources for the years ended December 31, 2017 and 2016 (in thousands):

	Year ended December 31,	
	2017	2016
Net cash provided by (used in):		
Operating activities	$31,875	$10,926
Investing activities	642	1,288
Financing activities	(22,666)	(40)
Net increase in cash and cash equivalents	9,851	12,174
Cash and cash equivalents—beginning of period	174,631	162,457
Cash and cash equivalents—end of period	$184,482	$174,631

The increase in cash and cash equivalents for the year ended December 31, 2017 of $9.9 million was primarily due to $56.1 million of collected revenue and the receipt of a $0.6 million installment payment on a note receivable, partially offset by (i) $18.0 million of general corporate expenditures, (ii) $19.7 million paid to repurchase shares and (iii) $9.1 million paid on revenue share obligations.

The increase in cash and cash equivalents for the year ended December 31, 2016 of $12.2 million was primarily due to $28.6 million of collected revenue, $2.0 million received from the disposition of assets associated with our former satellite business and the receipt of $1.3 million in installment payments on a note receivable, partially offset by $13.7 million of general corporate expenditures and $6.0 million paid on revenue share obligations.

Cash Flows from Operating Activities. Cash provided by operating activities of $31.9 million for the year ended December 31, 2017 consisted primarily of revenue generated by operations of $56.1 million and $1.6 million of interest income, partially offset by $26.6 million of operating expenses adjusted for various non-cash items including (a) $3.4 million of stock-based compensation expense, (b) $2.4 million of amortization expense associated with intangible assets and (c) $0.1 million of depreciation and costs associated with abandonment of patents, as well as a $4.9 million decrease in accrued expenses and other current liabilities primarily related to revenue share obligations accrued at December 31, 2016.

For the year ended December 31, 2016, the $10.9 million of cash provided by operating activities consisted primarily of (i) revenue generated by operations of $59.0 million, (ii) $2.0 million received from the disposition of assets associated with our former satellite business, and (iii) $0.7 million of interest income, partially offset by a $30.4 million increase in accounts receivable and operating expenses of $43.8 million adjusted for various non-cash items including (a) $9.5 million of amortization expense associated with intangible assets, (b) $3.4 million of stock-based compensation expense, and (c) $0.3 million of depreciation and costs associated with abandonment of patents, as well as a $10.2 million increase in accounts payable, accrued expenses and other current/non-current liabilities.

Cash Flows from Investing Activities. Cash provided by investing activities of $0.6 million for the year ended December 31, 2017 and $1.3 million for the year ended December 31, 2016 was primarily due to the receipt of installment payments associated with the sale of the Provitro assets in 2015.

Cash Flows from Financing Activities. Cash used in financing activities of $22.7 million for the year ended December 31, 2017 was primarily due to $19.7 million utilized to repurchase shares of our Class A common stock and $3.0 million utilized to pay a cash dividend of $12.32 per share to our shareholders in December 2017.

For the year ended December 31, 2016, the $40,000 of cash used in financing activities related to statutory taxes paid as a result of the vesting of restricted stock awards.

Contractual Obligations. Our primary contractual obligations relate to an operating lease agreement for our main office location in Kirkland, Washington. Our contractual obligations as of December 31, 2017, were as follows (in thousands):

	Years ending December 31,			
	Total	2018	2019	2020 and Thereafter
Operating lease obligations	$553	$348	$205	$ —

Inflation

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 7A. 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 December 31, 2017, our cash and investment portfolio consisted of both cash and money market funds with a fair value of $184.5 million. The primary objective of our investments in money market funds is to preserve principal while optimizing returns and minimizing risk, and our policies require, at the time of purchase, that we make these investments in short-term, high rated securities which currently yield between zero to 150 basis points.

	December 31, 2017
Cash	$15,200
Money market funds	169,282
	$184,482

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 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Pendrell Corporation

Opinion on the financial statements:

We have audited the accompanying consolidated balance sheets of Pendrell Corporation Inc. (a Washington corporation) and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 16, 2018 expressed an unqualified opinion.

Basis for opinion:

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2014.

Seattle, Washington

February 16, 2018

Pendrell Corporation

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 184,482	$ 174,631
Accounts receivable	17,361	15,457
Income tax receivable, net	2,161	—
Other receivables	118	669
Prepaid expenses and other current assets	351	262
Total current assets	204,473	191,019
Property in service – net of accumulated depreciation of $548 and $531, respectively	44	74
Non-current accounts receivable	1,309	16,555
Other assets	29	29
Intangible assets – net of accumulated amortization of $56,224 and $61,080, respectively	2,329	4,716
Total	$ 208,184	$ 212,393
LIABILITIES, SHAREHOLDERS' EQUITY AND NONCONTROLLING INTEREST		
Current liabilities:		
Accounts payable	$ 136	$ 125
Accrued expenses	8,797	6,278
Other liabilities	64	95
Total current liabilities	8,997	6,498
Other non-current liabilities	—	7,796
Total liabilities	8,997	14,294
Commitments and contingencies (Note 7)		
Shareholders' equity and noncontrolling interest:		
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, 186,927 and 272,682 shares issued, and 186,927 and 214,913 shares outstanding	2,124	2,151

Class B convertible common stock, $0.01 par value, 150,000,000 shares authorized, 84,663 shares issued and 53,660 shares outstanding	537	537
Additional paid-in capital	1,948,472	1,962,178
Accumulated deficit	(1,747,160)	(1,763,060)
Total Pendrell shareholders' equity	203,973	201,806
Noncontrolling interest	(4,786)	(3,707)
Total shareholders' equity and noncontrolling interest	199,187	198,099
Total	$208,184	$212,393

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

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Pendrell Corporation

Consolidated Statements of Operations

(In thousands, except share and per share data)

	Year ended December 31,		
	2017	2016	2015
Revenue	$42,774	$59,018	$43,519
Operating expenses:			
Cost of revenues	409	18,156	10,215
Patent administration and related costs	916	1,046	2,668
Patent litigation	8,695	4,169	13,076
General and administrative	7,675	7,508	16,750
Stock-based compensation	3,422	3,424	4,507
Amortization of intangible assets	2,345	9,498	13,939
Contract termination costs	3,161	—	—
Impairment of intangible assets and goodwill	—	—	103,499
Total operating expenses	26,623	43,801	164,654
Operating income (loss)	16,151	15,217	(121,135)
Interest income	1,603	696	156
Interest expense	—	—	(53)
Gain on contingencies	—	2,047	6,095
Other expense	(8)	(11)	(14)
Income (loss) before income taxes	17,746	17,949	(114,951)
Income tax benefit (expense)	2,110	—	(2,631)
Net income (loss)	19,856	17,949	(117,582)
Net income (loss) attributable to noncontrolling interests	796	186	(7,902)
Net income (loss) attributable to Pendrell	$19,060	$17,763	$(109,680)
Basic income (loss) per share attributable to Pendrell	$76.28	$66.38	$(412.79)
Diluted income (loss) per share attributable to Pendrell	$74.22	$64.15	$(412.79)
Weighted average shares outstanding:			
Basic	249,866	267,589	265,707
Diluted	256,814	276,918	265,707

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

Pendrell Corporation

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share data)

	Common stock Class A shares	Class B shares	Amount	Additional paid-in capital	Accumulated deficit	Shareholder's equity	Noncontrolling interests	Total
Balance, January 1, 2015	212,975	53,660	$2,669	$1,952,880	$(1,671,135)	$284,414	$ 5,173	$289,587
Issuance of Class A common stock from exercise of stock options	358	—	4	215	—	219	—	219
Class A common stock withheld at vesting to cover statutory tax obligations	(39)	—	(1)	(131)	(8)	(140)	—	(140)
Stock-based compensation and issuance of restricted stock, net of forfeitures	1,156	—	12	4,693	—	4,705	—	4,705
Repurchase of restricted stock	(250)	—	(2)	—	—	(2)	—	(2)
Shares received through divesture of Ovidian	(92)	—	(1)	(45)	—	(46)	—	(46)
Purchase of noncontrolling interest in Provitro Biosciences LLC	—	—	—	764	—	764	(1,164)	(400)
Net loss	—	—	—	—	(109,680)	(109,680)	(7,902)	(117,582)
Balance, December 31, 2015	214,108	53,660	$2,681	$1,958,376	$(1,780,823)	$180,234	$ (3,893)	$176,341
Class A common stock withheld at vesting to cover statutory tax obligations	(63)	—	—	(40)	—	(40)	—	(40)

Stock-based compensation and issuance of restricted stock, net of forfeitures	868	—	7	3,842	—	3,849	—	3,849
Net income	—	—	—	—	17,763	17,763	186	17,949
Balance, December 31, 2016	214,913	53,660	$2,688	$1,962,178	$(1,763,060)	$201,806	$(3,707)	$198,099
Repurchase of Class A common stock	(30,478)	—	(28)	(19,638)	—	(19,666)	—	(19,666)
Shares relinquished by the Liquidating Trust	(200)	—	—	—	—	—	—	—
Stock-based compensation and issuance of restricted stock, net of forfeitures	2,692	—	1	3,830	—	3,831	—	3,831
Effect of accounting change to zero forfeitures for stock-based compensation	—	—	—	177	(177)	—	—	—
Sale of noncontrolling interest in subsidiary	—	—	—	1,925	—	1,925	(1,875)	50
Dividend ($12.32 per share)	—	—	—	—	(2,983)	(2,983)	—	(2,983)
Net income	—	—	—	—	19,060	19,060	796	19,856
Balance, December 31, 2017	186,927	53,660	$2,661	$1,948,472	$(1,747,160)	$203,973	$(4,786)	$199,187

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

Pendrell Corporation

Consolidated Statements of Cash Flows

(In thousands, except share data)

	Year ended December 31,		
	2017	2016	2015
Operating activities:			
Net income (loss) including noncontrolling interest	$19,856	$17,949	$(117,582)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation	3,422	3,424	4,507
Amortization of intangible assets	2,345	9,498	13,939
Impairment of intangible assets and goodwill	—	—	103,499
Depreciation	37	51	351
Non-cash cost of patents monetized	—	—	138
Loss associated with the abandonment and/or disposition of patents	41	163	958
Loss on the disposition of property	—	—	1,015
Other	—	4	3
Other changes in certain assets and liabilities:			
Accounts receivable, current and non-current	13,342	(30,423)	44
Income tax receivable, net	(2,161)	—	—
Prepaid expenses and other current/non-current assets	(138)	91	(1,108)
Accounts payable	11	(15)	(141)
Accrued expenses and other current liabilities	(4,880)	2,388	(5,670)
Other non-current liabilities	—	7,796	—
Net cash provided by (used in) operating activities	31,875	10,926	(47)
Investing activities:			
Payment received on note receivable	600	1,300	—
Sale of noncontrolling interest in subsidiary	50	—	—
Purchases of property in service and intangible assets	(8)	(12)	(2,077)
Proceeds associated with disposition of property	—	—	109
Net cash provided by (used in) investing activities	642	1,288	(1,968)
Financing activities:			
Repurchase of Class A common stock	(19,666)	—	—
Cash dividend paid	(2,983)	—	—
Payment of statutory taxes for stock awards	(17)	(40)	(140)
Proceeds from exercise of stock options	—	—	219
Payment of accrued obligations for purchased intangible assets	—	—	(4,000)
Purchase of noncontrolling interest in Provitro Bioscience LLC	—	—	(400)
Net cash used in financing activities	(22,666)	(40)	(4,321)

Net increase (decrease) in cash and cash equivalents	9,851	12,174	(6,336)
Cash and cash equivalents—beginning of period	174,631	162,457	168,793
Cash and cash equivalents—end of period	$184,482	$174,631	$162,457
Supplemental disclosures:			
Income taxes paid	$48	$—	$4,125
Supplemental disclosure of non-cash investing and financing activities:			
Note receivable for disposition of property	—	—	1,900

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

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Pendrell Corporation

Notes to Consolidated Financial Statements

1. Organization and Business

Overview—These consolidated financial statements include the accounts of Pendrell Corporation (“Pendrell”) and its consolidated subsidiaries (collectively referred to as the “Company”). Since 2011, the Company’s strategy, through its consolidated subsidiaries, has been 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. The Company regularly evaluates its existing investments to determine whether retention or disposition is appropriate, and investigates new investment and business acquisition opportunities. From 2011 through 2015, the Company also advised clients on various IP strategies and transactions through its consulting subsidiary Ovidian Group LLC (“Ovidian”). The Company sold Ovidian for nominal consideration in 2015.

The Company was formed in 2000 to operate a next generation global mobile satellite communications system. The Company began its exit from the satellite business in 2011 and completed its exit in 2012 with (i) the sale of its medium earth orbit (“MEO”) satellite assets (“MEO Assets”) that had been in storage for nominal consideration, (ii) the transfer of its in-orbit MEO satellite to a new operator who assumed responsibility for all related operating costs effective April 1, 2012, and (iii) the deconsolidation of its MEO-related international subsidiaries.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation— The consolidated financial statements of the Company include the assets and liabilities of its wholly-owned subsidiaries and subsidiaries it controls or in which it has a controlling financial interest. Noncontrolling interests on the consolidated balance sheets include third-party investments in entities that the Company consolidates, but does not wholly own. Noncontrolling interests are classified as part of equity and the Company allocates net income (loss), other comprehensive income (loss) and other equity transactions to its noncontrolling interests in accordance with their applicable ownership percentages.

All intercompany transactions and balances have been eliminated in consolidation, including a $31.8 million loan from Pendrell to ContentGuard Holdings, Inc. (“ContentGuard”). In June 2017, the Company sold a 9% interest in ContentGuard. ContentGuard now has two minority shareholders, while Pendrell maintains an 81.1% ownership stake. 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.

All information in these financial statements is in U.S. dollars. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Capital Structure Change— At the Company’s annual meeting of shareholders in June 2017, the Company’s shareholders approved a 1-for-100 reverse stock split of the Company’s Class A Stock and Class B common stock that was implemented on November 30, 2017 (the "2017 Reverse Split"). The 2017 Reverse Split reduced the Company’s number of record shareholders to less than 300, which allowed it to (i) terminate the Company’s Nasdaq listing, effective December 15, 2017, (ii) file to de-register the Company’s Class A Stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which was filed on December 26, 2017; and (iii) cease to be a reporting company under the Exchange Act after the Company’s notice of de-registration is effective, which will be no later than March 26, 2018.

On September 20, 2017, the Company's Board of Directors (the "Board") announced that the Company does not currently plan to publish financial information following the expiration of its reporting obligations under the Exchange Act. As a result, the Company believes this Form 10-K for fiscal year ended December 31, 2017 will be its final financial statement filed with the Securities and Exchange Commission.

In September 2016, the Company consummated a 1-for-10 reverse stock split (the “2016 Reverse Split”) to remediate a stock price deficiency as required by Nasdaq’s continued listing requirements.

As a result of the 2017 and 2016 Reverse Splits, the share counts and per share data reported in the historical financial statements have been adjusted retrospectively as if the 2017 and 2016 Reverse Splits had been in effect for all periods presented. Additionally, the exercise prices and the number of shares issuable under the Company’s stock-based compensation plans have been adjusted retrospectively to reflect the 2017 and 2016 Reverse Splits.

Segment Information—The Company operates in and reports on one segment (IP management). Operating segments are based upon the Company’s internal organization structure, how 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, 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 future periods.

Cash and Cash Equivalents—Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities from the date of purchase of 90 days or less. Cash and cash equivalents are comprised of the following (in thousands):

	December 31,	
	2017	2016
Cash	$15,200	$13,485
Money market funds	169,282	161,146
	$184,482	$174,631

The fair value of money market funds at December 31, 2017 and 2016 was classified as Level 1 in the hierarchy established by the Financial Accounting Standards Board (“FASB”) as amounts were based on quoted prices available in active markets for identical investments as of the reporting date.

Accounts Receivable—Accounts receivable consist primarily of amounts billed to customers under licensing arrangements. For the years ended December 31, 2017, 2016 and 2015, the Company did not incur any losses on its accounts receivable. Based upon historical collections experience and currently available information, the Company has determined that no allowance for doubtful accounts was required at either December 31, 2017 or December 31,

2016. Carrying amounts of such receivables approximate their fair value due to their short-term nature.

Prepaid Expenses and Other Current Assets—As of December 31, 2017 and 2016, prepaid expenses and other current assets consisted primarily of insurance prepayments, prepayments of patent maintenance fees and prepayments of rent for leased facilities.

Property in Service—Property in service consists primarily of computer equipment, software, furniture and fixtures and leasehold improvements. Property in service is recorded at cost, net of accumulated depreciation, and is depreciated using the straight-line method. Computer equipment and furniture and fixtures are depreciated over their estimated useful lives ranging from three to five years. Software is depreciated over the shorter of its contractual license period or three years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective lease. Significant additions and improvements to property in service are capitalized. Repair and maintenance costs are expensed as incurred.

Intangible Assets and Goodwill— The Company amortizes finite-lived intangible assets, including patents, acquired in purchase transactions over their expected useful lives. The Company assigns goodwill and indefinite-lived intangible assets to its reporting units based on the expected benefit from the synergies arising from each business combination.

The Company evaluates finite-lived intangible assets when events or circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. These events or circumstances could include: a significant change in the business climate, legal factors, operating performance indicators, or changes in technology or customer requirements. Recoverability of an asset or asset group is measured by a comparison of the carrying amount to the future undiscounted net cash flows expected to be generated by the asset or asset group over its life. This comparison requires management to make judgments regarding estimated future cash flows. The Company's ability to realize the estimated future cash flows may be affected by factors such as changes in operating performance, changes in business strategy, invalidation of patents, unfavorable judgments in legal proceedings and changes in economic conditions. If the Company's estimates of the undiscounted cash flows do not equal or exceed the carrying value of the asset or asset group, an impairment charge equal to the amount by which the recorded value of the asset or asset group exceeds its fair value is recognized.

The Company previously evaluated goodwill for impairment on an annual basis during the fourth quarter, or more frequently if circumstances indicated that the carrying value of a Company reporting unit may exceed its fair value. When evaluating goodwill and indefinite-lived intangible assets for impairment, the Company first performed a qualitative assessment to determine if fair value of the reporting unit was more likely than not greater than the carrying amount. If the assessment indicated that it was more likely than not that the fair value of a reporting unit was less than its carrying amount, then the Company further evaluated the estimated fair value of the reporting unit through the use of discounted cash flow models, which required management to make significant judgments as to the estimated future cash flows utilized. The Company's ability to realize the future cash flows utilized in its fair value calculations could be affected by factors such as changes in its operating performance, changes in its business strategy, invalidation of its patents, unfavorable judgments in legal proceedings and changes in economic conditions. The results of the models were compared to the carrying amount of the reporting unit. If such comparison indicated that the fair value of the reporting unit was lower than the carrying amount, impairment would exist and the impairment charge would be measured by comparing the implied fair value of the reporting unit's goodwill to its carrying value.

During 2015, the Company determined that a portion of its intellectual property assets and the balance of its goodwill were impaired and recognized an impairment charge of $103.5 million for the year ended December 31, 2015. As a result of the impairment in 2015, the Company no longer maintains balances for goodwill or indefinite-lived intangible assets in its financial statements.

Fair Value of Financial Instruments—The Company determines the fair value of its financial instruments based on the fair value hierarchy established by the FASB. The three levels of inputs used to measure fair value are as follows:

Level 1—Quoted prices in active markets for identical assets and liabilities.

Level 2—Quoted prices in active markets for similar assets and liabilities or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

As of December 31, 2017 and 2016, the Company's financial instruments included its cash and cash equivalents, accounts receivable, other receivables, accounts payable and certain other assets and liabilities. The Company has determined that the carrying value of its financial instruments, based on the hierarchy established by the FASB, approximates the fair value of the financial instruments as they are equivalent to cash or due to their short-term nature.

Revenue Recognition— The Company derives its operating revenue from IP monetization activities, including patent licensing and patent sales; and, in years prior to 2016, from IP consulting services. Although the Company's revenue may occur in different forms, it regards its IP monetization activities as integrated and not separate revenue streams. For example, a third party relationship could involve consulting and licensing activities, or the acquisition of a patent portfolio can lead to licensing, consulting and patent sales revenue.

The Company's patent licensing agreements often provide for the payment of contractually determined upfront license fees representing all or a majority of the revenue that will be generated from such agreements for nonexclusive, nontransferable, limited duration licenses. These agreements typically grant (i) a nonexclusive license to make, sell, distribute, and use certain specified products that read on the Company's patents, (ii) a covenant not to enforce patent rights against the licensee based on such activities, and (iii) the release of the licensee from certain claims. Generally, the agreements provide no further obligation for the Company upon receipt of the minimum upfront license fee. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront license fee, and when all other revenue recognition criteria have been met.

Certain of the Company's patent licensing agreements provide for future royalties or future payment obligations triggered upon satisfaction of conditions. Future royalties and future payments are recognized in revenue upon satisfaction of any related conditions, provided that all revenue recognition criteria, as described below, have been met.

The Company sells patents from its portfolios from time to time. These sales are part of the Company's ongoing operations. Consequently, the related proceeds are recorded as revenue.

The timing and amount of revenue recognized from IP monetization activities depend on the specific terms of each agreement and the nature of the deliverables and obligations. Fees earned from IP consulting services are generally recognized as the services are performed. For agreements that are deemed to contain multiple elements, consideration is allocated to each element of an agreement that has stand-alone value using the relative fair value method. The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) all material obligations have been substantially performed pursuant to agreement terms, services have been rendered to the customer or delivery has occurred, (iii) amounts are fixed or determinable, and (iv) collectability is reasonably assured. As a result of the contractual terms of our patent monetization agreements and the unpredictable nature, form and frequency of monetizing transactions, our revenue may fluctuate substantially from period to period.

Research and Development—The Company incurs costs associated with research and development activities and expenses the costs in the period incurred. Research and development expenses during the period were not material for separate disclosure and are included in general and administrative expenses.

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. The fair value of stock options and stock appreciation rights is estimated on the date of grant using the Black-Scholes option pricing model ("Black-Scholes Model") based on the single option award approach. The fair value of restricted stock awards and restricted stock units is determined based on the number of shares granted and either the quoted market price of the Company's Class A common stock on the date of grant for time-based and performance-based awards, or the fair value on the date of grant using the Monte Carlo Simulation model ("Monte Carlo Simulation") for market-based awards. The fair value of stock options, restricted stock awards and restricted stock units with service conditions are amortized to expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of stock options, stock appreciation rights, restricted stock awards and restricted stock units with performance conditions deemed probable of being achieved and cliff vesting is amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of restricted stock awards and restricted stock units with performance and market conditions are amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of stock-based payment awards as determined by the Black-Scholes Model and the Monte Carlo Simulation are affected by the Company's stock price as well as other assumptions. These assumptions include, but are not limited to, the expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. On January 1, 2017, the Company elected to change its accounting policy for calculating stock-based compensation based on forfeiture estimates to one that recognizes forfeitures when they occur (see "New Accounting Pronouncements" below). Previously, forfeitures were estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates.

In certain situations, the Company accounts for changes in the terms or conditions of a stock-based payment award as an exchange of the original award for a new award pursuant to the rules governing modification accounting. Compensation expense for modified stock-based payment awards is generally equal to the fair value of the original award plus the incremental cost conveyed as a result of the modification expensed over the remaining life of the award.

Income Taxes—The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that the assets will not be realized.

The Company records an unrecognized tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the tax authorities. The Company's policy is to recognize interest and/or penalties related to unrecognized tax benefits as income tax expense.

Contingencies—Outcomes of legal proceedings and claims brought by and against the Company are subject to significant uncertainty. The Company accrues an estimated loss from a loss contingency, such as a legal claim, by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company discloses a contingency if there is at least a reasonable possibility that a loss has been incurred. In determining whether a contingent loss should be accrued or disclosed, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact the Company's financial position, results of operations or cash flows. For contingencies that might result in a gain, the Company does not record the gain until realized.

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) and unvested restricted stock awards and units, calculated using the treasury stock method. The calculation of dilutive loss per share for the year ended December 31, 2015 excludes all potential dilutive Common Shares as their inclusion would have been antidilutive.

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

	Year ended December 31, 2017	2016	2015
Net income (loss) attributable to Pendrell	$19,060	$17,763	$(109,680)
Weighted average common shares outstanding	250,428	268,276	267,136
Less: weighted average unvested restricted stock awards	(562)	(687)	(1,429)
Shares used for computation of basic income (loss) per share	249,866	267,589	265,707
Add back: weighted average unvested restricted stock awards and units	6,948	9,329	—
Shares used for computation of diluted income (loss) per share (1)	256,814	276,918	265,707
Basic income (loss) per share attributable to Pendrell	$76.28	$66.38	$(412.79)
Diluted income (loss) per share attributable to Pendrell	$74.22	$64.15	$(412.79)

(1) Stock options, restricted stock awards and units totaling 12,500, 13,053 and 27,847 for the years ended December 31, 2017, 2016 and 2015, respectively, were excluded from the calculation of diluted income (loss) per share as their inclusion was anti-dilutive.

New Accounting Pronouncements— In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842), which requires companies that are lessees to recognize a right-of-use asset and lease liability for most leases that do not meet the definition of a short-term lease. For income statement purposes, leases will continue to be classified as either operating or financing. Classification will be based on criteria that are similar to those applied in current lease accounting. Compliance with this ASU is required for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. As the Company's future minimum lease commitments as of December 31, 2017 are approximately $0.6 million, the Company believes the future adoption of this ASU will not have a material impact on its financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to simplify certain provisions in stock compensation accounting, including provisions applicable to: (1) accounting for income taxes, (2) classification of excess tax benefits on the statement of cash flow, (3) forfeitures, (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes,

(6) the practical expedient for estimating the expected term and (7) intrinsic value. Compliance with this ASU is required for annual periods beginning after December 15, 2016, and interim periods therein. The adoption of this ASU on January 1, 2017 resulted in an adjustment to retained earnings and additional paid in capital of approximately $0.2 million due to a change in accounting for forfeitures.

Throughout the year ended December 31, 2016, the FASB issued a number of ASUs which provide further clarification to ASU No. 2014-09, Revenue (Topic 606): Revenue from Contracts with Customers, issued in May 2014, which supersedes existing revenue recognition guidance under GAAP. The core principle of ASU No. 2014-09 is to recognize as revenue the amount that an entity expects to be entitled for goods or services at the time the goods or services are transferred to customers. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of the amendments in ASU No. 2014-09 to the annual reporting period beginning after December 15, 2017, with early adoption permitted beginning January 1, 2017. The ASUs issued in 2016 related to ASU No. 2014-09 will become effective when the guidance in ASU No. 2014-09 becomes effective. The Company plans to adopt this ASU on January 1, 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. As the Company’s patent licensing agreements generally provide no further obligation for the Company upon receipt of the applicable license fees, the fiscal 2018 adoption of ASU 2014-09 will have no impact to revenues previously reported but may require additional footnote disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718)-Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Unless the changes in terms or conditions meet all three criteria outlined in the guidance, modification accounting should be applied. The three criteria relate to changes in the terms and conditions that affect the fair value, vesting conditions, or classification of a share-based payment award. Compliance with this ASU is required for annual periods beginning after December 15, 2017. Early adoption is permitted. The adoption of this ASU in 2017 did not have an impact on the Company's financial position, results of operations or cash flows.

3. Provitro

In February 2013, the Company acquired a 68.75% interest in Provitro, the developer of the Provitro™ proprietary micro-propagation technology 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.

From acquisition through the year ended December 31, 2014, the Company attempted to develop a strategy to commercialize Provitro's proprietary micro-propagation technology (designed to facilitate the production on a commercial scale of certain plants, particularly timber bamboo), but did not generate revenue from the technology.

In January 2015, the Company discontinued its efforts to commercialize the Provitro™ technology and in September 2015, the Company sold Provitro's facility and related tangible assets for $2.0 million. The purchase price was paid in installments of which $0.1 million was paid immediately, $0.4 million was received in January 2016, $0.9 million was received in August 2016 and $0.6 million was received in January 2017.

4. Accounts Receivable (Current and Non-current)

A significant portion of the Company's current accounts receivable balance is due from Toshiba Memory Corporation ("TMC"), which prior to 2017 was a division of Toshiba Corporation ("Toshiba"). Based on the Company's assessment of various reports, including Toshiba's unaudited financial results, as well as the ongoing activities of TMC, the Company believes that no allowance for doubtful accounts is required for its receivable from TMC. The Company will continue to evaluate its position as new information becomes available.

The Company expects to receive the $1.3 million of non-current accounts receivable at December 31, 2017, in 2019.

5. Intangible Assets and Goodwill

2015 Impairment of Intangible Assets and Goodwill

In November 2015, as a result of non-infringement verdicts in the Company's lawsuits against various manufacturers of mobile communication and computing devices (see Note 7 – "Commitments and Contingencies"), the Company revised its projected cash flows for its intangible assets, triggering an impairment analysis of its intangible assets and goodwill. The Company records an impairment charge on its intangible assets if it determines that their carrying value may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted cash flows resulting from the use of the asset and its eventual disposition. When the Company determines that the carrying value of its intangible assets may not be recoverable, the Company measures the potential impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model. An impairment loss is recognized only if the carrying amount of the intangible assets exceeds its estimated fair value. An impairment charge is recorded to reduce the pre-impairment carrying amount of the intangible assets to their estimated fair value.

Determining the fair value is highly judgmental in nature and requires the use of significant estimates and assumptions considered to be Level 3 fair value inputs, including anticipated future revenue opportunities, operating margins, and discount rates, among others. The estimated fair value of the intangible assets was determined based on the income approach, as it was deemed to be most indicative of the Company's fair value in an orderly transaction between market participants. Under the income approach the Company determined fair value based on estimated future cash flows resulting from licensing its intangible assets. The estimated cash flows were discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the Company and the rate of return an outside investor would expect to earn. Upon completion of the analysis, the Company concluded that the estimated fair value of its intangible assets was less than their carrying amount and recorded an impairment charge of $82.3 million, which is included in "impairment of intangible assets and goodwill" in the accompanying consolidated statements of operations.

The Company then evaluated the carrying value of its goodwill by estimating the fair value of the reporting unit through the use of discounted cash flow models, which required management to make significant judgments as to the estimated future cash flows resulting from licensing its intangible assets. Upon completion of the analysis, the Company concluded that the estimated fair value of its reporting unit was less than its carrying amount and recorded an additional $21.2 million impairment charge related to goodwill in the fourth quarter of 2015. As a result of the impairment in 2015, the Company no longer maintains balances for goodwill or indefinite-lived intangible assets in its financial statements.

Intangible Assets

The following table presents details of the Company’s intangible assets and related amortization (in thousands):

	December 31, 2017	December 31, 2016
Patent cost	$ 58,553	$ 65,796
Patent accumulated amortization	(56,224)	(61,080)
Intangible assets, net	$ 2,329	$ 4,716

Amortization expense related to purchased intangible assets, reported as amortization of intangible assets in the consolidated statements of operations, for the years ended December 31, 2017, 2016 and 2015 were as follows (in thousands):

	Year ended December 31, 2017	2016	2015
Amortization of intangible assets	$2,345	$9,498	$13,939

The intangible assets at December 31, 2017 will be fully amortized as of December 31, 2018.

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

During the year ended December 31, 2015, the Company enhanced its existing memory and storage technologies patent portfolio for an additional $2.0 million. No patents were purchased during the years ended December 31, 2017 and 2016.

During the years ended December 31, 2017 and 2015, the Company sold certain patents in several transactions and has included the gross proceeds in revenue. No patents were sold during the year ended December 31, 2016. Cost associated with the patents sold, including any remaining net book value, are included in cost of revenues in the Company’s consolidated statements of operations. The patents sold in 2017 had previously been fully impaired, therefore, there was no related book value to charge to cost of revenues. Certain of the patents sold, as well as certain of those licensed, were subject to an obligation to pay a substantial portion of the net proceeds to a third party. These costs are also included in cost of revenues. In future periods, these third party payments as a percentage of revenues may vary significantly based on the structure utilized for any given acquisition. Costs associated with patents sold during the years ended December 31, 2017, 2016 and 2015 were as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
Cost of patents sold	$ —	$	