Pendrell Corp
Form 10-K
March 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011 December 31, 2011

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)

Delaware	**98-0221142**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2300 Carillon Point, Kirkland, Washington 98033

(Address of principal executive offices including zip code)

(425) 278-7100

(Registrant s telephone number, including area code)

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	**The Nasdaq Global Market**

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 x.

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 x.

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

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

Indicate by check mark 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. x

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of June 30, 2011, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $465,721,460.

As of March 1, 2012, the registrant had 207,492,632 shares of Class A common stock and 53,660,000 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference in Part II, Item 5 and Part III of this Form 10-K.

Table of Contents

PENDRELL CORPORATION

2011 ANNUAL REPORT ON FORM 10-K

INDEX

Table of Contents

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). Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified under Item 1A Risk Factors. Actual events or results could differ materially due to a number of factors, including those described herein and in the documents incorporated herein by reference.

Item 1. Business.

Overview

Pendrell Corporation (formerly ICO Global Communications (Holdings) Limited) (Pendrell) is a Delaware corporation which, with its consolidated subsidiaries, is referred to as us, we, or the Company. 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.

This year represented a turning point for us marked by the $325 million sale of our interests in DBSD North America, Inc. and its subsidiaries (DBSD) and the related winding down of our legacy satellite businesses, the progression of our ongoing litigation with Boeing Satellite Services, Inc. (BSSI) and The Boeing Company (Boeing), and significant investments in opportunities relating to the intellectual property (IP) asset class.

With the acquisitions completed in the second half of 2011 and the expansion of our team with key hires, we now operate a fully-integrated IP investment and advisory firm that develops and implements strategies to create, acquire, commercialize and license IP.

IP Licensing

In October 2011, we partnered with Time Warner, Inc. (Time Warner), a global leader in the production of high quality media and entertainment content, to acquire ContentGuard Holdings, Inc. (ContentGuard). ContentGuard has developed a significant portfolio of digital rights management (DRM) intellectual property featuring more than 260 issued patents and over 160 pending patent applications worldwide. Inventions represented by ContentGuard s foundational patents guard against unauthorized duplication and use of digital content that is transferred from a source to one or more devices, such as mobile phones, tablets, set top boxes, e-readers, game consoles, DVD players, personal computers and connected televisions. ContentGuard s licensees are manufacturers, distributors and providers of products and services that incorporate our innovations to enable the protection of digital content, including Casio Hitachi Mobile Communications, LG Electronics, Microsoft Corporation, Nokia, Panasonic, Sharp, Sony, Toshiba, Technicolor, S.A., Time Warner and Xerox Corporation.

ContentGuard s foundational DRM technologies were incubated in the 1990s, when ContentGuard was a division of Xerox PARC. Xerox spun ContentGuard into a separate Delaware corporation in 2000 and later divested ownership to Microsoft Corporation, Time Warner and Technicolor. As a result of our acquisition transaction, we own 90.1% of ContentGuard and Time Warner owns 9.9%.

ContentGuard s licensing arrangements typically involved the payment of a one-time licensing fee in exchange for a nonexclusive, nontransferable limited duration license to use specified IP for specified products or specified purposes. ContentGuard has historically received payment of license revenues at the time of execution of a license agreement, and as ContentGuard had no material post-signing obligations with respect to most license agreements, revenue related to these agreements under our revenue recognition policy would have generally been recorded when the license agreements were executed.

Table of Contents

We believe there are more manufacturers, distributors and providers of products and services that use our innovations to protect digital content who have not yet entered into license agreements with ContentGuard. We are in discussions with many of these companies regarding possible license arrangements.

Prior to our acquisition of ContentGuard, ContentGuard had never initiated patent infringement litigation against any company that failed to compensate ContentGuard for use of ContentGuard s IP. Under our leadership, ContentGuard will be more affirmative than it has been historically in protecting its IP when infringing parties are unwilling to enter into fair and reasonable licenses, as is the case with our recently initiated infringement litigation against ZTE Corporation (*see* Item 3 Legal Proceedings).

IP Services

We provide IP valuation services, analysis and strategic advice through Pendrell s wholly-owned subsidiary, Pendrell Technologies LLC (PTL) and its wholly-owned subsidiary, Ovidian Group LLC (Ovidian Group). We assist companies with IP portfolio development, strategic assessment of IP assets, IP landscape analyses, IP risk mitigation strategies, and formation and optimization of IP departments. We also work with investors to identify opportunities to create value and manage risk by investing strategically in IP, innovation and other intangible business assets. We are a global service provider, serving large technology clients with operations and intangible assets located throughout the world.

Our service relationships with companies and investors are founded and based heavily on trust. Our clients must trust our discretion, our diligence, our independence, our industry relationships, our knowledge of the attributes and value of IP, and our ability to craft effective IP solutions. In the course of any given project, we may assist with, among other activities, the development and acquisition of patent portfolios, the valuation of IP assets, the generation of licensing revenue, and the use of IP rights for business purposes.

We price our advisory services on a project-by-project basis under a variety of fee arrangements, including flat project fees, monthly retainers, success fees, or combinations of the foregoing. Various factors impact our project pricing, including anticipated time commitment, project difficulty, and anticipated outcomes.

Service revenue is recognized when our professionals deliver consulting services.

Strategy

Our continuing strategy is to deploy our assets and resources to pursue investment and acquisition opportunities that have the potential to enhance shareholder value. We will continue to evaluate opportunities to invest in, develop, commercialize, and monetize IP assets, but we may also pursue opportunities beyond our IP business. We believe that our transactional expertise, financial resources, industry relationships and tax assets provide us with key competitive advantages that enable us to explore and pursue these opportunities.

Competition

In our efforts to acquire IP, we compete with a number of companies that focus on the acquisition and monetization of IP rights such as Acacia Research Corporation, Coller IP Management, Intellectual Ventures, Mosaid, Rovi, RPX and Wi-Lan, as well as operating companies that acquire IP to enhance their own IP positions. New buyers continue to enter the market and we anticipate that the competition for IP assets will continue to increase.

Our IP service offerings also face competitive challenges. Some of the same companies that actively pursue the acquisition of IP, such as Coller IP Management and Rembrandt IP Management, also seek to partner with, or provide advice and services to, organizations wishing to commercialize their intellectual property. We also face competition from consulting companies that focus solely on the provision of services. Examples include Boston Consulting Group, Bain & Company and Red Chalk Group.

Table of Contents

We expect to differentiate ourselves from our competitors through our personnel who are knowledgeable and experienced in IP matters, our available capital, our tax attributes, and our unique ability to partner with technology leaders.

Divestiture of Our Satellite Communications Assets

In 2011, we continued the divestiture of our satellite assets. In March 2011, we signed a comprehensive implementation agreement (Implementation Agreement) with DISH Network Corporation (DISH Network), pursuant to which we transferred substantially all of our interest in DBSD to DISH Network for approximately $325 million. We have received all proceeds of the Implementation Agreement other than $10 million, which is due from DISH Network at the earlier of (a) five days after DBSD s emergence from its pending Chapter 11 bankruptcy proceeding, or (b) five days after termination of DISH Network s amended investment agreement with DBSD. DBSD emerged from bankruptcy on March 9, 2012, and we anticipate receiving the final $10 million payment from DISH Network, together with reimbursement of certain bankruptcy-related costs to which we are entitled, within five days of emergence.

We also pursued the divestiture of our medium earth orbit (MEO) satellites and related ground station equipment (the MEO Assets). In early 2012, we signed an agreement to sell our remaining MEO Assets other than our in-orbit MEO satellite (F2). In connection with the signing of the agreement the purchaser has assumed all ongoing costs of storing and maintaining the assets. The sale is scheduled to close on or before May 4, 2012. The sale will not generate any material proceeds to us. While we continue our efforts to sell F2, we have implemented measures to decommission F2 with the expectation that a decommissioning or sale will be complete by the end of June. The sale of the MEO Assets and the sale or decommissioning of F2 will trigger in excess of $2 billion in tax losses which we believe can be carried forward to offset taxable income in certain circumstances for up to 20 years.

We continue in litigation with BSSI and Boeing arising out of agreements with BSSI for the development and launch of our MEO satellites and related launch vehicles. In October 2008, a jury determined that BSSI and Boeing were liable to us for breach of contract, fraud, negligent misrepresentation and tortious interference. In February 2009, the court entered judgment in our favor for approximately $603.2 million, consisting of $370.6 million of compensatory damages against BSSI and Boeing for breach of contract, fraud, negligent misrepresentation and tortious interference with contract; $29.6 million against BSSI for punitive damages; $177.0 million against Boeing for punitive damages; and $26.0 million in pre-judgment interest. Beginning January 2, 2009, post-judgment interest began to accrue on the $603.2 million judgment amount at the rate of 10% per annum (simple interest). As of December 31, 2011, the amount of the outstanding judgment, including interest, was approximately $775 million.

In March 2009, BSSI and Boeing appealed the trial court judgment to the California Court of Appeal. In order to stay enforcement of the judgment, Boeing posted a bond in the approximate amount of $904.0 million. In response, we cross-appealed the trial court s decision to overturn the jury s award of additional compensatory and punitive damages on our satellite pricing fraud claim against BSSI. Briefing was completed in the summer of 2011, and the Court of Appeal conducted the second of two oral arguments on January 25, 2012, at which time the case was submitted for decision. We expect a decision by late April 2012.

Following the issuance of the Court of Appeal decision, any party that does not fully prevail at the Court of Appeal may seek reconsideration by the Court of Appeal or request further appeal to the California Supreme Court. The Court of Appeal is not required to grant a request for reconsideration, nor is the California Supreme Court required to grant further appeal. We cannot predict the timing or outcome of the appeal process.

Employees

As of December 31, 2011, on a consolidated basis, we had 38 full-time employees and four part-time employees located in Washington and California. We anticipate hiring additional personnel to support our growth.

Table of Contents

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 and Compensation Committee, and our Code of Conduct and Ethics in addition to our Certificate of Incorporation and Bylaws. This information is available in print without charge to any stockholder 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 Licensing Activities

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

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

The fixed terms of our patents limit our business opportunity.

Our patents have fixed terms. If we fail to develop or acquire new patentable inventions prior to the expiration of our patents, our licensing opportunities will diminish, which could negatively impact our business opportunity.

Our revenues may be derived from a limited number of licensees.

It is possible that a significant portion of our future revenue will come from a limited number of licensees. If we are unable to enter into licenses with licensing prospects, it may negatively impact our business opportunity.

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

We expect to incur significant marketing, legal and sales expenses prior to entering into license agreements and generating license fees. We will also spend considerable resources educating prospective licensees on the benefits of a license arrangement with us. If our educational efforts are unsuccessful, we may be required to pursue litigation to protect our intellectual property rights. These litigation efforts will be time consuming and costly. As such, we may incur significant losses in any particular period before any associated revenue stream begins.

Table of Contents

Our financial and operating results may be uneven.

Our quarterly operating results may fluctuate substantially, depending upon the licensing activity in any given period. As such, our operating results are difficult to predict, and you should not rely on quarterly or annual comparisons of our results of operations as an indication of our future performance. Factors that could cause our operating results to fluctuate during any period or that could adversely affect our ability to achieve our revenue goals include without limitation the timing of license and consulting agreements, compliance with such agreements, the terms and conditions for payment of license or consulting fees under those agreements, our ability to protect and enforce our intellectual property rights, changes in demand for products with DRM capability, the time period between commencement and completion of license negotiations, revenue recognition principles, and changes in accounting policies. These factors and others could cause the price at which our stock may trade to be volatile and may cause the price of our Class A common stock to decline.

Our business could be negatively impacted if DRM technology is not incorporated into products.

A substantial portion of our historical revenues from our ContentGuard business were generated from manufacturers and distributors of products that incorporate DRM technology covered by our patented inventions. Our business prospects could be negatively impacted if prospective licensees do not include DRM technology in their products.

Future innovations could make our inventions obsolete.

Our success depends, in part, on continued demand for DRM-enabled products covered by our patented inventions. Changes in technology or customer requirements could render our patented inventions obsolete or unmarketable.

Reexamination of our key patents could significantly harm our business.

Our assets include patents that are integral to our business and revenues. Prospective licensees or competitors may challenge the validity, scope, enforceability and ownership of our patents. Their challenges may include reexamination requests in the U.S. Patent and Trademark Office (PTO) or the European Patent Office (EPO). For example, three of our patents are currently subject to opposition proceedings at the EPO. Reexamination proceedings may narrow the scope of our claims or may cancel some or all of our claims. If some or all of our patent claims are canceled, we could be prevented from enforcing or earning future revenues from such patents. Even if our claims are not canceled, enforcement actions against alleged infringers may be stayed pending resolution of reexaminations, or courts or tribunals reviewing our patent claims could make findings adverse to our interests based on facts presented in reexamination proceedings. We cannot predict the consequences or outcome of these proceedings.

Challenges to our patents will consume time and increase our operating costs.

Reexamination proceedings are costly and time-consuming. Regardless of the merits of a challenge to the validity, scope, enforceability or ownership of a patent, such a challenge may result in substantial legal expenses and diversion of management s time and attention away from our other business operations. The complexity and the typical delays of the proceedings and the potential for degradation or loss of patent claims may significantly increase our operating costs and cause volatility in our stock price.

Delays in issuance of patents by the PTO or EPO could harm our business.

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

Table of Contents

Enforcement proceedings will consume time and increase our operating costs.

We may need to file actions to enforce our patents and other intellectual property rights, enforce the terms of our existing license agreements, protect our trade secrets, or determine the validity and scope of the proprietary rights of others. Enforcement proceedings are typically protracted and complex. The costs are typically substantial, and the outcomes are unpredictable. Enforcement actions may also backfire by triggering challenges to our patent claims, by harming our relationships with prospective licensees, or by delaying procurement of new licenses pending the outcome of enforcement actions. Irrespective of outcome, enforcement actions will divert our managerial, technical, legal and financial resources from business operations. Adverse decisions could severely limit the value of our inventions or result in a loss of our proprietary rights, which could negatively impact our stock price, our results of operations, our cash flows, our business and our financial position.

Recent changes in U.S. patent law could adversely impact our business.

U.S. patent laws recently underwent significant revision. Much of the rule-making to implement the new laws is not yet complete. If the new laws or the rules enacted under the new laws alter the historically consistent protections afforded to owners of patent rights, the resulting changes may not be advantageous for us, and may make it more difficult to obtain adequate patent protection or to enforce our patents against parties using them without a license.

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

Our success in reexamination and enforcement proceedings relies in part on the uniform and historically consistent application of U.S. patent laws and regulations. The courts interpretations of U.S. patent laws and regulations continue to evolve, and the courts may continue to alter or refine their application of laws and regulations. Changes or potential changes in judicial interpretation could have a negative impact on our ability to monetize our patent rights.

Risks Related to our Acquisition Activities

We may over-estimate the value of patent assets.

We purchase patents and related IP rights, from which we intend to generate a return on our investment. We estimate the value of the IP prior to acquisition. If we over-estimate the value of the acquired IP, we may not generate desired returns on our investment, which could adversely affect our results of operations.

We may not capitalize on acquired patent assets.

Even if we accurately value the IP that we purchase, we must succeed in licensing or otherwise monetizing the IP in order to generate a return on our investment. Our success in licensing and otherwise monetizing IP depends on effective efforts of our employees and outside professionals, which typically requires complex analysis, the exercise of sound professional judgment and effective education of prospective licensees. If we do not successfully license or monetize the IP we acquire, it could adversely affect our results of operations.

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

We intend to continue to pursue acquisitions that support our business objectives and strategy. Acquisitions are time consuming, complex and costly. The terms of acquisition agreements tend to be heavily negotiated. As a result, we expect to incur significant transactional expenses, regardless of whether or not acquisitions are consummated. Moreover, the integration of acquired companies prompts significant challenges, and we cannot assure that the integration of acquired businesses with our business will result in the realization of the full benefits we anticipate from such acquisitions. Investigating businesses and assets and integrating newly acquired businesses or assets may be costly and time consuming, and such activities could divert our management s attention from other business concerns. In addition, we might lose key employees while integrating new

Table of Contents

organizations. Acquisitions could also result in potentially dilutive issuances of equity securities or the incurrence of debt, the assumption or incurrence of contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could negatively impact our financial position. We might not be successful in integrating acquired businesses, and might not achieve desired revenues and cost benefits.

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

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

The ongoing uncertainty about global economic conditions could negatively impact our acquisition efforts.

The financial crisis that affected the banking system and financial markets and the ongoing financial instability and uncertainty about global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. There could be a number of follow-on effects from these economic developments on our future acquisition activities, including difficulty in raising sufficient money to pursue future business opportunities.

Risks Related to our Operations

Our revenues may not offset our operating expenses.

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

Failure to effectively manage our business and our growth could strain our business.

Our success depends, in large part, on continued contributions of our key managers, engineers, consultants, lawyers and finance personnel, many of whom are highly skilled and would be difficult to replace. Our success also depends on our ability to attract, train and retain highly skilled personnel, and on the abilities of new personnel to function effectively, both individually and as a group. Competition for qualified senior employees can be intense. We must train our personnel, especially our intellectual property consultants, to respond to and support our customers and licensees. If we fail to do so, it could lead to dissatisfaction among our clients and licensees, which could slow our growth or result in a loss of business. Our senior managers and key personnel are not bound by agreements to remain with us for any specified time period. The loss of any of our senior management or other key personnel could harm our ability to implement our business strategy. Moreover, our growth may strain our managerial and operational resources and systems. If we fail to manage our growth effectively or otherwise strain our relationships with our personnel, our business and financial results may be materially harmed.

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

Our provision of IP-related services typically involves complex analysis and the exercise of professional judgment. As a result, we are subject to the risk of professional liability. If a client questions the quality of our

Table of Contents

work, the client could threaten or bring a lawsuit to recover damages or contest its obligation to pay fees. Litigation alleging that we performed negligently or breached any other obligations to a client could expose us to legal liabilities and, regardless of outcome, could be costly, distract our management and damage our reputation.

Rights of minority stockholders may limit future value.

We own 90.1% of ContentGuard. The governing documents for ContentGuard describe certain actions that require unanimous consent of ContentGuard s stockholders. We may enter into investments in the future that involve similar or more restrictive governance provisions. If our interests and the interests of our partners or other stockholders in these investments diverge, it is possible that we may be unable to capitalize on business opportunities or prevented from realizing favorable returns on investments.

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

For the foreseeable future, we expect to rely on payments from clients and licensees and existing cash reserves to finance our operations. However, if we deploy a significant portion of our capital on future acquisitions, or if we encounter unforeseen difficulties in the future that deplete our capital resources more rapidly than anticipated, we may need to obtain additional financing. Financing might not be available on favorable terms, if at all, and may dilute our existing stockholders. If we fail to obtain additional capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition.

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

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

Unauthorized use or disclosure of our confidential information could adversely affect our business.

We rely primarily on a combination of license agreements, nondisclosure agreements, other contractual relationships and patent, trademark, trade secret and copyright laws to protect our confidential and proprietary information, our technology and our intellectual property. For example, we enter into contracts with our employees, consultants and prospective and existing customers and strategic partners. We cannot be certain that these agreements have not been and will not be breached, that we will be able to timely detect unauthorized use or transfer of our trade secrets or intellectual property, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If we are unable to detect in a timely manner the unauthorized use or disclosure of our proprietary or other confidential information or if we are unable to enforce our rights under our agreements or applicable laws, the misappropriation of such information could harm our business.

Risks Related to Our Former Satellite Communications Business

We are engaged in litigation with Boeing and BSSI involving substantial monetary damages.

We are engaged in litigation with BSSI and Boeing arising out of agreements for the development and launch of our MEO satellites. In February 2009, the Los Angeles Superior Court issued a judgment in our favor and against BSSI and Boeing for $603.2 million. The judgment consists of compensatory awards, a punitive damage award against BSSI, a punitive damage award against Boeing, and pre-judgment interest. BSSI and Boeing have appealed the judgment and all of its subparts, thereby rendering the entire award subject to the risks

Table of Contents

of appeal. If even one of their appeals is successful, the size of the judgment could be substantially reduced. A substantial reduction in the judgment could have a negative impact on the price of our stock. A complete reversal is likely to have a significantly negative impact on the price of our stock.

We will continue to face substantial costs and collection risk in our litigation with Boeing and BSSI.

Boeing has posted the full bond required to stay enforcement of our judgment against BSSI and Boeing, but the existence of the bond does not entirely eliminate the risk of collection. We have incurred substantial costs and fees to obtain and defend the judgment, and expect we will continue to incur substantial additional costs and fees through the ultimate resolution of the case, including a contingent obligation to pay our trial lawyers a fee equal to 3% of any recovery up to $250 million, and 5% of any recovery in excess of $250 million, less certain costs and fees paid previously.

Our termination or abandonment of MEO gateway agreements may expose our subsidiaries to liabilities.

Certain of our subsidiaries have or had agreements with the operators of the gateways for our MEO satellite system. We have discontinued the funding of all gateway agreements and the subsidiaries that are parties to the gateway agreements. Our subsidiaries may incur costs associated with the termination or abandonment of such agreements. As of December 31, 2011, our subsidiaries had an accrued liability of $49.5 million related to these unsettled agreements.

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

We hold existing NOLs, and expect to hold additional NOLs that will be generated from the sale or other disposition of our MEO Assets at prices significantly less than their tax basis. We intend to carry forward these losses to offset current and future income and thus reduce our income tax liability. If tax laws are amended to limit or eliminate the ability to carry forward our NOLs, or to alter income tax rates, the value of our NOLs could be significantly impaired.

Our ability to utilize our NOLs is dependent on avoiding ownership changes and securing future income.

Under existing provisions of the Internal Revenue Code, if we experience an ownership change, our ability to use our NOLs will be significantly limited, which will impair the value of our NOLs. In addition, our ability to fully utilize the 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 2020.

Risks Related to Our Class A Common Stock

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

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

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

Eagle River controls approximately 65% of the voting power of our outstanding capital stock. As a result, Eagle River has control over the outcome of matters requiring stockholder 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.

Table of Contents

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

Eagle River controls approximately 65% of the voting power of our outstanding capital stock. As a result, we are a controlled company within the meaning of the NASDAQ Global Select Market corporate governance standards, and therefore may elect not to comply with certain NASDAQ Global Select Market corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) 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 (3) the requirement that director nominees be selected, or recommended for the board of directors selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process. We do not currently rely on any of these exemptions, but reserve the right to do so in the future. If we choose to do so, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ Global Select Market corporate governance requirements.

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

The Tax Benefits Plan we have in place is intended to act as a deterrent against any person or group acquiring or otherwise obtaining beneficial ownership of more than 4.9% of our securities without the approval of our Board of Directors. In addition, our restated certificate of incorporation requires us to take all necessary and appropriate action to protect certain rights of our common stockholders that are set forth in the restated certificate of incorporation, including voting, dividend and conversion rights and their rights in the event of a liquidation, merger, consolidation or sale of substantially all of our assets. It also provides that we will not avoid or seek to avoid the observance or performance of those rights by charter amendment, entry into an inconsistent agreement or reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution or the issuance or sale of securities. In particular, these rights include our Class B common stockholder s right to ten votes per share on matters submitted to a vote of our stockholders 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 restated certificate of incorporation could discourage takeovers of our company, which could adversely affect the rights of our stockholders.

We do not expect to pay cash dividends on our Class A or Class B common stock for the foreseeable future.

We have never paid a cash dividend on shares of our equity securities, and do not intend to pay any cash dividends on our Class A or Class B common shares in the foreseeable future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in Kirkland, Washington, where we occupy approximately 6,693 square feet of space under a sublease as of December 31, 2011. Upon expiration of our various leases, we do not anticipate any difficulty in obtaining renewals or alternative space.

Table of Contents

The following table lists our leased properties as of December 31, 2011, both in the United States and in the United Kingdom:

Location	Operation	Lease Term	Square Footage (Approx.)
Kirkland, WA	Corporate Headquarters	Expires July 31, 2012 (1)	6,693(1)
Berkeley, CA	Ovidian Group	Expires March 31, 2015	2,641
El Segundo, CA	ContentGuard	Expires May 31, 2014	6,806
El Segundo, CA	Satellite Warehouse Facility	Expires November 30, 2012	23,959
Slough, Berkshire, U.K.	Archive Warehouse	Expires June 23, 2012	2,685

(1) In January 2012, we entered into a new lease for this space that extends through July 2019 and will increase our leased square footage to 8,050.

In addition to our leased properties, as of December 31, 2011, we owned approximately 42 acres in Itaborai, Brazil, on which certain gateway equipment for our MEO satellite system is located. The sale of this property was completed in January 2012 for approximately $5.6 million.

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

Item 3. Legal Proceedings.

BSSI Litigation

In February 2009, after more than four years of litigation, we obtained a judgment against BSSI and Boeing for approximately $603.2 million (BSSI Litigation), consisting of $370.6 million of compensatory damages against BSSI and Boeing for breach of contract, fraud, negligent misrepresentation and tortious interference with contract; $29.6 million against BSSI for punitive damages; $177.0 million against Boeing for punitive damages; and $26.0 million in pre-judgment interest. Beginning January 2, 2009, post-judgment interest began to accrue on the full judgment amount at the rate of 10% per annum (simple interest).

In March 2009, BSSI and Boeing appealed the trial court judgment to the California Court of Appeal. In order to stay enforcement of the judgment, Boeing posted a bond in the approximate amount of $904.0 million. In response, we cross-appealed the trial court s decisions to overturn the jury s award of additional compensatory and punitive damages on our satellite pricing fraud claim against BSSI. Briefing was completed in the summer of 2011, and the Court of Appeal conducted the second of two oral arguments on January 25, 2012, at which time the case was submitted for decision. We expect a decision by late April 2012.

Following the issuance of the Court of Appeal decision, any party that does not fully prevail at the Court of Appeal may seek reconsideration by the Court of Appeal or request further appeal to the California Supreme Court. The Court of Appeal is not required to grant a request for reconsideration, nor is the California Supreme Court required to grant further appeal. We cannot predict the timing or outcome of the appeal process.

Through December 31, 2011, we have incurred costs of approximately $21.0 million to prosecute and defend the BSSI Litigation, and may incur additional consulting and legal fees if further appeal is pursued. When the judgment becomes non-appealable, or when we settle our claims with BSSI and Boeing, we will be obligated to pay our trial lawyers an additional fee equal to 3% of any recovery up to $250.0 million, and 5% of any recovery in excess of $250.0 million, less certain costs and fees advanced to counsel by us during the course of the BSSI Litigation.

ZTE Enforcement Action

On February 27, 2012, ContentGuard filed a patent infringement lawsuit against ZTE Corporation and ZTE (USA) Inc. in the Eastern District of Virginia, in which ContentGuard alleged that the defendants have infringed

11

Table of Contents

and continue to infringe seven of our patents by making, using, selling or offering for sale certain mobile communication and computing devices. We have requested a jury trial and are seeking injunctive relief, damages and pre-judgment and post-judgment interest.

J&J Arbitration

Jay and Jayendra (Pty) Ltd (J&J Group) is a South African corporation that signed a purchase and sale agreement in April 2011 (the J&J Agreement) to buy our MEO Assets. J&J Group did not close the purchase of the MEO Assets by the November 1, 2011 deadline set forth in the J&J Agreement, and as a result is obligated to reimburse us for certain operation and maintenance costs incurred from January 14, 2011 through October 31, 2011. The J&J Group has not fulfilled its obligation to reimburse us for such costs and instead has alleged that we breached the J&J Agreement. We intend to file an arbitration proceeding in London UK in March 2012, alleging that J&J Group breached the J&J Agreement (the J&J Proceeding). In the J&J Proceeding, we are seeking recovery of operation and maintenance costs, and other damages arising from J&J Group s breach of the J&J Agreement.

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

Our Class A common stock trades on the Nasdaq Global Select Market under the symbol PCO. Effective July 21, 2011, we changed our name from ICO Global Communications (Holdings) Limited to Pendrell Corporation, and adopted PCO as our new ticker symbol. Previously, our Class A Common Stock traded on the Nasdaq Global Select Market under the symbol ICOG. Our Class A Common Stock will continue to trade on the NASDAQ stock exchange.

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 on the Nasdaq Global Select Market. As of March 1, 2012, the closing sales price of our Class A common stock was $2.41 per share.

	2011		2010	
Period	**High**	**Low**	**High**	**Low**
First Quarter	$ 3.20	$ 1.35	$ 1.64	$ 1.05
Second Quarter	$ 3.26	$ 2.39	$ 1.88	$ 1.16
Third Quarter	$ 3.07	$ 1.96	$ 2.02	$ 1.20
Fourth Quarter	$ 2.94	$ 2.09	$ 1.90	$ 1.38

As of March 1, 2012, there were approximately 325 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 53,660,000 shares outstanding with two holders of record. Each share of Class B common stock is convertible at any time at the option of its holders into one share of Class A common stock.

Dividends

We have never paid a cash dividend on shares of our equity securities. We do not intend to pay any cash dividends on our common shares during the foreseeable future. It is anticipated that future earnings, if any, from our operations will be used to finance growth.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Use of Proceeds

None.

Issuer Purchases of Equity Securities

None.

Table of Contents

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,				
	2011	2010	2009(1)	2008	2007
	(in thousands, except per share data)				
Revenue(2)	$ 2,637	$	$	$	$
Operating expenses:					
General and administrative	27,384	16,186	38,803	54,771	43,651
Research and development			1,644	5,080	7,738
Gain on contract settlements(3)/(4)	(4,735)	(15,666)			
Amortization of intangibles	1,986				
Loss on disposal of assets				17	
Operating expenses, net	24,635	520	40,447	59,868	51,389
Operating loss	(21,998)	(520)	(40,447)	(59,868)	(51,389)
Net interest expense	(4,450)	(4,316)	(36,252)	(36,262)	(24,492)
Gain associated with disposition of assets(5)	300,886				
Gain on deconsolidation of DBSD			280,971		
Gain on liquidation of subsidiaries		2,459			860
Other income (expense)	1,223	(1,094)	(7,286)	(4,175)	878
Income (loss) before income taxes	275,661	(3,471)	196,986	(100,305)	(74,143)
Income tax benefit (expense)(6)	42,925	787	(1,508)	(2,872)	(1,175)
Net income (loss)	318,586	(2,684)	195,478	(103,177)	(75,318)
Net loss attributable to noncontrolling interest	(274)				
Net income (loss) attributable to Pendrell	$ 318,860	$ (2,684)	$ 195,478	$ (103,177)	$ (75,318)
Basic income (loss) per share attributable to Pendrell	$ 1.26	$ (0.01)	$ 0.94	$ (0.51)	$ (0.38)
Diluted income (loss) per share attributable to Pendrell	$ 1.23	$ (0.01)	$ 0.94	$ (0.51)	$ (0.38)
Total assets	$ 435,047	$ 45,577	$ 30,308	$ 663,964	$ 602,133
Long-term obligations, including current portion of capital lease obligations(7)	$ 76,406	$ 27,921	$ 31,557	$ 40,382	$ 685,263

(1) DBSD was deconsolidated from our financial operating results effective May 15, 2009. Accordingly, our results of operations for the year ended December 31, 2009 includes only 4.5 months of DBSD operating activity.

(2) Revenue in 2011 is entirely comprised of fees paid for consulting services as a result of the acquisition of the Ovidian Group in June 2011. Prior to the acquisition of Ovidian Group, we were a development stage enterprise and did not generate any revenue from operations.

(3) During the first quarter of 2011, we recognized a $4.7 million gain associated with a reduction of our estimated liability for gateway obligations as a result of our agreement to purchase Deutsche Telekom AG s claim against one of our subsidiaries.

(4) Certain of our subsidiaries had agreements with ten operators of gateways for our MEO satellite system. Nine of the ten operators have terminated their agreements with us. Of these nine, five have been settled with no further obligation by us. With respect to the gateways that have not been settled, we have continued to accrue expenses according to our subsidiaries contractual obligation until such obligations have been released and the operator has ceased providing services, although in most instances our subsidiaries have suspended or significantly reduced actual payments to the operators. In 2010, upon reaching settlement with

our Mexico operator, pursuant to which the operators claims were legally released, we eliminated the corresponding accrued liability and recognized a gain on contract settlement of $15.7 million.

(5) In March 2011, upon the sale of our subsididiary for $325 million we recognized a $301 million gain associated with the disposition of our cost method investment in DBSD and certain other assets pursuant to the various agreements entered into with DISH Network.

(6) As a result of recording net deferred tax liabilities pursuant to the acquisition of ContentGuard, we were able to reduce a portion of our deferred tax valuation allowance resulting in a tax benefit of $40.7 million in 2011.

(7) In August 2008, the $650 million aggregate principal amount of convertible notes due in August 2009 (DBSD 2009 Notes) were reclassified from long-term to current convertible debt on our consolidated balance sheets.

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

We re-shaped and re-directed our business in 2011, featuring the $325 million sale of our subsidiary and the related winding down of our legacy satellite businesses, the progression of our litigation with BSSI and Boeing, and significant investments in opportunities relating to the IP asset class. We now operate a fully-integrated IP investment and advisory firm that develops and implements strategies to create, acquire, commercialize and license IP.

We launched our IP business by acquiring Ovidian Group, changing our name to Pendrell Corporation, and partnering with Time Warner to acquire ContentGuard. In the process, we began assembling a group of professionals with experience in IP portfolio analysis, valuation and monetization, and emerged from 2011 with an IP investment and advisory team that we believe is world-class.

Ovidian Group is a trusted advisor to some of the most respected technology companies in the world. It assists its clients with a variety of IP services, including IP valuation and investment analysis, IP landscape analysis, IP divestitures and IP risk mitigation strategies. Ovidian Group has become central to our investigation and analysis of IP investment and acquisition opportunities, as well as the development and implementation of our IP business strategies.

Through ContentGuard, we have a unique opportunity to partner with Time Warner, a global leader in the production of high quality media and entertainment content. ContentGuard holds what we believe to be one of the most significant portfolios of DRM patents in the world. With approximately 50% of handsets worldwide licensed by ContentGuard, and significant historical revenues, ContentGuard s patent portfolio is well-proven. ContentGuard s current licensees include some of the biggest names in consumer electronics, including Casio Hitachi Mobile Communications, LG Electronics, Microsoft Corporation, Nokia, Panasonic, Sharp, Sony, Toshiba, Technicolor, S.A., Time Warner and Xerox Corporation.

Table of Contents

We expect to continue to grow our IP business through our Ovidian Group and ContentGuard subsidiaries, and explore new opportunities in the IP business. We have challenged our team to accelerate ContentGuard s patent licensing program and continue our expansion into the IP business. We will also continue our investigation of opportunities outside the IP business to leverage our transactional expertise, financial resources, industry relationships and tax assets to create shareholder value, in ways that may or may not be related to the IP business or historical operations.

As we focus on our IP business and other new initiatives, we continue to divest our satellite assets. In March 2011, we sold DBSD to DISH Network for approximately $325 million. Meanwhile, in early 2012, we agreed to sell our remaining MEO Assets to a separate buyer, with closing anticipated by early May 2012. Additionally, while we continue our efforts to sell F2, we implemented measures to decommission F2 with the expectation that the decommissioning or sale will be complete by the end of June. When these activities and transactions are concluded, all of our resources will be available to pursue our IP business and other new initiatives.

We also continue to aggressively defend the appeal of our $603.2 million judgment for breach of contract, fraud and intentional interference against BSSI and Boeing. The California Court of Appeal heard a second round of oral argument on January 25, 2012, and we expect a written decision by late April 2012. After the decision, any party that does not fully prevail at the Court of Appeal may request reconsideration by the Court of Appeal or further appeal to the California Supreme Court, although neither court is obligated to further review the decision. We cannot predict the timing or outcome of the appeal process.

Critical Accounting Policies

Critical accounting policies require difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties affecting the application of these policies include significant estimates and assumptions made by us using information available at the time the estimates are made. Actual results could differ materially from those estimates. Our critical accounting policies involve judgments associated with our accounting for the fair value of financial instruments (including our previous investment in DBSD), business combinations, goodwill and intangible assets, contract settlements, revenue recognition, stock-based compensation, income taxes and contingencies, each of which is described below.

Fair Value of Financial Instruments. We determine the fair value of our financial instruments based on the hierarchy established by ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). 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.

In addition, in determining the fair value of our investment in DBSD as of December 31, 2010, we considered several valuation methodologies, including a spectrum transaction analysis based upon the value of relevant spectrum auctions and transactions. Additionally, in connection with the DBSD bankruptcy proceedings, we engaged in negotiations with third parties interested in obtaining our equity interest in DBSD. The fair value of our investment in DBSD as of December 31, 2010 was ultimately determined based on the estimated value of the consideration we expected to receive from DISH Network for our equity interest in DBSD, subject to the allocation of the total purchase price to the various assets based on good faith negotiations between the parties.

Table of Contents

Business Combinations. We account for business combinations using the acquisition method and, accordingly, the identifiable assets acquired and liabilities assumed are recorded at their acquisition date fair values. This valuation requires management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets. Critical estimates in valuing intangible assets include but are not limited to estimates about: future expected cash flows from customers, proprietary technology, the acquired company s brand awareness and market position and discount rates. Our estimates are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Goodwill is calculated as the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

Goodwill, Patents and Intangible Assets. We evaluate goodwill and indefinite-lived intangible assets at least annually in the fourth quarter to determine whether there has been an impairment of the value of these assets and evaluate impairment whenever events or changes in circumstances indicate that the carrying amount of our assets might not be recoverable. We amortize definite-lived intangible assets, including patents, over their expected useful lives. When events or circumstances indicate that the carrying amount of a long-lived asset or asset group may not be recoverable, we perform a test to determine whether the carrying amount of the asset or asset group tested is not recoverable and its carrying amount exceeds its fair value. Any impairment losses relating to goodwill or other intangible assets are recognized in the consolidated statement of operations.

Contract Settlements. With respect to disputed contracts related to the ground infrastructure for our MEO satellite system, we continue to record expenses according to our contractual obligation until such contract is terminated. Upon termination, and prior to settlement, we continue to accrue estimated late payment fees and interest expense, as applicable. Upon reaching settlement, whereby the other party s claims are legally released, we will extinguish our recorded liability, resulting in the recognition of a gain or loss on contract settlement.

Revenue Recognition. 2011 revenue is entirely comprised of fees paid for consulting services provided by Ovidian Group. Revenue is recognized and billed when our professionals deliver consulting services. In general, we recognize revenue related to consulting services when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

Stock-Based Compensation. We record stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation* (ASC 718). ASC 718 requires measurement of all share-based payment awards based on the estimated fair value on the date of grant and the recognition of compensation cost over the requisite service period for awards expected to vest.

We record stock-based compensation on stock options, stock appreciation rights and restricted stock awards issued to employees, directors and consultants. 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 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 and restricted stock awards with service conditions are amortized to expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of stock appreciation rights and restricted stock awards 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 with performance and market conditions, and graded vesting are amortized to expense over the requisite service period using the straight-line method of expense recognition. The fair value of share-based payment awards as determined by the Black-Scholes Model and the Monte Carlo Simulation are affected

Table of Contents

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. ASC 718 requires forfeitures to be estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ 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 in the period in which we determined that the recovery was more likely than not to occur.

We account for uncertain tax positions in accordance with ASC 740, *Accounting for Income Taxes*. 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 against us are subject to significant uncertainty. ASC 450, *Contingencies*, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued 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. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued 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.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance Update No. 2011-08, *Testing Goodwill for Impairment* (Update No. 2011-08). Update No. 2011-08 provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that it is unlikely that the fair value of a reporting unit is less than its carrying amount, the two-step goodwill impairment test is not required. Update No. 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We chose to early adopt this statement which did not have a material impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued Update No. 2011-05, *Comprehensive Income* (Update No. 2011-05). Update No. 2011-05 requires in the presentation on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. Update

Table of Contents

No. 2011-05 is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued an amendment to the accounting guidance on the presentation of other comprehensive income which deferred the effective date for the provisions pertaining to reclassification adjustments. Early adoption is permitted. The adoption of this statement is not expected to have a material impact on our financial position, results of operations or cash flows.

Results of Operations

The following table is provided to facilitate the discussion of our results of operations for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year ended December 31,		
	2011	**2010**	**2009(1)**
Revenue	$ 2,637	$	$
General and administrative expenses	27,384	16,186	38,803
Research and development expenses			1,644
Gain on contract settlements	4,735	15,666	
Amortization of intangibles	1,986		
Interest income	159	18	543
Interest expense	4,609	4,334	36,795
Gain associated with disposition of assets	300,886		
Gain on deconsolidation of DBSD			280,971
Gain on liquidation of subsidiaries		2,459	
Other (income) expense	(1,223)	1,094	7,286
Income tax (benefit) expense	(42,925)	(787)	1,508

(1) DBSD was deconsolidated from our financial operating results effective May 15, 2009. Accordingly, our results of operations for the year ended December 31, 2009 includes 4.5 months of DBSD operating activity.

Revenue. Revenue of $2.6 million for the year ended December 31, 2011 is entirely comprised of fees paid for consulting services provided by Ovidian Group. Prior to the acquisition of Ovidian Group on June 17, 2011, we were a development stage enterprise and did not generate any revenue from operations.

General and Administrative Expenses. General and administrative expenses are primarily comprised of personnel costs, stock-based compensation, legal and professional fees, acquisition investigation costs, satellite storage, satellite system operating expenses and general office related costs.

General and administrative expenses increased $11.2 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase was primarily due to a $5.1 million increase in personnel related costs as a result of the acquisition of the Ovidian Group and ContentGuard as well as additional executives added to the Pendrell team, an associated increase of $3.6 million in non-cash stock-based compensation expense, $1.5 million of amortized prepaid compensation expense associated with the Ovidian Group acquisition, $1.1 million in acquisition investigation costs incurred in the current year and a $0.5 million increase in professional fees and other expenses. The increase was partially offset by a decrease of $0.6 million in expenses related to the MEO assets.

General and administrative expenses decreased $22.6 million for the year ended December 31, 2010 compared to the year ended December 31, 2009. Approximately $20.9 million of this decrease was a result of the deconsolidation of DBSD effective May 15, 2009. The remaining net decrease of $1.7 million is primarily due to a $1.8 million reduction in non-cash stock-based compensation expense, reflecting the revaluation of the majority of our stock awards as a result of the deconsolidation of DBSD, and a $0.8 million reduction in gateway operating expenses. The decrease is partially offset by higher employment-related expenses in the current year.

Table of Contents

Research and Development Expenses. We did not incur any research and development expenses during the years ended December 31, 2011 and 2010.

During the year ended December 31, 2009, research and development expenses consisted primarily of third-party engineering, consulting and development costs associated with technology being considered for use in the DBSD MSS/ATC System and ICO mim service and were incurred by DBSD prior to deconsolidation on May 15, 2009.

Contract Settlements. During the first quarter of 2011, we recognized a $4.7 million gain associated with a reduction of our estimated liability for gateway obligations as a result of our agreement to purchase Deutsche Telekom AG s claim against one of our subsidiaries.

During 2010, one of our subsidiaries reached a settlement agreement with its satellite gateway operator in Mexico whereby in exchange for the transfer of certain gateway equipment our subsidiary was released from approximately $15.7 million in outstanding liabilities associated with the related Gateway Operating Agreement. The equipment transferred under the settlement agreement had previously been determined to have no value for accounting purposes and we recognized a gain on contract settlement of approximately $15.7 million.

Amortization of Intangibles. Amortization of intangibles consists of amortization of identifiable assets resulting from the acquisitions of Ovidian Group and ContentGuard in June 2011 and October 2011, respectively.

Interest Income. Interest income for the years ended December 31, 2011 and 2010 was nominal. Interest income for the year ended December 31, 2009 is primarily attributable to interest earned on the investment of remaining proceeds from the DBSD 2009 Notes and the DBSD 2009 Credit Facility prior to the deconsolidation of DBSD on May 15, 2009.

Interest Expense. Interest expense for the years ended December 31, 2011 and 2010 consists primarily of interest costs resulting from capital lease obligations associated with certain of our MEO gateway sites. Interest expense for the year ended December 31, 2009 is primarily comprised of interest costs resulting from capital lease obligations associated with certain of our MEO gateway sites, as well as interest incurred and the amortization of debt issuance costs related to the DBSD 2009 Notes and DBSD 2009 Credit Facility, and amortization of the debt discount associated with the DBSD 2009 Notes, prior to the deconsolidation of DBSD on May 15, 2009.

Gain Associated with Disposition of Assets. During the first quarter of 2011, we recognized a $301.0 million gain associated with the disposition of our cost method investment in DBSD and certain other assets pursuant to the various agreements entered into with DISH Network.

Gain on Deconsolidation of DBSD. During 2009, we recognized a gain of $281.0 million associated with the deconsolidation of DBSD as a result of its bankruptcy filing on May 15, 2009.

Gain on Liquidation of Subsidiaries. In 2010, we recognized a $2.5 million net gain resulting from the substantial liquidation of certain subsidiaries that we abandoned after determining they had no future business purpose.

Other (Income) Expense. Other income for the year ended December 31, 2011 is comprised primarily of a $1.2 million gain recognized upon elimination of our payable to an affiliate. Other expense for the year ended December 31, 2010 is comprised primarily of $1.0 million of costs associated with reimbursements due to DBSD for their respective share of stock awards that ultimately failed to vest. Other expense for the year ended December 31, 2009 is comprised primarily of net realized and unrealized losses of $4.2 million through May 15, 2009 associated with investments in auction rate securities held by DBSD, as well as losses on foreign currency transactions of $3.1 million.

Income Tax (Benefit) Expense. Income tax benefit for the year ended December 31, 2011 is primarily due to a $40.7 million reduction in our deferred tax valuation allowance as a result of recording net deferred tax liabilities related to non-tax deductible definite-lived intangible assets established pursuant to the acquisition of ContentGuard, and the expiration of the statute of limitations associated with $2.0 million of previously recorded uncertain tax positions, including interest and penalties. Income tax benefit for the year ended December 31, 2010 is primarily due to expiration of the statute of limitations associated with previously recorded uncertain tax positions, including interest and penalties. Income tax expense for the year ended December 31, 2009 is comprised primarily of the accrual of possible interest and penalties related to uncertain tax positions.

Liquidity and Capital Resources

Overview. As of December 31, 2011, we had cash liquidity of $230.4 million, primarily due to the receipt of $315 million from DISH Network, less utilization of $90.1 million of these funds to purchase ContentGuard in October 2011 and $6.0 million to purchase Ovidian Group in June 2011. The balance of these funds is currently expected to be utilized to fund our working capital needs for at least the next twelve months and support further investments. Our primary expected cash needs for the next twelve months are for the ongoing operating costs associated with the IP business, MEO satellite system operating costs while we exit the satellite business, costs associated with the pursuit of new investment and acquisition opportunities, professional fees associated with various legal and regulatory proceedings, and other general corporate purposes. We also expect to use our cash, and may incur debt, to acquire or invest in other businesses or assets.

On March 15, 2011, we entered into the Implementation Agreement under which DISH Network agreed to pay us approximately $325 million for our support of DBSD s plan of reorganization which provides for the stock of DBSD to be transferred to DISH Network (DISH Plan), certain spectrum priority rights, any distributions to us from DBSD, and a contingent option to certain MEO Assets, of which (i) $35 million was paid on March 21, 2011, (ii) approximately $280 million was paid on April 26, 2011, and (iii) $10 million is payable at the earlier of (a) five days after DBSD s emergence from its pending Chapter 11 bankruptcy proceeding, or (b) five days after termination of DISH Network s amended investment agreement with DBSD. DISH Network s payment obligations under the Implementation Agreement are not subject to any further court action or approvals. We recognized a gain of approximately $301 million in the first quarter of 2011 associated with the disposition of our cost method investment in DBSD and other assets as a result of these agreements. DBSD emerged from bankruptcy on March 9, 2012, and we anticipate receiving the final $10 million payment from DISH Network, together with reimbursement of certain bankruptcy-related costs to which we are entitled, within five days of emergence.

On October 31, 2011, we purchased 90.1% of the outstanding capital stock of ContentGuard for aggregate consideration of $90.1 million, all paid in cash.

Cash Flows. The following table is provided to facilitate the discussion of our liquidity and capital resources for the years ended December 31, 2011 and 2010 (in thousands):

	Year ended December 31, 2011	2010
Net cash provided by (used in):		
Operating activities	$ (16,020)	$ (12,173)
Investing activities	225,572	(1,092)
Financing activities	108	29,173
Effect of foreign exchange rate changes on cash	(54)	(120)
Net increase (decrease) in cash and cash equivalents	209,606	15,788
Cash and cash equivalents beginning of period	20,771	4,983
Cash and cash equivalents end of period	$ 230,377	$ 20,771

Table of Contents

Cash and cash equivalents were $230.4 million at December 31, 2011 compared to $20.8 million at December 31, 2010. This increase is primarily due to approximately $315 million received from DISH Network under the Implementation Agreement, partially offset by (i) the amounts paid for the acquisitions of Ovidian Group and ContentGuard, (ii) the incurrence of ongoing operating costs associated with our MEO satellite system and (iii) other general corporate expenditures incurred in 2011.

For the year ended December 31, 2011, cash used in operating activities consisted primarily of our net income of $318.6 million adjusted for various non-cash items including: (i) a $300.9 million gain associated with the disposition of certain assets to DISH Network; (ii) a $40.7 million tax benefit related to a reduction in our deferred tax valuation allowance; (iii) a $4.7 million reduction of a Gateway obligation; (iv) $1.2 million gain recognized upon elimination of our payable to an affiliate; (v) stock-based compensation expense of $5.4 million; (vi) a $4.6 million increase in accrued interest payable, (vii) $2.0 million of amortized intangible expense resulting from acquisitions of the Ovidian Group and ContentGuard, (viii) $1.5 million of amortized prepaid compensation expense associated with the Ovidian Group acquisition; (ix) a $0.9 million increase in prepaid expenses and other current/non-current assets and (x) $0.4 million increase in accounts payable, other accrued expenses and other operating activities. Amortization of intangibles consists of amortization of identifiable assets resulting from the acquisitions of Ovidian Group and ContentGuard in June 2011 and October 2011, respectively.

For the year ended December 31, 2010, cash used in operating activities consisted primarily of our net loss of $2.7 million adjusted for various non-cash items including: (i) a $15.7 million gain resulting from settlement of our Mexico Gateway obligation; (ii) a $4.7 million increase in accrued interest payable associated with various Gateway obligations; (iii) a $2.5 million net gain resulting from substantial liquidation of certain subsidiaries; (iv) stock-based compensation expense of $1.8 million; (v) $1.0 million in net expenses associated with reimbursements due to DBSD for their respective share of stock awards that ultimately failed to vest; and (vi) a $0.5 million net increase in accounts payable and other accrued expenses in comparison to prior year.

For the year ended December 31, 2011, cash provided by investing activities consisted primarily of approximately $315 million from DISH Network pursuant to the Implementation Agreement, partially offset by a $83.3 million cash outflow for the acquisition of ContentGuard (net of cash acquired) and a $5.9 million cash outflow for the acquisition of Ovidian Group (net of cash acquired). For the year ended December 31, 2010, cash used in investing activities consisted primarily of $1.0 million of payments made on behalf of affiliates.

For the year ended December 31, 2011, cash provided by financing activities consisted of $0.2 million in proceeds from the exercise of stock options, partially offset by $0.1 million in payments of withholding taxes upon vesting of restricted stock awards. For the year ended December 31, 2010, cash provided by financing activities consisted primarily of $29.2 million of proceeds from the Rights Offering, net of related costs.

Contractual Obligations. Our primary contractual obligations relate to our MEO satellite system. In the table below, we set forth our contractual obligations as of December 31, 2011 (in millions):

		Years ending December 31,			
	Total	**2012**	**2013-2014**	**2015-2016**	**2017 and Thereafter**
Satellite system operating obligations(1)	$ 1.5	$ 1.5	$	$	$
Capital lease obligations, including interest(2)	22.0	22.0			
Operating lease obligations(3)	4.0	1.3	1.1	0.7	0.9
Total	$ 27.5	$ 24.8	$ 1.1	$ 0.7	$ 0.9

(1) We have an agreement with Intelsat to provide satellite operational services to support F2. Under this agreement, we are obligated to pay Intelsat a recurring, monthly fee associated with support for telemetry, tracking and control and other satellite support services. In addition to this agreement, we have commitments for other operational services related to our MEO satellite and certain MEO gateway sites. As

Table of Contents

of December 31, 2011, our satellite system operating commitments were approximately $1.5 million. J&J Group is obligated to reimburse us for certain operation and maintenance costs incurred from and after January 14, 2011, however, it currently has not fulfilled its obligation.

(2) Our capital lease obligations represent future minimum payments due under capital lease commitments arising from agreements associated with certain of our MEO gateway sites. The amount of our contractual obligations as of December 31, 2011 represents principal and interest payable in accordance with the terms of the contractual agreements.

(3) Our operating lease obligations include approximately $0.7 million in 2012 and $0.1 million in 2013 of obligations related to storing and maintaining our MEO Assets other than F2. In early 2012, we signed an agreement to sell our remaining MEO Assets other than F2 and, in connection with the signing of the agreement, the purchaser has assumed all ongoing costs of storing and maintaining the MEO Assets.

We have also entered into other agreements with our satellite gateway operators (Gateway Operators) which provide for varying levels of support required to operate the gateway sites. The majority of the Gateway Operators have terminated their agreements with us and discontinued providing the requisite level of services. Certain of the terminated agreements have not been settled and remain outstanding. Subsequent to the date of termination, we have continued to accrue estimated late payment fees associated with these agreements, if applicable. Settlement of these liabilities, including timing of future payment, if any, is currently uncertain and therefore this amount was not included in our table of contractual obligations above. We do not anticipate these gateway obligations to require significant cash payments during the next twelve months; however, the holders of these obligations could pursue collection actions against one or more of our consolidated subsidiaries.

As of December 31, 2011, we have recorded a liability related to uncertain tax positions for income taxes, interest and penalties of $9.9 million. Settlement of this liability, including timing of future payment, if any, is currently uncertain. As a result, this amount was not included in our table of contractual obligations above.

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, capital lease obligations, and cash and cash equivalents and foreign currency risk associated with our capital lease obligations and cash held in foreign currencies.

As of December 31, 2011, our cash and investment portfolio consisted of both cash and money market funds, with a fair value of approximately $230.4 million. The primary objective of our investments in money market funds is to preserve principal, while optimizing returns and minimizing risk, and our policies require, at the time of purchase, that we make these investments in short-term, high rated securities which currently yield between zero to 20 basis points.

	December 31, 2011
Cash	$ 35,264
Money market funds	195,113
	$ 230,377

Table of Contents

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

To the Board of Directors and Stockholders of

Pendrell Corporation and Subsidiaries

Kirkland, Washington

We have audited the accompanying consolidated balance sheets of Pendrell Corporation and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders equity (deficiency in assets), and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington

March 9, 2012

Table of Contents

Pendrell Corporation

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 230,377	$ 20,771
Receivable from DISH Network associated with disposition of assets	10,000	
Prepaid expenses and other current assets net of reserve of 2,750 and 0, respectively	2,443	701
Deferred tax asset	49,570	
Total current assets	292,390	21,472
Property in service net of accumulated depreciation of $962 and $511, respectively	288	286
Other assets	131	169
Investment in DBSD		23,650
Patents net of accumulated amortization of $1,648	107,116	
Intangible assets net of accumulated amortization of $338	13,029	
Goodwill	22,093	
Total	$ 435,047	$ 45,577
LIABILITIES, STOCKHOLDERS EQUITY (DEFICIENCY IN ASSETS) AND NONCONTROLLING INTEREST		
Current liabilities:		
Accounts payable	$ 282	$ 403
Accrued expenses	17,489	14,836
Payable to affiliates		1,292
Accrued interest	28,092	23,759
Capital lease obligations	14,896	14,948
Total current liabilities	60,759	55,238
Income tax	9,870	12,973
Other	479	
Deferred tax liability	51,161	
Total liabilities	122,269	68,211
Commitments and contingencies (Note 7)		
Stockholders equity (deficiency in assets) and noncontrolling interest:		
Preferred stock, $.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		
Class A common stock, $.01 par value, 900,000,000 shares authorized, 264,992,881 and 258,294,712 shares issued, and 206,696,021 and 200,069,966 shares outstanding	2,650	2,583
Class B convertible common stock, $.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	847	847
Additional paid-in capital	2,794,970	2,787,533
Treasury stock, 58,296,860 and 58,224,746 shares of Class A common stock and 31,003,382 shares of Class B convertible common stock	(877,833)	(877,725)
Accumulated other comprehensive loss	(11,660)	(13,071)
Accumulated deficit	(1,603,941)	(1,922,801)

Total Pendrell stockholders equity (deficiency in assets)		305,033		(22,634)
Noncontrolling interest		7,745		
Total stockholders equity (deficiency in assets) and noncontrolling interest		312,778		(22,634)
Total	$	435,047	$	45,577

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

Table of Contents

Pendrell Corporation

Consolidated Statements of Operations

(In thousands, except share and per share data)

	Year ended December 31, 2011	2010	2009
Revenue	$ 2,637	$	$
Operating expenses:			
General and administrative	27,384	16,186	38,803
Research and development			1,644
Contract settlements	(4,735)	(15,666)	
Amortization of intangibles	1,986		
Total operating expenses	24,635	520	40,447
Operating loss	(21,998)	(520)	(40,447)
Interest income	159	18	543
Interest expense	(4,609)	(4,334)	(36,795)
Gain associated with disposition of assets	300,886		
Gain on deconsolidation of DBSD			280,971
Gain on liquidation of subsidiaries		2,459	
Other income (expense)	1,223	(1,094)	(7,286)
Income (loss) before income taxes	275,661	(3,471)	196,986
Income tax benefit (expense)	42,925	787	(1,508)
Net income (loss)	318,586	(2,684)	195,478
Net income (loss) attributable to noncontrolling interest	(274)		
Net income (loss) attributable to Pendrell	$ 318,860	$ (2,684)	$ 195,478
Basic income (loss) per share attributable to Pendrell	$ 1.26	$ (0.01)	$ 0.94
Diluted income (loss) per share attributable to Pendrell	$ 1.23	$ (0.01)	$ 0.94
Weighted average shares outstanding used to compute basic income (loss) per share	253,760,959	243,480,021	207,908,805
Weighted average shares outstanding used to compute diluted income (loss) per share	259,067,098	243,480,021	208,169,858

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

26

Table of Contents

Pendrell Corporation

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year ended December 31,		
	2011	**2010**	**2009**
Net income (loss)	$ 318,586	$ (2,684)	$ 195,478
Other comprehensive income (loss):			
Cumulative translation adjustments	1,411	(5,848)	(13,918)
Comprehensive income (loss)	$ 319,997	$ (8,532)	$ 181,560
Comprehensive income (loss) attributable to noncontrolling interest	(274)		
Comprehensive income (loss) attributable to Pendrell	$ 319,723	$ (8,532)	$ 181,560

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

Table of Contents

Pendrell Corporation

Consolidated Statements of Cash Flows

(In thousands, except share data)

	Year ended December 31,		
	2011	**2010**	**2009**
Operating activities:			
Net income (loss) including noncontrolling interest	$ 318,586	$ (2,684)	$ 195,478
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Stock-based compensation	5,369	1,794	5,072
Amortization of prepaid compensation from Ovidian Group acquisition	1.507		
Amortization of intangibles	1,986		
Depreciation	146	110	268
Non-cash interest expense			7,374
Unrealized foreign exchange (gains) losses	(33)	89	3,060
Gain associated with contract settlements	(4,735)	(15,666)	
Gain associated with disposition of assets	(300,886)		
Gain on deconsolidation of DBSD			(280,971)
Net gain on liquidation of subsidiaries		(2,459)	
Realized losses on sale of investment securities			5,145
Unrealized (gains) losses on investment securities			(1,608)
Fair value adjustment for ARS Put Option			690
Deferred tax provision	(40,666)		
Other	(1,474)	1,052	651
Other changes in certain assets and liabilities, net of acquisitions:			
Prepaid expenses and other current/non-current assets	(873)	389	4,555
Accounts payable	(281)	(769)	2,779
Accrued interest payable	4,630	4,694	29,741
Other accrued expenses	704	1,277	1,306