

InterDigital, Inc.  
Form 10-Q  
October 30, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2015

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

Commission File Number 1-33579

INTERDIGITAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA

(State or Other Jurisdiction of Incorporation or Organization)

200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727

(Address of Principal Executive Offices and Zip Code)

(302) 281-3600

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.01 per share

35,409,016

Title of Class

Outstanding at October 28, 2015



INDEX

	PAGES
<u>Part I — Financial Information:</u>	
<u>Item 1 Financial Statements (unaudited):</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets — September 30, 2015 and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations — Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income — Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows — Nine Months Ended September 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 4 Controls and Procedures</u>	<u>43</u>
<u>Part II — Other Information:</u>	
<u>Item 1 Legal Proceedings</u>	<u>44</u>
<u>Item 1A Risk Factors</u>	<u>45</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 6 Exhibits</u>	<u>47</u>
<u>SIGNATURES</u>	<u>48</u>
<u>EXHIBIT INDEX</u>	<u>49</u>
EX-10.1	
EX-10.2	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

InterDigital® is a registered trademark of InterDigital, Inc. All other trademarks, service marks and/or trade names appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## INTERDIGITAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	SEPTEMBER 30, 2015	DECEMBER 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$477,643	\$428,567
Short-term investments	389,801	275,361
Accounts receivable, less allowances of \$1,654	116,079	51,702
Deferred tax assets	68,873	54,019
Prepaid and other current assets	33,884	32,227
Total current assets	1,086,280	841,876
PROPERTY AND EQUIPMENT, NET	11,072	12,546
PATENTS, NET	278,418	265,540
DEFERRED TAX ASSETS	65,492	71,783
OTHER NON-CURRENT ASSETS	7,430	1,217
	362,412	351,086
<b>TOTAL ASSETS</b>	<b>\$1,448,692</b>	<b>\$1,192,962</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$224,348	\$—
Accounts payable	14,716	34,654
Accrued compensation and related expenses	17,259	27,089
Deferred revenue	116,352	124,695
Taxes payable	14,601	—
Dividends payable	7,183	7,456
Other accrued expenses	12,123	11,275
Total current liabilities	406,582	205,169
LONG-TERM DEBT	256,560	216,206
LONG-TERM DEFERRED REVENUE	290,100	293,342
OTHER LONG-TERM LIABILITIES	3,840	2,568
<b>TOTAL LIABILITIES</b>	<b>957,082</b>	<b>717,285</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding	—	—
Common Stock, \$0.01 par value, 100,000 shares authorized, 70,124 and 69,800 shares issued and 35,555 and 36,920 shares outstanding	701	698
Additional paid-in capital	657,322	614,162
Retained earnings	821,058	757,050
Accumulated other comprehensive (loss) income	(6	) 118
	1,479,075	1,372,028
Treasury stock, 34,569 and 32,880 shares of common held at cost	992,752	903,700
<b>Total InterDigital, Inc. shareholders' equity</b>	<b>486,323</b>	<b>468,328</b>

Edgar Filing: InterDigital, Inc. - Form 10-Q

Noncontrolling interest	5,287	7,349
Total equity	491,610	475,677
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,448,692	\$1,192,962

The accompanying notes are an integral part of these statements.

3

---

Table of Contents

INTERDIGITAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
<b>REVENUES:</b>				
Patent licensing royalties	\$98,888	\$73,399	\$324,483	\$319,761
Patent sales	—	1,999	—	1,999
Technology solutions	1,520	2,224	4,854	7,940
	\$100,408	\$77,622	\$329,337	\$329,700
<b>OPERATING EXPENSES:</b>				
Patent administration and licensing	28,363	33,923	91,200	98,889
Development	16,618	19,072	52,935	57,860
Selling, general and administrative	10,040	9,286	29,993	29,279
	55,021	62,281	174,128	186,028
Income from operations	45,387	15,341	155,209	143,672
OTHER EXPENSE	(8,108	) (3,167	) (21,090	) (10,733
Income before income taxes	37,279	12,174	134,119	132,939
INCOME TAX (PROVISION) BENEFIT	(13,491	) 461	(50,044	) (44,747
NET INCOME	\$23,788	\$12,635	\$84,075	\$88,192
Net loss attributable to noncontrolling interest	(732	) (877	) (2,112	) (2,360
NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC.	\$24,520	\$13,512	\$86,187	\$90,552
NET INCOME PER COMMON SHARE — BASIC	\$0.68	\$0.34	\$2.38	\$2.25
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	35,798	39,620	36,257	40,166
NET INCOME PER COMMON SHARE — DILUTED	\$0.68	\$0.34	\$2.35	\$2.23
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	36,205	40,191	36,658	40,556
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.20	\$0.20	\$0.60	\$0.50

The accompanying notes are an integral part of these statements.

Table of Contents

INTERDIGITAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)  
 (unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
Net income	\$23,788	\$12,635	\$84,075	\$88,192
Unrealized loss on investments, net of tax	(132 )	(536 )	(124 )	(154 )
Comprehensive income	\$23,656	\$12,099	\$83,951	\$88,038
Comprehensive loss attributable to noncontrolling interest	(732 )	(877 )	(2,112 )	(2,360 )
Total comprehensive income attributable to InterDigital, Inc.	\$24,388	\$12,976	\$86,063	\$90,398

The accompanying notes are an integral part of these statements.

Table of Contents

INTERDIGITAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$84,075	\$88,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,314	30,722
Amortization of deferred financing costs and accretion of debt discount	15,008	7,665
Deferred revenue recognized	(125,958	) (119,150
Increase in deferred revenue	91,052	270,872
Deferred income taxes	(8,563	) (40,143
Share-based compensation	9,691	13,458
Non-cash cost of patent sales	—	700
Other	86	256
(Increase) decrease in assets:		
Receivables	(64,377	) (56,346
Deferred charges and other assets	(1,289	) (7,802
Increase (decrease) in liabilities:		
Accounts payable	9	(14,016
Accrued compensation and other expenses	(21,937	) 6,497
Accrued taxes payable and other tax contingencies	14,611	5,124
Net cash provided by operating activities	27,722	186,029
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(398,955	) (395,060
Sales of short-term investments	284,333	231,667
Purchases of property and equipment	(1,835	) (3,196
Capitalized patent costs	(24,006	) (23,325
Acquisition of patents	(20,000	) (26,300
Purchase of long-term investments	(6,594	) —
Net cash used in investing activities	(167,057	) (216,214
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from noncontrolling interests	2,550	3,825
Proceeds from other financing activities	4,500	—
Net proceeds from exercise of stock options	29	369
Proceeds from issuance of convertible senior notes	316,000	—
Purchase of convertible bond hedge	(59,376	) —
Proceeds from issuance of warrants	42,881	—
Payments of debt issuance costs	(9,403	) —
Dividends paid	(21,844	) (16,120
Tax benefit from share-based compensation	2,126	1,218
Repurchase of common stock	(89,052	) (88,022
Net cash provided by (used in) financing activities	188,411	(98,730
<b>NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS</b>	<b>49,076</b>	<b>(128,915</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>428,567</b>	<b>497,714</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$477,643</b>	<b>\$368,799</b>



SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid	7,988	5,750
Income taxes paid, including foreign withholding taxes	43,833	85,991
Non-cash investing and financing activities:		
Dividend payable	7,183	7,666
Accrued capitalized patent costs, property and equipment, and acquisition of patents	(19,947	) 21,173
Non-cash acquisition of patents	20,823	19,250

The accompanying notes are an integral part of these statements.

Table of Contents

INTERDIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(unaudited)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of InterDigital, Inc. (individually and/or collectively with its subsidiaries referred to as "InterDigital," the "Company," "we," "us" or "our," unless otherwise indicated) as of September 30, 2015, and the results of our operations for the three and nine months ended September 30, 2015 and 2014 and our cash flows for the nine months ended September 30, 2015 and 2014. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to state fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles ("GAAP"). The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for year-end financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (our "2014 Form 10-K") as filed with the Securities and Exchange Commission ("SEC") on February 19, 2015. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

Change in Accounting Policies

There have been no material changes or updates in our existing accounting policies from the disclosures included in our 2014 Form 10-K except as stated below in "New Accounting Guidance."

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

New Accounting Guidance

Accounting Standards Update: Debt issuance costs

In March 2015, as part of their simplification initiative, the Financial Accounting Standards Board ("FASB") issued amendments to guidance for reporting debt issuance costs. According to the revised standard, an entity will recognize debt issuance costs as a direct deduction from the debt liability as opposed to an asset. The costs will continue to be amortized and included within interest expense in the entity's financial statements. The guidance is effective for interim and annual periods beginning on or after December 15, 2015 but early adoption is permitted. The Company elected to early adopt this guidance effective first quarter 2015 and we retrospectively applied the change within our Consolidated Balance Sheets included in this Quarterly Report on Form 10-Q. The impact of this change to our December 31, 2014 balance sheet was reductions of \$1.3 million and \$0.3 million to Prepaid and other current assets and Other non-current assets, respectively, and \$1.6 million to Long-term debt. See Note 9, "Long-Term Debt" for further information on our debt issuance costs.

Accounting Standards Update: Consolidation

In February 2015, the FASB issued ASU No. 2015-2, "Consolidation (Topic 820): Amendments to the Consolidation Analysis." ASU 2015-2 provides a revised consolidation model for all reporting entities to use in evaluating whether they should consolidate certain legal entities. All legal entities will be subject to reevaluation under this revised consolidation model. The revised consolidation model, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are voting interest entities, or VIEs, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. ASU 2015-2 is effective

for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2015. We are still evaluating what impact, if any, this ASU will have on the Company's consolidated financial position, results of operations or cash flows.

Accounting Standards Update: Revenue Recognition

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize

## Table of Contents

revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods). The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method. We are currently evaluating the effect that adopting this guidance will have on the Company's financial position, results of operations or cash flows.

## 2. SIGNIFICANT AGREEMENTS

### Sony Agreement

On September 26, 2015, we entered into a new patent license agreement ("PLA") with Sony Corporation of America ("Sony"). In addition, we renewed our joint venture with Sony, Convida Wireless, to continue investments in the development of IoT technologies and expanded it to include development efforts in 5G technologies. As discussed more fully in Note 10, "Variable Interest Entities," Convida Wireless is a variable interest entity and is consolidated within our financial statements.

Our agreement with Sony is a multiple-element arrangement for accounting purposes, which includes, among other elements, the new PLA. The new PLA covers the sale by Sony of covered products for the three-year period that commences on December 1, 2015. In addition, the new PLA covers Sony's covered product sales that occurred during certain prior periods and that were not covered under our prior agreement with Sony. We have recognized past sales of \$21.8 million from this agreement in third quarter 2015, and will recognize future revenue from the new PLA on a straight-line basis over its term. A portion of consideration was in the form of patents.

Consistent with the revenue recognition policy disclosed in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our 2014 Form 10-K, we identified each element of the arrangement, estimated its relative value for purposes of allocating the arrangement consideration and determined when each of those elements should be recognized. Using the accounting guidance applicable to multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of the term and value of each element. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the assumed royalty rates, sales volumes, discount rate and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the relative fair value assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transactions.

## 3. SALE-LEASEBACK

During second quarter 2015, we sold our facility in King of Prussia, Pennsylvania, to a third party and entered into a limited leaseback arrangement for a period not to exceed one year, for net consideration of \$4.5 million. The carrying amount of the assets to be sold is \$1.1 million as of September 30, 2015, and is still included within Property and Equipment. The gain related to the sale will be recorded within Other Income in our Consolidated Statements of Operations, and the assets sold will be removed from Property and Equipment at the completion of the lease term in first half 2016.

## 4. INCOME TAXES

In first nine months 2015, our effective tax rate was approximately 37.3% as compared to 33.7% during first nine months 2014, based on the statutory federal tax rate net of discrete federal and state taxes. The increase in the effective tax rate related to the impact of a \$5.7 million net benefit recognized during first nine months 2014 from available U.S. federal research and development tax credits and an increase in certain expenses that are not deductible for tax purposes during the first nine months 2015.

Edgar Filing: InterDigital, Inc. - Form 10-Q

During first nine months 2015 and 2014, we paid approximately \$31.1 million and \$51.9 million, respectively, of foreign source withholding tax. Additionally, as of September 30, 2015, included within our taxes payable and deferred tax asset balances was \$14.6 million of foreign source withholding tax and the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes. This balance is related to a receivable from foreign licensees.

During first nine months 2015, the Company settled an outstanding audit and, in connection with this settlement, paid \$0.3 million in taxes and related interest.

Table of Contents

## 5. NET INCOME PER SHARE

Basic Earnings Per Share ("EPS") is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options or other securities with features that could result in the issuance of common stock were exercised or converted to common stock. The following tables reconcile the numerator and the denominator of the basic and diluted net income per share computation (in thousands, except for per share data):

	For the Three Months Ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to InterDigital, Inc.	\$24,520	\$24,520	\$13,512	\$13,512
Denominator:				
Weighted-average shares outstanding: Basic	35,798	35,798	39,620	39,620
Dilutive effect of stock options, RSUs, convertible securities, and warrants		407		571
Weighted-average shares outstanding: Diluted		36,205		40,191
Earnings Per Share:				
Net income: Basic	\$0.68	\$0.68	\$0.34	\$0.34
Dilutive effect of stock options, RSUs, convertible securities, and warrants		—		—
Net income: Diluted		\$0.68		\$0.34
	For the Nine Months Ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to InterDigital, Inc.	\$86,187	\$86,187	\$90,552	\$90,552
Denominator:				
Weighted-average shares outstanding: Basic	36,257	36,257	40,166	40,166
Dilutive effect of stock options, RSUs, convertible securities, and warrants		401		390
Weighted-average shares outstanding: Diluted		36,658		40,556
Earnings Per Share:				
Net income: Basic	\$2.38	\$2.38	\$2.25	\$2.25
Dilutive effect of stock options, RSUs, convertible securities, and warrants		(0.03 )		(0.02 )
Net income: Diluted		\$2.35		\$2.23

Certain shares of common stock issuable upon the exercise or conversion of certain securities have been excluded from our computation of earnings per share because the strike price or conversion rate, as applicable, of such securities was less than the average market price of our common stock for the three and/or nine month periods ended September 30, 2015 and/or September 30, 2014, as applicable, and, as a result, the effect of such exercise or conversion would have been anti-dilutive. Set forth below are the securities and the weighted average number of shares of common stock underlying such securities that were excluded from our computation of earnings per share for the periods presented (in thousands):

Table of Contents

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Restricted stock units and stock options	95	79	69	183
Convertible securities	8,496	4,130	7,386	4,130
Warrants	8,496	4,130	7,389	4,130
Total	17,087	8,339	14,844	8,443

**6. LITIGATION AND LEGAL PROCEEDINGS****Nokia and ZTE 2013 USITC Proceeding (337-TA-868) and Related Delaware District Court Proceedings  
USITC Proceeding (337-TA-868)**

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the United States International Trade Commission (the "USITC" or "Commission") against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-868 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe one or more of up to seven of InterDigital's U.S. patents. The complaint also extended to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC sought an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also sought a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. Certain of the asserted patents were also asserted against Nokia, Huawei and ZTE in earlier pending USITC proceedings (including the Nokia, Huawei and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore were not asserted against those 337-TA-868 Respondents in this investigation.

On December 6, 2013, Samsung moved for partial summary determination that Samsung does not infringe U.S. Patent No. 7,502,406 (the "'406 patent"). On January 15, 2014, InterDigital and Samsung submitted a joint stipulation in which the parties agreed to the termination of the '406 patent from the Investigation in view of the USITC's claim construction and determination in the 337-TA-800 investigation that the asserted claims of the '406 patent were not infringed. On January 24, 2014, the ALJ issued an initial determination granting Samsung's motion. On January 31, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '406 patent. On February 24, 2014, the Commission determined not to review the initial determination, making it a determination of the Commission. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit").

On December 12, 2013, Samsung moved for partial summary determination that, in view of the Commission's claim construction and determination in the 337-TA-800 investigation, it does not infringe the asserted claims of U.S. Patent Nos. 8,009,636 (the "'636 patent"), 7,706,830 (the "'830 patent"), 7,286,847 (the "'847 patent"), and 7,190,966 (the "'966 patent"). Huawei and ZTE joined Samsung's motion on December 12, 2013 and December 13, 2013, respectively. InterDigital opposed Samsung's motion on January 2, 2014. On February 5, 2014, the ALJ granted in part and denied in part the motion. Specifically, the ALJ granted the motion with respect to the '830 and '636 patents, and denied the motion with respect to the '966 and '847 patents. On February 14, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '830 and '636 Patents. On March 5, 2014, the Commission denied this petition. On April 14, 2014, InterDigital filed a petition for review of the

Commission's determination with the Federal Circuit.

On January 9, 2014, Samsung moved for partial summary determination of no violation of Section 337 as to U.S. Patent No. 7,616,970 (the "'970 patent") in view of the USITC's determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 10, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission's final determination in the 337-TA-800 investigation and reserving its right to

10

---



Table of Contents

appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 15, 2014, the ALJ issued an initial determination finding that the ALJ is bound by the Commission's determination in the 337-TA-800 investigation and granting Samsung's motion. On January 27, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '970 patent, and on February 11, 2014, the USITC denied this petition. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the Federal Circuit.

On April 24, 2014, the Samsung Respondents filed an unopposed motion to intervene in the appeal filed with the Federal Circuit by InterDigital on April 14, 2014. The Federal Circuit granted Samsung's unopposed motion on May 1, 2014. On May 13, 2014, InterDigital, the USITC and Samsung filed a joint motion to stay the appeal filed by InterDigital on April 14, 2014, pending resolution of the appeal of the 337-TA- 800 investigation, discussed below. The court granted the parties' joint motion on May 30, 2014.

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing disputes (see "Huawei Arbitration" below). Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties except the action filed by Huawei in China to set a fair, reasonable and non-discriminatory ("FRAND") rate for the licensing of InterDigital's Chinese standards-essential patents (discussed below under "Huawei China Proceedings"), the decision in which InterDigital is permitted to further appeal. On January 2, 2014, InterDigital and Huawei filed a joint motion to terminate the 337-TA-868 investigation as to the Huawei Respondents on the basis of this confidential settlement agreement between the parties. On January 6, 2014, the ALJ granted the motion to stay, and on January 16, 2014, the ALJ granted the joint motion to terminate the 337-TA-868 investigation as to the Huawei Respondents. On February 12, 2014, the USITC determined not to review the initial determination terminating the Huawei Respondents from the 337-TA-868 investigation.

From February 10 to February 20, 2014, ALJ Essex presided over the evidentiary hearing in this investigation. The patents in issue in this investigation as of the hearing were the '966 and '847 patents asserted against ZTE and Samsung, and U.S. Patent No. 7,941,151 (the "'151") patent asserted against ZTE, Samsung and Nokia.

On June 3, 2014, InterDigital and Samsung filed a joint motion to terminate the investigation as to Samsung on the basis of settlement. The ALJ granted the joint motion by initial determination issued on June 9, 2014, and the USITC determined not to review the initial determination on June 30, 2014. On July 9, 2014, in view of the USITC's termination of the 337-TA-868 investigation as to Samsung on the basis of settlement, InterDigital and Samsung jointly moved to dismiss the appeal of the 337-TA-868 investigation filed by InterDigital on April 14, 2014. The Federal Circuit granted the motion to dismiss the appeal on July 11, 2014.

On June 13, 2014, the ALJ issued an Initial Determination ("ID") in the 337-TA-868 investigation. In the ID, the ALJ found that no violation of Section 337 has occurred in connection with the importation of 3G/4G devices by ZTE or Nokia, on the basis that the accused devices do not infringe asserted claims 1-6, 8-9, 16-21 or 23-24 of the '151 patent, claims 1, 3, 6, 8, 9, or 11 of the '966 patent, or claims 3 or 5 of the '847 patent. The ALJ also found that claim 16 of the '151 patent was invalid as indefinite.

In concluding that the accused devices do not infringe the asserted claims in the '966 and '847 "power ramp-up" patents, the ALJ's decision hinged on the construction of one patent claim term ("successively transmits/transmitted signals") related to a claim term that InterDigital believes the Commission misconstrued in its decision in the previous 337-TA-800 investigation regarding the same family of patents. As discussed below, InterDigital appealed that claim construction from the 337-TA-800 investigation to the Federal Circuit. On February 18, 2015, the Federal Circuit affirmed the Commission's construction of the claim terms in the 337-TA-800 investigation.

The ALJ also determined that, except for claim 16 of the '151 patent, none of the asserted patents were invalid. The ALJ further determined that InterDigital did not violate any FRAND obligations, a conclusion also reached by the ALJ in the 337-TA-800 investigation, and that Respondents have engaged in patent “hold out.” Additionally, the ID recognized that both InterDigital’s licensing and research and development programs satisfy the “economic prong” of the Section 337 domestic industry requirement, confirming numerous prior rulings by the Commission in InterDigital USITC investigations as well as by the Federal Circuit in affirming the Commission’s domestic industry conclusions in the 337-TA-613 investigation. The ALJ found, however, that InterDigital did not establish the “technical prong” of the domestic industry requirement for the same reasons he concluded there was no infringement by the accused products. Finally, the ALJ recommended that, should the Commission find a violation of section 337, it should issue a cease and desist order against Nokia and an exclusion order directed to infringing products. The ALJ recommended, however, that the effective date of any exclusion order should be delayed by six months.

Table of Contents

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of the ALJ's conclusion that claim 16 of the '151 patent is invalid; that none of the asserted patents are infringed; that InterDigital did not establish the "technical prong" of the domestic industry requirement; and that the effective date of any exclusion order should be delayed by six months. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID's finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues.

On May 20, 2014, Nokia Corp. and Microsoft Mobile Oy ("MMO") moved to substitute MMO for Nokia Corp. as a respondent in the investigation. On May 30, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 3, 2014, which InterDigital opposed on June 5, 2014. By initial determination dated June 13, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to termination of the investigation as to Nokia Corp. On July 14, 2014, the Commission determined not to review this initial determination.

On August 14, 2014, the Commission determined to review in part the June 13, 2014 ID and terminated the investigation with a finding of no violation. With respect to the '966 and '847 patents, the Commission determined not to review the ID's construction of "successively transmitted signals"/"successively transmits signals," and determined not to review the ID's conclusion that, based on that construction, the accused products do not infringe and the domestic industry products do not practice the asserted claims of the '966 and '847 patents. The Commission also determined not to review the ID's conclusion that claim 3 of the '847 patent is not invalid for lack of written description. With respect to the '151 patent, the Commission determined not to review the ID's conclusion that the accused products do not infringe and the domestic industry products do not practice the "same physical downlink control channel" limitation of independent claims 1 and 16. The Commission also determined not to review the ID's conclusion that claim 16 is invalid for indefiniteness. The Commission further determined to review the ID's construction of "and to" in claim 16 of the '151 patent, affording that term its plain and ordinary meaning. In view of that that construction, the Commission reversed the ID's conclusion, which was based on the reversed claim construction, that claims 16-21 and 23-24 are not infringed. The Commission also determined to review the ID's infringement analysis of the term "and if so" in claim 1 and, on review, took no position concerning whether the accused products practice the determining steps in sequence as required in claims 1-6 and 8-9. Except as noted above concerning whether the domestic industry products practice the asserted patents, the Commission took no position on the remaining domestic industry-related issues raised in the petitions for review. In addition, the Commission took no position on the FRAND issues raised by Respondents.

On October 10, 2014, InterDigital filed a petition for review with the Federal Circuit, appealing the adverse determinations in the Commission's August 8, 2014 final determination.

On June 2, 2015, InterDigital moved to voluntarily dismiss the Federal Circuit appeal, because, even if it were to prevail, it did not believe there would be sufficient time following the court's decision and mandate for the USITC to complete its proceedings on remand such that the accused products would be excluded before the '966 and '847 patents expire in June 2016. The court granted the motion and dismissed the appeal on June 18, 2015.

Related Delaware District Court Proceedings

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the United States District Court for the District of Delaware (the "Delaware District Court") against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based

on willful infringement, and recovery of reasonable attorneys' fees and costs.

On January 24, 2013, Huawei filed its answer and counterclaims to InterDigital's Delaware District Court complaint. Huawei asserted counterclaims for breach of contract, equitable estoppel, waiver of right to enjoin and declarations that InterDigital has not offered or granted Huawei licenses on FRAND terms, declarations seeking the determination of FRAND terms and declarations of noninfringement, invalidity and unenforceability of the asserted patents. In addition to the declaratory relief specified in its counterclaims, Huawei seeks specific performance of InterDigital's purported contracts with Huawei and standards-setting organizations, appropriate damages in an amount to be determined at trial, reasonable attorneys' fees and such other relief as the court may deem appropriate. On January 31, 2013, ZTE filed its answer and counterclaims to

Table of Contents

InterDigital's Delaware District Court complaint; ZTE asserted counterclaims for breach of contract, equitable estoppel, waiver of right to enjoin and declarations that InterDigital has not offered ZTE licenses on FRAND terms, declarations seeking the determination of FRAND terms and declarations of noninfringement, invalidity and unenforceability. In addition to the declaratory relief specified in its counterclaims, ZTE seeks specific performance of InterDigital's purported contracts with ZTE and standards-setting organizations, appropriate damages in an amount to be determined at trial, reasonable attorneys' fees and such other relief as the court may deem appropriate.

On February 28, 2013, Nokia filed its answer and counterclaims to InterDigital's Delaware District Court complaint, and then amended its answer and counterclaims on March 5, 2013. Nokia asserted counterclaims for breach of contract, breach of implied contract, unfair competition under Cal. Bus. & Prof. Code § 17200, equitable estoppel, a declaration setting FRAND terms and conditions, a declaration that InterDigital is estopped from seeking an exclusion order based on its U.S. declared-essential patents, a declaration of patent misuse, a declaration that InterDigital has failed to offer FRAND terms, a declaration that Nokia has an implied license to the asserted patents, and declarations of non-infringement, invalidity and unenforceability. In addition to the declaratory relief specified in its counterclaims, Nokia seeks an order that InterDigital specifically perform its purported contracts by not seeking a USITC exclusion order for its essential patents and by granting Nokia a license on FRAND terms and conditions, an injunction preventing InterDigital from participating in a USITC investigation based on essential patents, appropriate damages in an amount to be determined, including all attorney's fees and costs spent in participating in all three USITC Investigations (337-TA-868, 337-TA-800 and 337-TA-613), and any other relief as the court may deem just and proper.

On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of the recently issued '244 patent. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint. Samsung asserted a counterclaim for breach of contract. Samsung seeks a judgment that InterDigital has breached its purported contractual commitments, a judgment that the asserted patents are not infringed, are invalid, and unenforceable, an order that InterDigital specifically perform its purported contractual commitments, damages in an amount to be determined, attorneys' fees, costs and expenses, and any other relief as the court may deem just and proper.

On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of the '244 patent. On March 22, 2013, Huawei and ZTE filed their respective answers and counterclaims to InterDigital's amended Delaware District Court complaint. On April 9, 2013, InterDigital filed a motion to dismiss Huawei's and ZTE's counterclaims relating to their FRAND allegations. On April 22, 2013, InterDigital filed a motion to dismiss Nokia's counterclaims relating to its FRAND allegations. On July 12, 2013, the Delaware District Court held a hearing on InterDigital's motions to dismiss. By order issued the same day, the Delaware District Court granted InterDigital's motions, dismissing counterclaims for equitable estoppel, implied license, waiver of the right to injunction or exclusionary relief, and violation of California Bus. & Prof. Code § 17200 with prejudice. It further dismissed the counterclaims for breach of contract and declaratory relief related to InterDigital's FRAND commitments with leave to amend.

On August 6, 2013, Huawei, Nokia, and ZTE filed answers and amended counterclaims for breach of contract and for declaratory judgments seeking determination of FRAND terms. The counterclaims also continue to seek declarations of noninfringement, invalidity, and unenforceability. Nokia also continued to assert a counterclaim for a declaration of patent misuse. On August 30, 2013, InterDigital filed a motion to dismiss the declaratory judgment counterclaims relating to the request for determination of FRAND terms. On September 30, 2013, Huawei, Nokia, and ZTE filed their oppositions to this motion to dismiss. On October 17, 2013, InterDigital filed its reply. The motion was heard on November 26, 2013. On May 28, 2014, the court granted InterDigital's motion and dismissed defendants' FRAND-related declaratory judgment counterclaims, ruling that such declaratory judgments would serve no useful

purpose.

On December 30, 2013, InterDigital and Huawei filed a stipulation of dismissal on account of the confidential settlement agreement and agreement to arbitrate their disputes in this action. On the same day, the Delaware District Court granted the stipulation of dismissal.

On February 11, 2014, the Delaware District Court judge entered an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims. On May 29, 2015, the court entered a new scheduling order for damages and FRAND-related issues due to changes in the schedule of the liability portion of the MMO proceedings (see below). This schedule set target dates for trials related to damages and FRAND-related issues on October 17, 2016 for ZTE and November 14, 2016 for MMO.

13

---

Table of Contents

On March 12, 2014, the Delaware District Court judge held a claim construction hearing in the Nokia and ZTE cases. The court issued a claim construction opinion on April 22, 2014. As to the '966 and '847 patents asserted in the ZTE case (which patents were also in issue in the 337-TA-868 investigation and the related Samsung Delaware action, as well as in the 337-TA-613 investigation and the related stayed Delaware action, and are also related to the '830 and '636 patents in issue in the 337-TA-800 investigation and in the appeal of that investigation before the Federal Circuit as well as the related stayed Delaware action), the court adopted InterDigital's proposed constructions for the three claim terms construed by the court. As to the '151 patent asserted in both the Nokia and ZTE cases (which patent was also in issue in the 337-TA-868 investigation and the Samsung Delaware action) and the '244 patent asserted in both the Nokia and ZTE cases (which patent was also in issue in the related Samsung Delaware action, and which is related to the '970 patent asserted in each of the 337-TA-800 and 337-TA-868 investigations), the court adopted certain constructions proposed by InterDigital, certain constructions proposed by Nokia and/or ZTE, and arrived at certain other constructions based on its own analysis. The court also ordered the parties to confer regarding which terms remain in dispute in light of the court's opinion. The court also found claim 16 of the asserted '151 patent to be invalid as indefinite. InterDigital can appeal the court's indefiniteness ruling as to claim 16 upon issuance of judgment by the court.

On May 29, 2014, the court issued an order construing the claim term "circuit," which appears in the '847 patent, adopting a construction that InterDigital agreed would be acceptable to it and rejecting narrowing limitations proposed by ZTE. On June 23, 2014, the court held a supplemental claim construction hearing on the term "synchronized to [a/the] pilot signal," which appears in the '847 patent. The parties submitted supplemental letter briefs concerning construction of "synchronized to [a/the] pilot signal" on June 27 and 30, 2014. On August 8, 2014, the court issued a further claim construction ruling construing the term "synchronized to [a/the] pilot signal" to mean "establish a timing reference with a pilot signal."

On June 10, 2014, InterDigital filed a motion seeking summary judgment (1) that the asserted '151 patent is not unenforceable by reason of inequitable conduct; (2) that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art; and (3) that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement or written description. Also on June 10, 2014, Nokia and ZTE filed motions seeking summary judgment (1) that the asserted claims of the '151 patent are not infringed; (2) that the asserted claims of the '966 and '847 patents are not infringed; and (3) that the asserted claims of the '244 patent are not infringed and are invalid for lack of written description. On June 27, 2014, the parties filed oppositions to the pending motions for summary judgment. On July 10 and 11, 2014, the parties filed replies in further support of their respective motions for summary judgment. On August 28, 2014, the court (1) granted in part InterDigital's motion for summary judgment that the asserted '151 patent is not unenforceable by reason of inequitable conduct, holding that only one of the references forming the basis of defendants' allegations would remain in issue, (2) denied InterDigital's motion for summary judgment that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art, (3) granted InterDigital's motion for summary judgment that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement, but denied the motion as to written description, and (4) denied each of defendants' motions for summary judgment.

On August 5, 2014, InterDigital and Samsung filed a stipulation of dismissal in light of the parties' settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice.

On July 1, 2014, InterDigital moved under Federal Rule of Civil Procedure 25(c) to join MMO into the case. On July 22, 2014 defendants Nokia Corp. and MMO filed a cross-motion seeking to substitute MMO for Nokia Corp. in this case. On August 28, 2014, the court granted InterDigital's motion to join MMO into the case, and granted in part and denied in part the cross-motion of Nokia Corp. and MMO to substitute, permitting MMO to enter the case as a defendant but declining to dismiss Nokia Corp. from the action.

On July 3, 2014, Nokia filed a motion to stay this Delaware action in view of the pending appeal of the 337-TA-800 investigation and the ID issued in the 337-TA-868 investigation. On July 8, 2014, InterDigital opposed Nokia's motion, and on July 9, 2014, Nokia filed a reply in further support of its motion. Following a hearing held on July 10, 2014, the Delaware District Court denied Nokia's motion to stay the case.

On September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO patent liability trial to commence on March 9, 2015.

The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent is required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents



Table of Contents

are all valid and infringed by ZTE 3G and 4G cellular devices. The court issued formal judgment to this effect on October 29, 2014. As noted above, the Delaware District Court judge previously bifurcated issues relating to damages, FRAND-related affirmative defenses, and FRAND-related counterclaims, and trials related to damages and FRAND-related issues are scheduled for October 17, 2016 with ZTE and November 14, 2016 with MMO.

On November 26, 2014, ZTE filed a motion for judgment as a matter of law that the asserted claims of the '966, '847 and '244 patents are not infringed and, in the alternative, for a new trial. InterDigital filed an opposition on December 15, 2014, and ZTE filed a reply on January 7, 2015. The motion is fully briefed and remains pending.

On December 12, 2014, MMO, Nokia Corp., and Nokia Inc. filed a motion for leave to file additional claim construction briefs relating to three claim terms of the '244 patent. On January 5, 2015, InterDigital opposed defendants' motion, and on January 15, 2015, defendants filed a reply in further support of their motion. On January 21, 2015, the court granted defendants' motion as to two of the claim terms, permitting additional briefing in connection with those terms, and denied the motion as to the third.

On January 5, 2015, the court issued an order scheduling a claim construction hearing on February 27, 2015 to address the further construction of certain claim terms of the '151 patent. On January 21, 2015 the court ordered that the scope of the two claim terms of the '244 patent also be addressed at the hearing on February 27, 2015. In its January 5, 2015 order, the court also scheduled the infringement trials against ZTE as to the '151 patent for April 20, 2015, and against Nokia and MMO as to the '151 and '244 patents for April 27, 2015. In addition, the order scheduled the trial involving Nokia, MMO and InterDigital on the issue of inequitable conduct on May 6, 2015.

On February 27, 2015, the court held a claim construction hearing to address certain claim terms of the '244 and '151 patents. The court issued an order construing the disputed terms on March 6, 2015, adopting certain constructions proposed by InterDigital, certain constructions proposed by Nokia/MMO and/or ZTE, and arrived at certain other constructions based on its own analysis.

The ZTE trial addressing infringement of the '151 patent was held from April 20 to April 22, 2015. On April 22, 2015, the jury returned a verdict in favor of ZTE, finding that the '151 patent is not infringed by ZTE 3G and 4G cellular devices.

On April 23, 2015, the court held a claim construction hearing to address certain claims of the '244 patent. The court issued an opinion construing the disputed term on April 24, 2015, adopting a combination of InterDigital's proposed construction and the court's own analysis.

On April 23, 2015, InterDigital filed a motion to partially dismiss its complaint pertaining to the '151 patent against Nokia and MMO, as well as Nokia and MMO's counterclaims that relate to the '151 patent (including inequitable conduct), and on April 27, 2015, the judge granted the motion.

On April 27, 2015, the court ruled that Nokia Corporation should be severed for a separate trial addressing infringement of the '244 patent.

On May 5, 2015, the court scheduled the Nokia Inc./MMO jury trial addressing infringement of the '244 patent for November 16, 2015.

On September 14, 2015, a panel of Administrative Law Judges of the United States Patent and Trademark Office (the "USPTO") issued a final written decision in two Inter Partes Review ("IPR") cases concerning the '244 patent. These IPR proceedings were commenced on petitions filed by ZTE Corporation and ZTE (USA) Inc. and by Microsoft Corporation, respectively. Specifically, the panel determined that a number of claims of the '244 patent are

unpatentable as obvious. On October 13, 2015, by stipulation of the parties, the Delaware District Court stayed the action involving MMO and Nokia Inc., including the November trial concerning the '244 patent, pending completion of the IPR, including all appeals and subsequent proceedings before the Patent Trial and Appeal Board ("PTAB"). This stay is with respect to MMO and Nokia Inc. only, and does not apply to the Delaware action pending against ZTE.

On May 12, 2015, Nokia/MMO moved for summary judgment of non-infringement of the '244 patent, alleging that the accused devices do not practice a particular claim element of the '244 patent. On June 2, 2015, InterDigital opposed Nokia/MMO's motion, and filed a cross-motion for partial summary judgment that the accused devices infringe the claim element at issue in Nokia/MMO's motion for summary judgment. On June 16, 2015, Nokia/MMO filed a reply in support of its motion for summary judgment and an opposition to InterDigital's cross-motion. On June 18, 2015, InterDigital filed a

## Table of Contents

request for oral argument on the summary judgment motions, and, on June 26, 2015, InterDigital filed a reply in support of its cross-motion. On October 13, 2015, the Delaware District Court denied the pending summary judgment cross-motions without prejudice in light of the stay discussed above, indicating that the motions could be considered refiled if and when the stay is lifted if either party requests it.

### Huawei Arbitration

On December 23, 2013, InterDigital and Huawei agreed to engage in an expedited binding arbitration to resolve their licensing disputes. Pursuant to their agreement, on April 9, 2014, InterDigital and Huawei initiated an arbitration with the International Court of Arbitration of the International Chamber of Commerce (ICC) jointly seeking a determination by an arbitral tribunal of FRAND royalty terms and conditions to be included in a binding worldwide patent license agreement to take effect upon issuance of the arbitration award. An arbitration hearing was held on January 12-16, 2015. On May 26, 2015, the panel convened by the ICC delivered a confidential partial award. The panel convened by the ICC delivered a confidential final award dated July 14, 2015.

On July 9, 2015, InterDigital filed a petition in the District Court for the Southern District of New York for an order confirming the arbitration award (the "New York Proceeding"). On the same day, Huawei filed an action in the Paris Court of Appeal requesting annulment of the arbitration award (the "Paris Proceeding").

On July 24, 2015, Huawei opposed InterDigital's petition in the New York Proceeding and filed a motion to stay the New York Proceeding pending the Paris Proceeding. On August 14, 2015, InterDigital amended its petition in the New York Proceeding to take into account the issuance of the arbitration panel's final award. On August 24, 2015, InterDigital filed a reply in support of its petition to confirm and an opposition to Huawei's motion to stay. On September 14, 2015, Huawei filed a reply in opposition to InterDigital's petition to confirm and a reply in support of its motion to stay. All of the foregoing motions are currently pending in the New York Proceeding.

Huawei filed its brief seeking annulment in the Paris Proceeding on July 24, 2015. InterDigital's opposition brief is due on November 24, 2015. Trial preparation in the Paris Proceeding is scheduled to close on February 4, 2016, and a hearing is scheduled for March 8, 2016.

To date, Huawei has not made any payments under the arbitration award. The company will recognize any related revenue in the period in which the amount of revenue is fixed or determinable and collectability is reasonably assured.

### Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People's Court in China on December 5, 2011. The first complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.). This first complaint alleges that InterDigital had a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. Huawei sought relief in the amount of 20.0 million RMB (approximately \$3.2 million based on the exchange rate as of September 30, 2013), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its costs associated with this matter. The second complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This second complaint alleges that InterDigital is a member of certain standards-setting organization(s); that it is the practice of certain standards-setting organization(s) that owners of essential patents included in relevant standards license those patents on FRAND terms; and that InterDigital has failed to negotiate on FRAND terms with Huawei. Huawei is asking the court to determine the FRAND rate for licensing essential Chinese patents to Huawei and also seeks compensation for its costs associated with this matter.

On February 4, 2013, the Shenzhen Intermediate People's Court issued rulings in the two proceedings. With respect to the first complaint, the court decided that InterDigital had violated the Chinese Anti-Monopoly Law by (i) making proposals for royalties from Huawei that the court believed were excessive, (ii) tying the licensing of essential patents to the licensing of non-essential patents, (iii) requesting as part of its licensing proposals that Huawei provide a grant-back of certain patent rights to InterDigital and (iv) commencing a USITC action against Huawei while still in discussions with Huawei for a license. Based on these findings, the court ordered InterDigital to cease the alleged excessive pricing and alleged improper bundling of InterDigital's Chinese essential and non-essential patents, and to pay Huawei 20.0 million RMB (approximately \$3.2 million) in damages related to attorneys' fees and other charges, without disclosing a factual basis for its determination of damages.

## Table of Contents

The court dismissed Huawei's remaining allegations, including Huawei's claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies. With respect to the second complaint, the court determined that, despite the fact that the FRAND requirement originates from ETSI's Intellectual Property Rights policy, which refers to French law, InterDigital's license offers to Huawei should be evaluated under Chinese law. Under Chinese law, the court concluded that the offers did not comply with FRAND. The court further ruled that the royalties to be paid by Huawei for InterDigital's 2G, 3G and 4G essential Chinese patents under Chinese law should not exceed 0.019% of the actual sales price of each Huawei product, without explanation as to how it arrived at this calculation.

On February 17, 2013, Huawei filed a notice of appeal with respect to the first proceeding, seeking a finding that InterDigital's conduct constitutes refusal to deal and an order that InterDigital cease purportedly tying 3G and 4G essential patents. On March 11, 2013, InterDigital filed notices of appeal with respect to the judgments in both proceedings, seeking reversal of the court's February 4, 2013 rulings. On July 2, 2013, the Guangdong Province High Court heard argument on InterDigital's appeal with respect to the second proceeding. On July 9, 2013, the Guangdong Province High Court heard argument on InterDigital's and Huawei's appeal with respect to the first proceeding. On October 16, 2013, the Guangdong Province High Court issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the second proceeding, and on October 21, 2013, the Guangdong Province High Court issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the first proceeding.

InterDigital believes that the decisions in the first and second proceedings are seriously flawed both legally and factually. For instance, in determining a purported FRAND rate, the Chinese courts applied an incorrect economic analysis by evaluating InterDigital's lump-sum patent license agreement with Apple in hindsight to posit a running royalty rate. Indeed, the ALJ in USITC Inv. No. 337-TA-800 rejected that type of improper analysis. Moreover, the Chinese courts had an incomplete record and applied incorrect facts, particularly in view of the arbitration decision, discussed below, which found that InterDigital's license agreement with Apple is limited in scope.

InterDigital learned that Huawei filed in 2013 a new Chinese Anti-Monopoly Law complaint against InterDigital in the Shenzhen Intermediate People's Court. At Huawei's request, in connection with InterDigital and Huawei's confidential settlement agreement, this complaint was dismissed on January 9, 2014.

On April 14, 2014, InterDigital filed a petition for retrial of the second proceeding with the Chinese Supreme People's Court ("SPC"), seeking dismissal of the judgment or at least a higher, market-based royalty rate for a license to InterDigital's Chinese standards-essential patents ("SEPs"). The petition for retrial argues, for example, that (1) the lower court improperly determined a Chinese FRAND running royalty rate by using as a benchmark the Apple lump sum fixed payment license agreement, and looking in hindsight at the unexpectedly successful sales of Apple iPhones to construct an artificial running royalty rate that neither InterDigital nor Apple could have intended and that would have varied significantly depending on the relative success or failure in hindsight of Apple iPhone sales; (2) the Apple license agreement was also an inappropriate benchmark because its scope of product coverage was significantly limited as compared to the license that the court was considering for Huawei, particularly when there are other more comparable license agreements; and (3) if the appropriate benchmarks had been used, and the court had considered the range of royalties offered by other similarly situated SEP holders in the wireless telecommunications industry, the court would have determined a FRAND royalty that was substantially higher than 0.019%, and would have found, consistent with findings of the ALJ's initial determination in the USITC 337-TA-800 proceeding, that there was no proof that InterDigital's offers to Huawei violated its FRAND commitments.

The SPC held a hearing on October 31, 2014, regarding whether to grant a retrial and requested that both parties provide additional information regarding the facts and legal theories underlying the case. The SPC convened a second hearing on April 1, 2015, regarding whether to grant a retrial. InterDigital continues to provide additional information to the SPC in support of its petition for retrial. If the retrial is granted, the SPC will likely schedule one or more

additional hearings before it issues a decision on the merits of the case.

Investigation by National Development and Reform Commission of China

On September 23, 2013, counsel for InterDigital was informed by China's National Development and Reform Commission ("NDRC") that NDRC had initiated a formal investigation into whether InterDigital has violated China's Anti-Monopoly Law ("AML") with respect to practices related to the licensing of InterDigital's standards-essential patents to Chinese companies. Companies found to violate the AML may be subject to a cease and desist order, fines and disgorgement of any illegal gains. On March 3, 2014, the Company submitted to NDRC, pursuant to a procedure set out in the AML, a formal application for suspension of the investigation that included proposed commitments by the Company. On May 22,

Table of Contents

2014, NDRC formally suspended its investigation of the Company based on the commitments proposed by the Company. The Company's commitments with respect to the licensing of its patent portfolio for wireless mobile standards to Chinese manufacturers of cellular terminal units ("Chinese Manufacturers") are as follows:

1. Whenever InterDigital engages with a Chinese Manufacturer to license InterDigital's patent portfolio for 2G, 3G and 4G wireless mobile standards, InterDigital will offer such Chinese Manufacturer the option of taking a worldwide portfolio license of only its standards-essential wireless patents, and comply with F/RAND principles when negotiating and entering into such licensing agreements with Chinese Manufacturers.
2. As part of its licensing offer, InterDigital will not require that a Chinese Manufacturer agree to a royalty-free, reciprocal cross-license of such Chinese Manufacturer's similarly categorized standards-essential wireless patents. Prior to commencing any action against a Chinese Manufacturer in which InterDigital may seek exclusionary or injunctive relief for the infringement of any of its wireless standards-essential patents, InterDigital will offer such Chinese Manufacturer the option to enter into expedited binding arbitration under fair and reasonable procedures to resolve the royalty rate and other terms of a worldwide license under InterDigital's wireless standards-essential patents.
3. If the Chinese Manufacturer accepts InterDigital's binding arbitration offer or otherwise enters into an agreement with InterDigital on a binding arbitration mechanism, InterDigital will, in accordance with the terms of the arbitration agreement and patent license agreement, refrain from seeking exclusionary or injunctive relief against such company.

The commitments contained in item 3 above will expire five years from the effective date of the suspension of the investigation, or May 22, 2019.

Nokia and ZTE 2011 USITC Proceeding (337-TA-800) and Related Delaware District Court Proceeding  
USITC Proceeding (337-TA-800)

On July 26, 2011, InterDigital's wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. filed a complaint with the USITC against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-800 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G wireless devices (including WCDMA- and cdma2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices) that infringe seven of InterDigital's U.S. patents. The action also extended to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital's complaint with the USITC sought an exclusion order that would bar from entry into the United States any infringing 3G wireless devices (and components) that are imported by or on behalf of the 337-TA-800 Respondents, and also sought a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. In May 2012, Huawei Device USA, Inc. was added as a 337-TA-800 Respondent.

On October 5, 2011, InterDigital filed a motion requesting that the USITC add LG Electronics, Inc., LG Electronics U.S.A., Inc. and LG Electronics Mobilecomm U.S.A., Inc. as 337-TA-800 Respondents to the complaint and investigation, and that the Commission add an additional patent to the complaint and investigation as well. On December 5, 2011, the ALJ overseeing the proceeding granted this motion and, on December 21, 2011, the Commission determined not to review the ALJ's determination, thus adding the LG entities as 337-TA-800 Respondents and including allegations of infringement of the additional patent.

On January 20, 2012, LG filed a motion to terminate the investigation as it relates to the LG entities, alleging that there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012. On July 6, 2012, the Commission determined not to review the ALJ's order, and the investigation was terminated as to LG. On August 27, 2012, InterDigital filed a petition for review of the ALJ's order in the Federal Circuit. On September 14, 2012, the Federal

Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. On October 3, 2013, the Federal Circuit denied LG's petition for rehearing and rehearing en banc and issued its mandate on October 10, 2013. LG filed a petition for a writ of certiorari with the U.S. Supreme Court seeking reversal of the Federal Circuit's judgment on December 31, 2013. On January 13, 2014, InterDigital filed a motion to terminate the 337-TA-800 investigation as to the LG Respondents. No opposition to InterDigital's motion was filed. On



## Table of Contents

February 12, 2014, the Commission granted InterDigital's motion to terminate the investigation as to LG. In terminating the 337-TA-800 investigation, the Commission adopted the ALJ's determination that the '830, '636 and '406 patents and U.S. Patent No. 7,706,332 (the "'332 patent") are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues. On April 21, 2014, the Supreme Court granted LG's petition for certiorari, vacating the underlying Federal Circuit decision and remanding the case to the Federal Circuit with instructions to dismiss the case as moot (in light of InterDigital's decision to terminate the 337-TA-800 investigation as to LG).

The ALJ held an evidentiary hearing from February 12-21, 2013. The patents in issue in this investigation as of the hearing were the '830, '636, '406, '332 and '970 patents, U.S. Patent No. 7,536,013 (the "'013 patent") and U.S. Patent No. 7,970,127 (the "'127 patent") asserted against all of the Respondents. The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of the '970 patent, but not as to the other asserted claims of the '970 patent, or any of the other asserted patents. In addition, the ALJ found that the asserted claims of the '970, '013 and '127 patents were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they are licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA-800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of "Articles protected by the patent."

On December 19, 2013, the Commission issued its final determination. The Commission adopted, with some modification, the ALJ's finding of no violation of section 337 as to Nokia, Huawei, and ZTE. The Commission did not rule on any other issue, including FRAND and domestic industry, and stated that all other issues remain under review.

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination.

On February 18, 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337. On April 6, 2015, InterDigital filed a combined petition for panel rehearing and rehearing en banc as to the '830 and '636 patents. The petition was denied on May 12, 2015, and the court's mandate issued on May 19, 2015.

### Related Delaware District Court Proceeding

On July 26, 2011, the same date that InterDigital filed USITC Proceeding (337-TA-800), it filed a parallel action in the United States District Court for the District of Delaware against the 337-TA-800 Respondents alleging infringement of the same asserted patents identified in USITC Proceeding (337-TA-800). The Delaware District Court complaint seeks a permanent injunction and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement, and recovery of reasonable attorneys' fees and costs. On September 23, 2011, the defendants in the Delaware District Court complaint filed a motion to stay the Delaware District Court action pending the parallel proceedings in the USITC. Because the USITC has instituted USITC Proceeding

(337-TA-800), the defendants have a statutory right to a mandatory stay of the Delaware District Court proceeding pending a final determination in the USITC. On October 3, 2011, InterDigital amended the Delaware District Court complaint, adding LG as a defendant and adding the same additional patent that InterDigital requested be added to USITC Proceeding (337-TA-800). On October 11, 2011, the Delaware District Court granted the defendants' motion to stay. On January 14, 2014, InterDigital and Huawei filed a stipulation of dismissal of their disputes in this action on account of the confidential settlement agreement mentioned above. On the same day, the Delaware District Court granted the stipulation of dismissal.

ZTE China Proceedings

## Table of Contents

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China on April 3, 2014. The first complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to comply with its FRAND obligations for the licensing of its Chinese standards-essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital's standards-essential Chinese patents to ZTE and also seeks compensation for its litigation costs associated with this matter. The second complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, Inc. This complaint alleges that InterDigital has a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its dominant market position in violation of the Chinese Anti-Monopoly Law by engaging in allegedly unlawful practices, including excessively high pricing, tying, discriminatory treatment, and imposing unreasonable trading conditions. ZTE seeks relief in the amount of 20.0 million RMB (approximately \$3.3 million based on the exchange rate as of September 30, 2015), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

On August 7, 2014, InterDigital filed petitions challenging the jurisdiction of the Shenzhen Intermediate People's Court to hear the actions. On August 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the anti-monopoly law case. InterDigital filed an appeal of this decision on September 26, 2014. On September 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the FRAND case, and InterDigital filed an appeal of that decision on October 27, 2014. On December 18, 2014, the Guangdong High Court issued decisions on both appeals upholding the Shenzhen Intermediate Court's decisions that it had jurisdiction to hear these cases. On February 10, 2015, InterDigital filed a petition for retrial with the Supreme People's Court regarding its jurisdictional challenges to both cases.

The Shenzhen Court held hearings on the Anti-Monopoly Law case on May 11, 13, 15 and 18, 2015. At the May hearings, ZTE withdrew its claims alleging discriminatory pricing and the imposition of unfair trading conditions and increased its damages claim to 99.8 million RMB (approximately \$15.7 million based on the exchange rate as of September 30, 2015). The Shenzhen Court held hearings in the FRAND case on July 29-31, 2015 and held a second hearing on the Anti-Monopoly Law case on October 12, 2015. It is possible that the Court may schedule additional hearings in these cases before issuing its decision.

### LG Arbitration

On March 19, 2012, LG Electronics, Inc. filed a demand for arbitration against the Company's wholly owned subsidiaries InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Communications, LLC (now InterDigital Communications, Inc.) with the American Arbitration Association's International Centre for Dispute Resolution ("ICDR"), initiating an arbitration in Washington, D.C. LG seeks a declaration that it is licensed to certain patents owned by InterDigital, including the patents asserted against LG in USITC Proceeding (337-TA-800). On April 18, 2012, InterDigital filed an Answering Statement objecting to the jurisdiction of the ICDR on the ground that LG's claims are not arbitrable, and denying all claims made by LG in its demand for arbitration.

The issue of whether LG's claim to arbitrability is wholly groundless was appealed to the Federal Circuit. On June 7, 2013, the Federal Circuit issued an opinion holding that the USITC erred in terminating USITC Proceeding (337-TA-800) as to LG because "there is no plausible argument that the parties' dispute in this case arose under their patent license agreement" and finding that "LG's assertion of arbitrability was 'wholly groundless.'" The Federal Circuit reversed the USITC's order terminating the USITC proceeding as to LG and remanded to the USITC for further proceedings.

On June 25, 2013, the arbitration tribunal granted the parties' joint request to stay the arbitration pending the exhaustion of all appellate rights from the Federal Circuit's decision. As noted above, LG filed a petition for a writ of certiorari with the U.S. Supreme Court challenging the Federal Circuit's ruling on December 31, 2013, and on April 21, 2014, the Supreme Court granted LG's petition, vacating the underlying Federal Circuit decision and remanding the case to the Federal Circuit with instructions to dismiss the case as moot (in light of InterDigital's decision to terminate the 337-TA-800 investigation as to LG).

On June 9, 2014, the arbitration tribunal lifted the temporary stay at the request of the parties. The arbitration tribunal held an evidentiary hearing on July 20-22, 2015, and a supplemental oral argument on October 19, 2015. InterDigital expects that the tribunal will issue a final award in late 2015 or early 2016.

Nokia 2007 USITC Proceeding (337-TA-613), Related Delaware District Court Proceeding and Federal Circuit Appeal

Table of Contents

In August 2007, InterDigital filed a USITC complaint against Nokia Corporation and Nokia, Inc., alleging a violation of Section 337 of the Tariff Act of 1930 in that Nokia engaged in an unfair trade practice by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G mobile handsets and components that infringe two of InterDigital's patents. In November and December 2007, a third patent and a fourth patent were added to the Company's complaint against Nokia. The complaint sought an exclusion order barring from entry into the United States infringing 3G mobile handsets and components that are imported by or on behalf of Nokia. InterDigital's complaint also sought a cease-and-desist order to bar further sales of infringing Nokia products that have already been imported into the United States.

In addition, on the same date as the filing of USITC Proceeding (337-TA-613), InterDigital also filed a complaint in the Delaware District Court alleging that Nokia's 3G mobile handsets and components infringe the same two InterDigital patents identified in the original USITC complaint. The complaint seeks a permanent injunction and damages in an amount to be determined. This Delaware action was stayed on January 10, 2008, pursuant to the mandatory, statutory stay of parallel district court proceedings at the request of a respondent in a USITC investigation. Thus, this Delaware action is stayed with respect to the patents in this case until the USITC's determination on these patents becomes final, including any appeals. The Delaware District Court permitted InterDigital to add to the stayed Delaware action the third and fourth patents InterDigital asserted against Nokia in the USITC action.

On August 14, 2009, the ALJ overseeing USITC Proceeding (337-TA-613) issued an Initial Determination finding no violation of Section 337 of the Tariff Act of 1930. The Initial Determination found that InterDigital's patents were valid and enforceable, but that Nokia did not infringe these patents. In the event that a Section 337 violation were to be found by the Commission, the ALJ recommended the issuance of a limited exclusion order barring entry into the United States of infringing Nokia 3G WCDMA handsets and components, as well as the issuance of appropriate cease-and-desist orders.

On October 16, 2009, the Commission issued a notice that it had determined to review in part the Initial Determination, and that it affirmed the ALJ's determination of no violation and terminated the investigation. The Commission determined to review the claim construction of the patent claim terms "synchronize" and "access signal" and also determined to review the ALJ's validity determinations. On review, the Commission modified the ALJ's claim construction of "access signal" and took no position with regard to the claim term "synchronize" or the validity determinations. The Commission determined not to review the remaining issues decided in the Initial Determination.

On November 30, 2009, InterDigital filed with the Federal Circuit a petition for review of certain rulings by the USITC. In the appeal, neither the construction of the term "synchronize" nor the issue of validity can be raised because the Commission took no position on these issues in its Final Determination. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Federal Circuit on January 4, 2010. In its appeal, InterDigital seeks reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the Commission's determination of no Section 337 violation and a remand for further proceedings before the Commission. InterDigital is not appealing the Commission's determination of non-infringement with respect to U.S. Patent Nos. 6,973,579 and 7,117,004. On August 1, 2012, the Federal Circuit issued its decision in the appeal, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On September 17, 2012, Nokia filed a combined petition for rehearing by the panel or en banc with the Federal Circuit. On January 10, 2013, the Federal Circuit denied Nokia's petition.

On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 4, 2013, on remand from the Federal Circuit, the Commission

issued an order requiring the parties to submit comments regarding what further proceedings must be conducted to comply with the Federal Circuit's August 1, 2012 judgment, including whether any issues should be remanded to an ALJ to be assigned to this investigation. All parties filed initial responses to the Commission's order by February 14, 2013 and reply responses by February 22, 2013. On March 27, 2013, Nokia filed a motion asking the Federal Circuit to recall its mandate, which the Federal Circuit denied on March 28, 2013.

On May 10, 2013, Nokia filed a petition for a writ of certiorari to the United States Supreme Court (No. 12 -1352). Briefs in opposition to Nokia's petition were filed on September 9, 2013, and Nokia filed its reply brief on September 23, 2013. On October 15, 2013, the Supreme Court denied Nokia's petition for a writ of certiorari.

On February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. In doing so, the Commission determined certain issues and identified others that would be subject to further proceedings by the

Table of Contents

ALJ. For example, with respect to domestic industry, the Commission acknowledged the Federal Circuit's affirmance of InterDigital's domestic industry and declined Nokia's invitation to revisit the issue on remand. With respect to validity, the Commission affirmed the ALJ's determination that the Lucas reference does not anticipate or render obvious the asserted claims of the '966 and '847 patents. The Commission further affirmed the ALJ's determination that the asserted claims of the '966 and '847 patents are not rendered obvious by the IS-95 references combined with the CODIT reference. The Commission construed the claim limitation "synchronize" in the asserted claims of the '847 patent to mean "establishing a timing reference with the pilot signal transmitted by a base station," as InterDigital had originally proposed to the ALJ.

With respect to infringement, the Commission determined that the PRACH preamble used in the accused Nokia handsets satisfies the "code"/"signal" limitation of the asserted claims of the '966 and '847 patents under the Federal Circuit's revised claim construction. The Commission also determined that the transmission of the PRACH preambles meet the claim limitation "increased power level" in the asserted claims of the '966 and '847 patents based on the Federal Circuit's revised claim construction. The Commission further determined that Nokia waived any argument that the PRACH preamble and message signals in the accused Nokia handsets are never transmitted. The Commission separately found that the accused handsets do not satisfy the "synchronized to a pilot signal" limitation under the doctrine of equivalents.

The Commission assigned the investigation to an ALJ for limited remand proceedings consistent with its February 12, 2014 opinion. The Commission defined the scope of the remand proceedings by enumerating the particular issues before the ALJ. Specifically, the Commission ordered the ALJ to:

take additional briefing and make findings on whether the accused Nokia handsets meet the "generated using a same code" limitation or "the message being transmitted only subsequent to the subscriber unit receiving the indication" limitation in the asserted claims of the '966 patent, and whether the accused Nokia handsets meet the "generated using a same code" limitation or the "function of a same code" limitation in the asserted claims of the '847 patent; take additional briefing and make findings on whether the 3GPP standard supports a finding that the pilot signal (P-CPICH) satisfies the claim limitation "synchronized to a pilot signal" as recited in the asserted claims of the '847 patent by synchronizing to either the P-SCH or S-SCH signals under the Commission's construction of that claim limitation, as well as, regarding the asserted claims of the '847 patent, whether the PRACH Message is transmitted during the power ramp up process; and take evidence and/or briefing and make findings regarding (i) whether Nokia's currently imported products infringe the asserted patents; (ii) whether the chips in the currently imported products are licensed; (iii) whether the issue of the standard-essential nature of the '847 and '966 patents is contested; (iv) whether there is "patent hold-up" or "reverse patent hold-up"; and (v) the statutory public interest factors.

The ALJ requested the parties submit by February 24, 2014 briefing regarding their respective positions, including proposed procedural schedules, for the limited proceedings they respectively contend are necessary in view of the Commission's order regarding the scope of the remand. The Commission did not authorize the taking of discovery, the taking of evidence, or the briefing of issues relating to validity of the asserted claims.

On February 24, 2014, Nokia filed a motion for reconsideration of portions of the Commission's February 12 order, arguing that the Commission's remand of claims 6, 9, and 11 of the '847 patent was in error and seeking reconsideration of the Commission's determination that Nokia waived certain non-infringement arguments. On March 4, 2014, InterDigital opposed Nokia's motion as it related to the Commission's determination of waiver of certain non-infringement arguments, but did not oppose the motion as it related to claims 6, 9, and 11 of the '847 patent. On March 24, 2014, the Commission issued a revised order and opinion dropping claims 6, 9, and 11 of the '847 patent from the remanded investigation and noting that Nokia's petition for reconsideration was otherwise denied. On April 22, 2014, Nokia filed in the Federal Circuit a petition for a writ of mandamus to the USITC, requesting the court to

order the Commission to address in the remand investigation the non-infringement arguments that the Commission determined Nokia has waived. On July 24, 2014, the Federal Circuit denied Nokia's petition.

On March 5, 2014, the ALJ issued an order establishing August 28, 2015 as the target date for completion of the investigation (which order the Commission determined not to review on April 1, 2014), and a separate order setting the hearing in the matter for January 26-30, 2015.

On May 21, 2014, Nokia Corp. and MMO moved to substitute MMO for Nokia Corp. as a respondent in the investigation. On June 2, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 13, 2014. By initial determination dated June 18, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to



## Table of Contents

termination of the investigation as to Nokia Corp. The Commission determined not to review the initial determination on July 18, 2014.

On December 1, 2014, InterDigital moved for an order substituting InterDigital Communications Corporation with InterDigital Communications, Inc. Respondents opposed the motion on December 11, 2014. The ALJ granted the motion on January 14, 2015. On February 13, 2015, the Commission determined not to review the ALJ's order granting InterDigital's motion to substitute.

The evidentiary hearing in the remand proceeding was held January 26 - 28, 2015. On April 27, 2015, the ALJ issued his Remand Initial Determination ("RID"). The ALJ found that the imported accused handsets (1) contain chips that were not previously adjudicated and (2) infringe the asserted claims of the '966 and '847 patents, and that there was no evidence of patent hold-up, there is evidence of reverse hold-up, and the public interest does not preclude issuance of an exclusion order.

On May 11, 2015, Nokia Corporation and MMO each filed petitions to the Commission to review the RID. On June 25, 2015, the Commission issued a notice of its decision to review in part the RID. The Commission determined to review the RID's findings concerning the application of the Commission's prior construction of one claim limitation in Investigation Nos. 337-TA-800 and 337-TA-868, the RID's findings as to whether the accused products satisfy that claim limitation, and the RID's public interest findings. The Commission issued its final determination on August 28, 2015, finding that issue preclusion applied with respect to the construction of the claim limitations at issue, and that issue preclusion also required a finding of non-infringement. The Commission determined there was no violation of Section 337 and terminated the 337-TA-613 investigation. The Commission found that consideration of the public interest issues was moot and did not address them.

### Nokia Delaware Proceeding

In January 2005, Nokia filed a complaint in the Delaware District Court against InterDigital Communications Corporation (now InterDigital, Inc.) and its wholly owned subsidiary InterDigital Technology Corporation, alleging that InterDigital has used false or misleading descriptions or representations regarding the Company's patents' scope, validity and applicability to products built to comply with 3G standards (the "Nokia Delaware Proceeding"). Nokia's amended complaint seeks declaratory relief, injunctive relief and damages, including punitive damages, in an amount to be determined. InterDigital subsequently filed counterclaims based on Nokia's licensing activities as well as Nokia's false or misleading descriptions or representations regarding Nokia's 3G patents and Nokia's undisclosed funding and direction of an allegedly independent study of the essentiality of 3G patents. InterDigital's counterclaims seek injunctive relief as well as damages, including punitive damages, in an amount to be determined.

On December 10, 2007, pursuant to a joint request by the parties, the Delaware District Court entered an order staying the proceedings pending the full and final resolution of USITC Proceeding (337-TA-613). Specifically, the full and final resolution of USITC Proceeding (337-TA-613) includes any initial or final determinations of the ALJ overseeing the proceeding, the USITC and any appeals therefrom and any remand proceedings thereafter. Pursuant to the order, the parties and their affiliates are generally prohibited from initiating against the other parties, in any forum, any claims or counterclaims that are the same as the claims and counterclaims pending in the Nokia Delaware Proceeding, and should any of the same or similar claims or counterclaims be initiated by a party, the other parties may seek dissolution of the stay.

Except for the Nokia Delaware Proceeding and the Nokia Arbitration Concerning Presentations (described below), the order does not affect any of the other legal proceedings between the parties.

### Nokia Arbitration Concerning Presentations

In November 2006, InterDigital Communications Corporation (now InterDigital, Inc.) and its wholly owned subsidiary InterDigital Technology Corporation filed a request for arbitration with the International Chamber of Commerce against Nokia (the "Nokia Arbitration Concerning Presentations"), claiming that certain presentations Nokia has attempted to use in support of its claims in the Nokia Delaware Proceeding (described above) are confidential and,

as a result, may not be used in the Nokia Delaware Proceeding pursuant to the parties' agreement.

The December 10, 2007 order entered by the Delaware District Court to stay the Nokia Delaware Proceeding also stayed the Nokia Arbitration Concerning Presentations pending the full and final resolution of USITC Proceeding (337-TA-613).

Investigation by Taiwan Fair Trade Commission

## Table of Contents

On December 6, 2013, InterDigital received notice from the Taiwan Fair Trade Commission (“TFTC”) that the TFTC had initiated an investigation to examine alleged anti-competitive behavior under Taiwan’s Fair Trade Act (FTA). Companies found to violate the FTA may be ordered to cease and rectify the unlawful conduct, take other necessary corrective action, and/or pay an administrative fine. InterDigital is fully cooperating with the TFTC’s investigation.

### Pegatron Actions

In first quarter 2015, we learned that on or about February 3, 2015, Pegatron Corporation (“Pegatron”), one of our licensees, filed a civil suit in Taiwan Intellectual Property Court against InterDigital, Inc. and certain of its subsidiaries alleging breach of the Taiwan Fair Trade Act (the “Pegatron Taiwan Action”). On May 26, 2015, InterDigital, Inc. received a copy of the civil complaint filed by Pegatron in the Taiwan Intellectual Property Court. The complaint named as defendants InterDigital, Inc. as well as InterDigital’s wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. (together, for purposes of this discussion, “InterDigital”). The complaint alleged that InterDigital abused its market power by improperly setting, maintaining or changing the royalties Pegatron is required to pay under their 2008 patent license agreement (the “Pegatron PLA”), and engaging in unreasonable discriminatory treatment and other unfair competition activities in violation of the Taiwan Fair Trade Act. The complaint sought minimum damages in the amount of approximately \$52 million, which amount could be expanded during the litigation, and that the court order multiple damages based on its claim that the alleged conduct was intentional. The complaint also sought an order requiring InterDigital to cease enforcing the royalty provisions of the Pegatron PLA, as well as all other conduct that allegedly violates the Fair Trade Act.

On June 5, 2015, InterDigital filed an Arbitration Demand with the American Arbitration Association’s International Centre for Dispute Resolution (“ICDR”) seeking declaratory relief denying all of the claims in Pegatron’s Taiwan Action and for breach of contract.

On or about June 10, 2015, InterDigital filed a complaint in the United States District Court for the Northern District of California, San Jose Division (the “CA Northern District Court”), seeking a temporary restraining order, preliminary injunction, and permanent anti-suit injunction against Pegatron prohibiting Pegatron from prosecuting the Pegatron Taiwan Action. The complaint also seeks specific performance by Pegatron of the dispute resolution procedures set forth in the Pegatron PLA and to compel arbitration of the disputes in the Pegatron Taiwan Action. On June 29, 2015, the court granted InterDigital’s motion for a temporary restraining order and preliminary injunction requiring Pegatron take immediate steps to dismiss the Taiwan Action without prejudice. On July 1, 2015, InterDigital was informed that Pegatron had withdrawn its complaint in the Taiwan Intellectual Property Court and that the case had been dismissed without prejudice.

On August 3, 2015, Pegatron filed an answer and counterclaims to InterDigital’s CA Northern District Court complaint. Pegatron accused InterDigital of violating multiple sections of the Taiwan Fair Trade Act, violating Section 2 of the Sherman Act, breaching ETSI, IEEE, and ITU contracts, promissory estoppel (pled in the alternative), violating Section 17200 of the California Business & Professions Code, and violating the Delaware Consumer Fraud Act. These counterclaims stem from Pegatron’s accusation that InterDigital violated FRAND obligations. As relief, Pegatron seeks a declaration regarding the appropriate FRAND terms and conditions for InterDigital’s “declared essential patents,” a declaration that InterDigital’s standards-essential patents are unenforceable due to patent misuse, an order requiring InterDigital to grant Pegatron a license on FRAND terms, an order enjoining InterDigital’s alleged ongoing breaches of its FRAND commitments, and damages in the amount of allegedly excess non-FRAND royalties Pegatron has paid to InterDigital, plus interest and treble damages. On August 7, 2015, Pegatron responded to InterDigital’s arbitration demand, disputing the arbitrability of Pegatron’s claims. On September 24, 2015, InterDigital moved to compel arbitration and dismiss Pegatron’s counterclaims or, in the alternative, stay the counterclaims pending the parties’ arbitration. Pegatron’s opposition to this motion was filed on October 22, 2015, and InterDigital’s reply is due on November 12, 2015. The CA Northern District Court has scheduled a case management conference for February 3, 2016. The parties have agreed to stay the arbitration proceeding pending the CA Northern District Court’s resolution of InterDigital’s motion to compel arbitration.

Microsoft Sherman Act Delaware Proceedings

On August 20, 2015, Microsoft Mobile, Inc. and Microsoft Mobile Oy (collectively, “Microsoft”) filed a complaint in the United States District Court for the District of Delaware against InterDigital, Inc., InterDigital Communications, Inc., InterDigital Technology Corporation, InterDigital Patent Holdings, Inc., InterDigital Holdings, Inc., and IPR Licensing, Inc. The complaint alleges that InterDigital has monopolized relevant markets for 3G and 4G cellular technology in violation of Section 2 of the Sherman Act. As relief, Microsoft seeks declaratory judgments that InterDigital has violated Section 2 of the Sherman Act, that “each of InterDigital’s U.S. patents declared by it to be Essential” to the 3G and 4G standards is unenforceable, and that all agreements InterDigital has entered into in furtherance of its alleged unlawful conduct are void. Microsoft also seeks an award of treble damages and the following injunctive relief: requiring InterDigital to grant Microsoft a

Table of Contents

non-confidential license to its U.S. standards-essential patents (“SEPs”) on FRAND terms as determined by a court, requiring InterDigital to disclose to Microsoft the terms of its other SEP licenses, preventing InterDigital from enforcing any exclusion orders it might receive with respect to its SEPs, and requiring InterDigital to re-assign any declared SEPs that it has assigned to controlled entities. InterDigital’s response to the complaint is due on November 4, 2015.

**Other**

We are party to certain other disputes and legal actions in the ordinary course of business, including arbitrations and legal proceedings with licensees regarding the terms of their agreements and the negotiation thereof. We do not currently believe that these matters, even if adversely adjudicated or settled, would have a material adverse effect on our financial condition, results of operations or cash flows. None of the above matters have met the requirements for accrual as of September 30, 2015.

**7. EQUITY TRANSACTIONS**

Changes in shareholders’ equity for the nine months ended September 30, 2015 and September 30, 2014 were as follows (in thousands):

	For the Nine Months Ended September 30,	
	2015	2014
Balance beginning of period, December 31	\$468,328	\$528,650
Net income attributable to InterDigital, Inc.	86,187	90,552
Unrealized loss on investments, net	(124)	(154)
Cash dividends declared	(21,658)	(19,653)
Repurchase of Common Stock	(89,052)	(88,022)
Convertible note hedge transactions, net of tax	(38,594)	—
Warrant transactions	42,881	—
Equity component of the 2020 Notes, net of tax	38,567	—
Deferred financing costs allocated to equity	(2,430)	—
Exercise of common stock options	29	369
Taxes withheld upon restricted stock unit vestings	(9,628)	(2,811)
Tax benefit from share-based compensation	2,126	1,218
Share-based compensation	9,691	13,458
Total InterDigital, Inc. shareholders’ equity end of period	\$486,323	\$523,607
Noncontrolling Interest Balance beginning of period, December 31	7,349	5,170
Proceeds from noncontrolling interests	2,550	3,825
Distribution preference	(2,500)	—
Net loss attributable to noncontrolling interest	(2,112)	(2,360)
Noncontrolling interest	5,287	6,635
Total Equity end of period	\$491,610	\$530,242
Repurchase of Common Stock		

In June 2014, our Board of Directors authorized a new \$300 million share repurchase program (the "2014 Repurchase Program"), and in June 2015 our Board of Directors authorized a \$100 million increase to the 2014 Repurchase Program, bringing the total amount of the program to \$400 million. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below sets forth for the periods presented the number of shares repurchased and the dollar value of shares repurchased under the 2014 Repurchase Program, in thousands.

Table of Contents

	2014 Repurchase Program	
	# of Shares	Value
2015 <sup>a</sup>	1,689	\$ 89,052
2014	3,554	152,625
Total	5,243	\$ 241,677

Includes the repurchase of 0.8 million shares of our common stock at \$53.61 per share, the closing price of the stock on March 5, 2015, from institutional investors through one of the initial purchasers and its affiliate, as our agent, concurrently with the pricing of the offering of the 2020 Notes (as defined below in Note 9, "Long-Term Debt").

**Dividends**

Cash dividends on outstanding common stock declared in 2015 and 2014 were as follows (in thousands, except per share data):

	Per Share	Total	Cumulative by Fiscal Year
2015			
First quarter	\$ 0.20	\$ 7,232	\$ 7,232
Second quarter	0.20	7,243	14,475
Third quarter	0.20	7,183	21,658
	\$ 0.60	\$ 21,658	
2014			
First quarter	\$ 0.10	\$ 3,954	\$ 3,954
Second quarter	0.20	8,033	11,987
Third quarter	0.20	7,666	19,653
Fourth quarter	0.20	7,500	27,153
	\$ 0.70	\$ 27,153	

In June 2014, we announced that our Board of Directors had approved a 100% increase in the Company's quarterly cash dividend, to \$0.20 per share. We currently expect to continue to pay dividends comparable to our quarterly \$0.20 per share cash dividend in the future; however, continued payment of cash dividends and changes in the Company's dividend policy will depend on the Company's earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

**Common Stock Warrants**

On March 29, 2011 and March 30, 2011, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively. The warrants become exercisable in tranches starting in June 2016, and have a strike price of \$63.44. In consideration for the warrants issued on March 29, 2011 and March 30, 2011, we received \$27.6 million and \$4.1 million, respectively, on April 4, 2011.

On March 5 and March 9, 2015, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.8 million and approximately 0.6 million shares of our common stock, respectively, at an initial strike price of approximately \$88.46 per share. The warrants become exercisable in tranches starting in June 2020. As consideration for the warrants issued on March 5 and March 9, 2015, we received approximately \$37.3 million and approximately \$5.6 million, respectively.

**8. CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES****Concentration of Credit Risk and Fair Value of Financial Instruments**

Table of Contents

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. We place our cash equivalents and short-term investments only in highly rated financial instruments and in United States government instruments.

Our accounts receivable are derived principally from patent license and technology solutions agreements. At September 30, 2015 and December 31, 2014, four licensees comprised 98% and three licensees comprised 94%, respectively, of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

**Fair Value Measurements**

Effective January 1, 2008, we adopted the provisions of the FASB fair value measurement guidance that relate to our financial assets and financial liabilities. We adopted the guidance related to non-financial assets and liabilities as of January 1, 2009. We use various valuation techniques and assumptions when measuring fair value of our assets and liabilities. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. This guidance established a hierarchy that prioritizes fair value measurements based on the types of input used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

**Level 1 Inputs** — Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets.

**Level 2 Inputs** — Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

**Level 3 Inputs** — Level 3 includes financial instruments for which fair value is derived from valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including the Company's own assumptions. The pricing models incorporate transaction details such as contractual terms, maturity and, in certain instances, timing and amount of future cash flows, as well as assumptions related to liquidity and credit valuation adjustments of marketplace participants.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of September 30, 2015 and December 31, 2014 (in thousands):

	Fair Value as of September 30, 2015			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market and demand accounts (a)	\$298,818	\$—	\$—	\$298,818
Commercial paper (b)	—	327,531	—	327,531
U.S. government securities	—	200,616	—	200,616
Corporate bonds, asset backed and other securities	316	40,163	—	40,479
	\$299,134	\$568,310	\$—	\$867,444

(a) Included within cash and cash equivalents.

(b) Includes \$178.8 million of commercial paper that is included within cash and cash equivalents.





Table of Contents

	Fair Value as of December 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market and demand accounts (a)	\$307,995	\$—	\$—	\$307,995
Commercial paper (b)	—	207,449	—	207,449
U.S. government securities	—	151,618	—	151,618
Corporate bonds, asset backed and other securities	671	36,195	—	36,866
	\$308,666	\$395,262	\$—	\$703,928

(a) Included within cash and cash equivalents.

(b) Includes \$120.6 million of commercial paper that is included within cash and cash equivalents.

The principal amount, carrying value and related estimated fair value of the Company's senior convertible debt reported in the Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 are as follows (in thousands):

	September 30, 2015			December 31, 2014		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Total Long-Term Debt	\$546,000	\$480,908	\$541,805	\$230,000	\$216,206	\$255,300

The aggregate fair value of the principal amount of the long-term debt (Level 2 Notes as defined in Note 9 "Long-Term Debt") was calculated using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources. As discussed in Note 2, "Significant Agreements," we acquired patents as part of the multiple-element arrangement entered into in third quarter 2015. We have recorded these patents based on their total estimated fair value of \$20.8 million and will amortize them over their estimated useful lives. We estimated the fair value of the patents in this transaction by a combination of an analysis of comparable market transactions (the market approach) and discounted cash flow analysis (the income approach). For the market approach, judgment was applied as to which market transactions were most comparable to the transaction. For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others.

## 9. LONG-TERM DEBT

### 2016 Senior Convertible Notes, and related Note Hedge and Warrant Transactions

In April 2011, we issued \$230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the "2016 Notes"). The 2016 Notes bear interest at a rate of 2.50% per year, payable in cash on March 15 and September 15 of each year, and mature on March 15, 2016, unless earlier converted or repurchased.

The 2016 Notes will be convertible into cash and, if applicable, shares of our common stock at a current conversion rate of 18.1426 shares of common stock per \$1,000 principal amount of 2016 Notes (which is equivalent to a conversion price of approximately \$55.12 per share), as adjusted as of July 6, 2015 pursuant to the terms of the Indenture for the 2016 Notes.

Prior to 5:00 p.m., New York City time, on the business day immediately preceding December 15, 2015, the 2016 Notes will be convertible only under certain circumstances as set forth in the indenture to the 2016 Notes.

Commencing on December 15, 2015, the 2016 Notes will be convertible in multiples of \$1,000 principal amount, at any time prior to 5:00 p.m., New York City time, on the business day immediately preceding the maturity date of the 2016 Notes. Upon any conversion, the conversion obligation will be settled in cash up to, and including, the principal amount and, to the extent of any excess over the principal amount, in shares of our common stock.

The Company may not redeem the 2016 Notes prior to their maturity date.

On March 29 and March 30, 2011, in connection with the offering of the 2016 Notes, we entered into convertible note hedge transactions that cover, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively, at an initial strike price that corresponded to the

initial conversion price of the 2016 Notes and are exercisable upon conversion of the 2016 Notes.

28

---

## Table of Contents

On April 4, 2011, the Company paid \$37.1 million and \$5.6 million for the convertible note hedge transactions entered into on March 29 and March 30, 2011, respectively. The aggregate cost of the convertible note hedge transactions was \$42.7 million. As described in more detail below, this cost was partially offset by the proceeds from the sale of the warrants described below.

On March 29 and March 30, 2011, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million shares and approximately 0.5 million shares, respectively, of common stock. The warrants have a current strike price of \$63.44 per share, as adjusted as of July 6, 2015 in connection with the above-referenced adjustment to the conversion rate of the 2016 Notes. The warrants become exercisable in tranches starting in June 2016. As consideration for the warrants issued on March 29 and March 30, 2011, we received, on April 4, 2011, \$27.6 million and \$4.1 million, respectively.

### Accounting Treatment of the 2016 Notes and related Convertible Note Hedge and Warrant Transactions

The offering of the 2016 Notes on March 29, 2011 was for \$200.0 million and included an overallotment option that allowed the initial purchaser to purchase up to an additional \$30.0 million aggregate principal amount of 2016 Notes. The initial purchaser exercised its overallotment option on March 30, 2011, bringing the total amount of 2016 Notes issued on April 4, 2011 to \$230.0 million.

In connection with the offering of the 2016 Notes, as discussed above, the Company entered into convertible note hedge transactions with respect to its common stock. The \$42.7 million cost of the convertible note hedge transactions was partially offset by the proceeds from the sale of the warrants described above, resulting in a net cost of \$10.9 million.

Existing accounting guidance provides that the March 29, 2011 convertible note hedge and warrant contracts be treated as derivative instruments for the period during which the initial purchaser's overallotment option was outstanding. Once the overallotment option was exercised on March 30, 2011, the March 29 convertible note hedge and warrant contracts were reclassified to equity, as the settlement terms of the Company's note hedge and warrant contracts both provide for net share settlement. There was no material net change in the value of these convertible note hedges and warrants during the one day they were classified as derivatives and the equity components of these instruments will not be adjusted for subsequent changes in fair value.

Under current accounting guidance, the Company bifurcated the proceeds from the offering of the 2016 Notes between the liability and equity components of the debt. On the date of issuance, the liability and equity components were calculated to be approximately \$187.0 million and \$43.0 million, respectively. The initial \$187.0 million liability component was determined based on the fair value of similar debt instruments excluding the conversion feature. The initial \$43.0 million (\$28.0 million net of tax) equity component represents the difference between the fair value of the initial \$187.0 million in debt and the \$230.0 million of gross proceeds. The related initial debt discount of \$43.0 million is being amortized using the effective interest method over the life of the 2016 Notes. An effective interest rate of 7% was used to calculate the debt discount on the 2016 Notes.

In connection with the above-noted transactions, the Company incurred \$8.0 million of directly related costs. The initial purchaser's transaction fees and related offering expenses were allocated to the liability and equity components of the debt in proportion to the allocation of proceeds and accounted for as debt issuance costs. We allocated \$6.5 million of debt issuance costs to the liability component of the debt, which were capitalized as deferred financing costs. These costs are being amortized to interest expense over the term of the debt using the effective interest method. The remaining \$1.5 million of costs allocated to the equity component of the debt were recorded as a reduction of the equity component of the debt.

### 2020 Senior Convertible Notes, and related Note Hedge and Warrant Transactions

On March 11, 2015, we issued \$316.0 million in aggregate principal amount of 1.50% Senior Convertible Notes due 2020 (the "2020 Notes"). The 2020 Notes bear interest at a rate of 1.50% per year, payable in cash on March 1 and September 1 of each year, commencing September 1, 2015, and mature on March 1, 2020, unless earlier converted or repurchased.

The 2020 Notes will be convertible into cash, shares of our common stock or a combination thereof, at our election, at an initial conversion rate of 13.8172 shares of common stock per \$1,000 principal amount of 2020 Notes (which is equivalent to an initial conversion price of approximately \$72.37 per share). It is our current intent and policy to settle

all conversions through combination settlement of cash and shares of common stock, with a specified dollar amount of \$1,000 per \$1,000 principal amount of the 2020 Notes and any remaining amounts in shares.

Prior to 5:00 p.m., New York City time, on the business day immediately preceding December 1, 2019, the 2020 Notes will be convertible only under certain circumstances as set forth in the indenture to the 2020 Notes.

Commencing on December 1, 2019, the 2020 Notes will be convertible in multiples of \$1,000 principal amount, at any time prior to 5:00 p.m., New York City time, on the second scheduled trading day immediately preceding the maturity date of the 2020 Notes.

Table of Contents

The Company may not redeem the 2020 Notes prior to their maturity date.

On March 5 and March 9, 2015, in connection with the offering of the 2020 Notes, we entered into convertible note hedge transactions that cover approximately 3.8 million and approximately 0.6 million shares of our common stock, respectively, at a strike price that corresponds initially to the initial conversion price of the 2020 Notes and are exercisable upon conversion of the 2020 Notes.

The cost of the March 5 and March 9, 2015 convertible note hedge transactions was approximately \$51.7 million and approximately \$7.7 million, respectively.

On March 5 and March 9, 2015, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.8 million and approximately 0.6 million, respectively, of common stock at an initial strike price of approximately \$88.46 per share. The warrants become exercisable in tranches starting in June 2020. As consideration for the warrants issued on March 5 and March 9, 2015, we received approximately \$37.3 million and approximately \$5.6 million, respectively.

The Company also repurchased 0.8 million shares of our common stock at \$53.61 per share, the closing price of the stock on March 5, 2015, from institutional investors through one of the initial purchasers and its affiliate, as our agent, concurrently with the pricing of the offering of the 2020 Notes.

#### Accounting Treatment of the 2020 Notes and related Convertible Note Hedge and Warrant Transactions

The offering of the 2020 Notes on March 5, 2015 was for \$275.0 million and included an overallotment option that allowed the initial purchasers to purchase up to an additional \$41.0 million aggregate principal amount of 2020 Notes. The initial purchasers exercised their overallotment option on March 9, 2015, bringing the total amount of 2020 Notes issued on March 11, 2015 to \$316.0 million.

In connection with the offering of the 2020 Notes, as discussed above, InterDigital entered into convertible note hedge transactions with respect to its common stock. The \$59.4 million cost of the convertible note hedge transactions was partially offset by the proceeds from the sale of the warrants described above, resulting in a net cost of \$16.5 million. Both the convertible note hedge and warrants were classified as equity.

The Company bifurcated the proceeds from the offering of the 2020 Notes between liability and equity components. On the date of issuance, the liability and equity components were calculated to be approximately \$256.7 million and \$59.3 million, respectively. The initial \$256.7 million liability component was determined based on the fair value of similar debt instruments excluding the conversion feature. The initial \$59.3 million (\$38.6 million net of tax) equity component represents the difference between the fair value of the initial \$256.7 million in debt and the \$316.0 million of gross proceeds. The related initial debt discount of \$59.3 million is being amortized using the effective interest method over the life of the 2020 Notes. An effective interest rate of 5.89% was used to calculate the debt discount on the 2020 Notes.

In connection with the above-noted transactions, the Company incurred \$9.3 million of directly related costs. The initial purchasers' transaction fees and related offering expenses were allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt and equity issuance costs, respectively. We allocated \$7.0 million of debt issuance costs to the liability component, which were capitalized as deferred financing costs. These costs are being amortized to interest expense over the term of the debt using the effective interest method. The remaining \$2.4 million of costs allocated to the equity component were recorded as a reduction of the equity component.

As described in Note 1, "Basis of Presentation," in March 2015, as part of their simplification initiative, FASB issued amendments to guidance for reporting debt issuance costs. According to the revised standard, an entity will recognize debt issuance costs as a direct deduction from the debt liability as opposed to an asset.

The following table reflects the carrying value of the Company's convertible debt as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			December 31, 2014		
	2016 Notes	2020 Notes	Total	2016 Notes	2020 Notes	Total
Principal	\$230,000	\$316,000	\$546,000	\$230,000	\$—	\$230,000
Less:						
Unamortized interest discount	(5,000 )	(53,281 )	(58,281 )	(12,165 )	—	(12,165 )

Edgar Filing: InterDigital, Inc. - Form 10-Q

Deferred financing costs	(652 )	(6,159 )	(6,811 )	(1,629 )	—	(1,629 )
Net carrying amount of Notes	\$224,348	\$256,560	\$480,908	\$216,206	\$—	\$216,206

30

---

Table of Contents

The following table presents the amount of interest cost recognized for the three and nine months ended September 30, 2015 and September 30, 2014 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

	For the Three Months Ended September 30,					
	2015			2014		
	2016	2020	Total	2016	2020	Total
	Notes	Notes		Notes	Notes	
Contractual coupon interest	\$ 1,438	\$ 1,185	\$ 2,623	\$ 1,438	\$ —	\$ 1,438
Accretion of debt discount	2,416	2,618	5,034	2,255	—	2,255
Amortization of deferred financing costs	326	349	675	326	—	326
Total	\$ 4,180	\$ 4,152	\$ 8,332	\$ 4,019	\$ —	\$ 4,019
	For the Nine Months Ended September 30,					
	2015			2014		
	2016	2020	Total	2016	2020	Total
	Notes	Notes		Notes	Notes	
Contractual coupon interest	\$ 4,313	\$ 2,633	\$ 6,946	\$ 4,313	\$ —	\$ 4,313
Accretion of debt discount	7,165	6,053	13,218	6,688	—	-6,688
Amortization of deferred financing costs	977	813	1,790	977	—	-977
Total	\$ 12,455	\$ 9,499	\$ 21,954	\$ 11,978	\$ —	\$ 11,978

**10. VARIABLE INTEREST ENTITIES**

As further discussed below, we are the primary beneficiary of two variable interest entities. As of September 30, 2015, the combined book values of the assets and liabilities associated with these variable interest entities included in our Consolidated Balance Sheet were \$14.2 million and \$1.1 million, respectively. Assets include \$9.1 million of cash and cash equivalents and \$5.1 million of patents, net. The impact of consolidating these variable interest entities on our Consolidated Statements of Income was not significant.

**Convida Wireless**

On September 26, 2015, we renewed and expanded our joint venture with Sony, Convida Wireless, to include 5G technologies. Convida Wireless was launched in 2013 to combine Sony's consumer electronics expertise with our pioneering Internet of Things ("IoT") expertise to drive IoT communications and connectivity. Based on the terms of the agreement, the parties will contribute funding and resources for additional research and platform development, which we will perform. SCP IP Investment LLC, an affiliate of Stephens Inc., is a minority investor in Convida Wireless.

Convida Wireless is a variable interest entity. Based on our provision of research and platform development services to Convida Wireless, we have determined that we remain the primary beneficiary for accounting purposes and will continue to consolidate Convida Wireless. For the three months ended September 30, 2015 and 2014, we have allocated approximately \$0.7 million and \$0.9 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties. For the nine months ended September 30, 2015 and 2014, we have allocated approximately \$2.1 million and \$2.4 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties.

**Signal Trust for Wireless Innovation**

On October 17, 2013, we announced the establishment of the Signal Trust for Wireless Innovation, which seeks to monetize a large InterDigital patent portfolio related to cellular infrastructure.

The more than 500 patents and patent applications transferred to the Signal Trust focus primarily on 3G and LTE technologies, and were developed by InterDigital's engineers and researchers over more than a decade, with a number of the innovations contributed to the worldwide standards process.

InterDigital has committed funding to the Signal Trust to help ensure its successful launch. The distributions from the Signal Trust will support continued research related to cellular wireless technologies. A small portion of the proceeds

from the Signal Trust will be used to fund, through the Signal Foundation for Wireless Innovation, scholarly analysis of intellectual property rights and the technological, commercial and creative innovations they facilitate.



Table of Contents

The Signal Trust is a variable interest entity. Based on the terms of the Trust Agreement, we have determined that we are the primary beneficiary for accounting purposes and must consolidate the Signal Trust.

32

---

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, in addition to our 2014 Form 10-K, other reports filed with the SEC and the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 — Forward-Looking Statements below.

Sony Agreement

On September 26, 2015, we entered into a new patent license agreement ("PLA") with Sony Corporation of America ("Sony"). In addition, we renewed our joint venture with Sony, Convida Wireless, to continue investments in the development of IoT technologies and expanded it to include development efforts in 5G technologies. As discussed more fully in Note 10, "Variable Interest Entities," Convida Wireless is a variable interest entity and is consolidated within our financial statements.

Our agreement with Sony is a multiple-element arrangement for accounting purposes, which includes, among other elements, the new PLA. The new PLA covers the sale by Sony of covered products for the three-year period that commences on December 1, 2015. In addition, the new PLA covers Sony's covered product sales that occurred during certain prior periods and that were not covered under our prior agreement with Sony. We have recognized past sales of \$21.8 million from this agreement in third quarter 2015, and will recognize future revenue from the new PLA on a straight-line basis over its term. A portion of consideration was in the form of patents. Refer to Note 8, "Concentration of Credit Risk and Fair Value of Financial Assets and Financial Liabilities," for additional information related to the estimates and methods used to determine the fair value of the patents acquired.

Revenue

Recurring revenue of \$78.6 million in third quarter 2015 decreased \$12.6 million from \$91.2 million in second quarter 2015 due to a decrease in per-unit royalties primarily attributable to a decrease in shipments from first quarter 2015 to second quarter 2015 by Pegatron Corporation ("Pegatron") and our other Taiwan-based licensees.

Refer to "Results of Operations — First Nine Months 2015 Compared to First Nine Months 2014" and "Results of Operations — Third Quarter 2015 Compared to Third Quarter 2014" for further discussion of our 2015 revenue.

Stock Repurchase

On June 11, 2015, we announced a \$100 million increase to our existing \$300 million share repurchase program, bringing the total program to \$400 million. During first nine months 2015, we repurchased 1.7 million shares of common stock for \$89.1 million. Since the initiation of the share repurchase program in June 2014 through October 29, 2015, we have repurchased 5.4 million shares of our common stock for a cumulative repurchase price of \$249.0 million.

Intellectual Property Enforcement

Please see Note 6, "Litigation and Legal Proceedings," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full discussion of the following and other matters:

USITC and Related Delaware District Court Proceedings

Nokia and ZTE 2013 USITC Proceeding (337-TA-868) and Related Delaware District Court Proceedings

In June 2014, the ALJ issued an Initial Determination ("ID") in the 337-TA-868 investigation, and in August 2014, the Commission determined to review in part the ID and terminated the investigation with a finding of no violation. In October 2014, InterDigital filed a petition for review with the Federal Circuit, appealing the adverse determinations in the Commission's August 2014 final determination. In June 2015, InterDigital moved to voluntarily dismiss its Federal Circuit appeal, because, even if InterDigital were to prevail, it did not believe there would be sufficient time following the court's decision and mandate for the USITC to complete its proceedings on remand such that the accused products would be excluded before the '966 and '847 patents expire in June 2016. The court granted the motion and dismissed

the appeal on June 18, 2015.

In January 2013, the company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four district court actions in the Delaware District Court against the Respondents in the 337-TA-868 USITC proceeding. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC

33

---

Table of Contents

Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement and recovery of reasonable attorneys' fees and costs. The cases filed against Huawei and Samsung were subsequently dismissed. The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent is required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The Delaware District Court judge previously bifurcated issues relating to damages, FRAND-related affirmative defenses, and FRAND-related counterclaims, which will be addressed at a later phase of the case. The ZTE trial addressing infringement of '151 patent was held from April 20 to April 22, 2015. On April 22, 2015, the jury returned a verdict in favor of ZTE, finding that the '151 patent is not infringed by ZTE 3G and 4G cellular devices. On October 13, 2015, by stipulation of the parties, the Delaware District Court stayed the action involving MMO and Nokia Inc., including the November trial concerning the '244 patent, pending completion of the United States Patent and Trademark Office Inter Partes Review cases concerning the '244 patent, including all appeals and subsequent proceedings before the Patent Trial and Appeal Board. This stay is with respect to MMO and Nokia Inc. only, and does not apply to the Delaware action pending against ZTE.

Nokia and ZTE 2011 USITC Proceeding (337-TA-800) and Related Delaware District Court Proceeding

In June 2013, the ALJ issued an ID in the 337-TA-800 investigation, finding no violation because the asserted patents were not infringed and/or invalid. In September 2013, the Commission determined to review the ID in its entirety. In December 2013, the Commission issued its final determination. The Commission adopted, with some modification, the ALJ's finding of no violation of section 337 as to Nokia, Huawei, and ZTE. The Commission did not rule on any other issue, including FRAND and domestic industry, and stated that all other issues remained under review. In December 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. In February 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337. In April 2015, InterDigital filed a combined petition for panel rehearing and rehearing en banc as to the '830 and '636 patents, which was denied by the Federal Circuit in May 2015. The related Delaware District Court proceeding remains stayed.

Nokia 2007 USITC Proceeding (337-TA-613), Related Delaware District Court Proceeding and Federal Circuit Appeal

In August 2012, the Federal Circuit issued its decision in InterDigital's appeal of the USITC's Final Determination in the 337-TA-613 proceeding, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. In January 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. The evidentiary hearing in the remand proceeding was held in January 2015. On April 27, 2015, the ALJ issued his initial determination in the remand proceeding (the "RID"). The ALJ found that the imported accused handsets (1) contain chips that were not previously adjudicated and (2) infringe the asserted claims of the '966 and '847 patents, and that there was no evidence of patent hold-up, there is evidence of reverse hold-up, and the public interest does not preclude issuance of an exclusion order. On June 25, 2015, the Commission issued a notice of its decision to review in part the ALJ's RID. The Commission determined to review the RID's findings concerning the application of the Commission's prior construction of one claim limitation in Investigation Nos. 337-TA-800 and 337-TA-868, the RID's findings as to whether the accused products satisfy that claim limitation, and the RID's public interest findings. The Commission issued its final determination on August 28, 2015, finding that issue preclusion applied with respect to the construction of the claim limitations at issue, and that issue preclusion also required a finding of non-infringement. The Commission determined there was no violation of Section 337 and terminated the

337-TA-613 investigation. The Commission found that consideration of the public interest issues was moot and did not address them. The related Delaware District Court proceeding remains stayed.

Comparability of Financial Results

When comparing third quarter 2015 financial results against other periods, the following items should be taken into consideration:

- \$21.8 million of past patent royalties related to the Sony agreement; and
- \$2.2 million charge to increase accrual rates for performance-based incentive compensation.

Table of Contents**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2014 Form 10-K. A discussion of our critical accounting policies, and the estimates related to them, are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Form 10-K. There have been no material changes in our existing critical accounting policies from the disclosures included in our 2014 Form 10-K. Refer to Note 1, "Basis of Presentation," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements. See below for critical accounting estimates from the current year period.

**Third Quarter 2015 Agreement**

The agreement entered into during third quarter 2015 with Sony, as discussed above, is a multiple-element arrangement for accounting purposes. Consistent with the revenue recognition policy disclosed in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in our 2014 Form 10-K, we identified each element of the arrangement, estimated its relative value for purposes of allocating the arrangement consideration and determined when each of those elements should be recognized. Using the accounting guidance applicable to multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of the term and value of each element. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the assumed royalty rates, sales volumes, discount rate and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the relative fair value assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transactions.

The impact that a five percent change in each of the following key estimates would have had on third quarter 2015 revenue and pretax income is summarized in the following table (in millions):

	Change in estimate	
	+5%	-5%
Value of patents acquired	\$0.3	\$(0.3)
Allocation between past and future royalties	\$3.9	\$(3.9)

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are cash, cash equivalents and short-term investments, as well as cash generated from operations. We believe we have the ability to obtain additional liquidity through debt and equity financings. Based on our past performance and current expectations, we believe our available sources of funds, including cash, cash equivalents and short-term investments and cash generated from our operations, will be sufficient to finance our operations, capital requirements, our debt obligations (including the repayment of our \$230 million 2.5% senior convertible notes due in March 2016), existing stock repurchase program and dividend program for the next twelve months.

On March 11, 2015, we completed an offering of \$316.0 million in aggregate principal amount of 1.50% Senior Convertible Notes due 2020. The net proceeds from the offering were approximately \$306.7 million, after deducting the initial purchaser's discount, commissions and offering expenses. A portion of the net proceeds from the offering was used to fund the cost of the convertible note hedge transactions entered into in connection with the offering of the 2020 Notes. We also used \$43.6 million of the remaining net proceeds to repurchase shares of our common stock concurrently with the pricing of the offering of the 2020 Notes. We expect to use the remaining net proceeds from the offering for general corporate purposes, which may include, among other things, the repurchase or retirement of our other outstanding indebtedness.

**Cash, cash equivalents and short-term investments**

At September 30, 2015 and December 31, 2014, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):



Table of Contents

	September 30, 2015	December 31, 2014	Increase / (Decrease)
Cash and cash equivalents	\$477,643	\$428,567	\$49,076
Short-term investments	389,801	275,361	114,440
Total Cash and cash equivalents and short-term investments	\$867,444	\$703,928	\$163,516

The increase in cash, cash equivalents and short-term investments was primarily attributable to the net proceeds of \$306.7 million from the offering of the 2020 Notes discussed above, \$27.7 million of cash provided by operating activities and \$9.2 million of proceeds from other financing activities, which were partially offset by capital investments, including capitalized patent costs and patent acquisitions, of \$44.0 million, share repurchases of \$89.1 million, a net cost of \$16.5 million for the bond hedge and warrant transactions and \$21.8 million of dividend payments.

## Cash flows from operations

We generated the following cash flows from our operating activities in first nine months 2015 and 2014 (in thousands):

	For the Nine Months Ended September 30,		
	2015	2014	Increase / (Decrease)
Net cash provided by operating activities	\$27,722	\$186,029	\$(158,307 )

Our cash flows provided by operating activities are principally derived from cash receipts from patent license and technology solutions agreements offset by cash operating expenses and income tax payments. The decrease in cash flows provided by operating activities of \$158.3 million was primarily attributable to a decrease in cash receipts of \$189.0 million. The decrease in cash receipts was attributable to higher fixed-fee royalty cash receipts in 2014 as a result of the timing of cash receipts associated with the Samsung Electronics Company, Ltd. ("Samsung") agreement signed in second quarter 2014. This decrease was partially offset by higher current royalties from existing licensees, primarily Pegatron and our other Taiwan-based licensees. The decrease in cash receipts was partially offset by lower income taxes paid in first nine months 2015 and lower cash expenses. Additionally, other working capital adjustments contributed \$24.2 million to the decrease, primarily due to payment of accrued compensation. The table below provides the significant items comprising our cash flows provided by operating activities during the nine months ended September 30, 2015 and 2014 (in thousands).

	For the Nine Months Ended September 30,		
	2015	2014	Increase / (Decrease)
<b>Cash Receipts:</b>			
Current royalties	\$179,108	\$112,759	\$66,349
Fixed-fee royalty payments	44,750	305,250	(260,500 )
Prepaid royalties	13,460	2,500	10,960
Technology solutions	5,785	9,619	(3,834 )
Patent sales	—	1,999	(1,999 )
Total cash receipts	\$243,103	\$432,127	\$(189,024 )
<b>Cash Outflows:</b>			
Cash operating expenses <sup>a</sup>	129,123	141,848	(12,725 )
Income taxes paid <sup>b</sup>	43,833	85,991	(42,158 )
Total cash outflows	172,956	227,839	(54,883 )
Other working capital adjustments	(42,425 )	(18,259 )	(24,166 )
Cash flows provided by operating activities	\$27,722	\$186,029	\$(158,307 )



(a) Cash operating expenses include operating expenses less depreciation of fixed assets, amortization of patents, and non-cash compensation.

(b) Income taxes paid include foreign withholding taxes.

36

---

Table of Contents

## Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and/or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and/or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at September 30, 2015, and December 31, 2014 (in thousands), as follows:

	September 30, 2015	December 31, 2014	Increase / (Decrease)
Current assets	\$1,086,280	\$841,876	\$244,404
Less: current liabilities	406,582	205,169	201,413
Working capital	679,698	636,707	42,991
Subtract:			
Cash and cash equivalents	477,643	428,567	49,076
Short-term investments	389,801	275,361	114,440
Add:			
Current deferred revenue	116,352	124,695	(8,343 )
Adjusted working capital	\$(71,394 )	\$57,474	\$(128,868 )

The \$128.9 million net decrease in adjusted working capital is primarily attributable to the \$224.3 million reclassification from long-term to short-term related to our 2.5% Senior Convertible Notes due 2016, partially offset by a net increase in accounts receivable of \$64.4 million, the payment of accrued compensation related to the 2014 short-term incentive plan, and a decrease in accounts payable. The increase in accounts receivable is related to a scheduled payment due within twelve months of the balance sheet date under an existing fixed-fee license. The decrease in accounts payable was primarily due to the payment of a final installment on a 2014 patent purchase.

## Cash flows from investing and financing activities

We used net cash in investing activities of \$167.1 million and \$216.2 million in first nine months 2015 and first nine months 2014, respectively. We purchased \$114.6 million and \$163.4 million, net of sales, of short-term marketable securities in first nine months 2015 and 2014, respectively. Investment costs associated with capitalized patent costs and acquisition of patents decreased to \$44.0 million in first nine months 2015 from \$49.6 million in first nine months 2014, primarily due to a decreased investment in patent acquisitions in 2015. Additionally, during first nine months 2015, we made a \$6.6 million strategic investment.

Net cash provided by financing activities for first nine months 2015 was \$188.4 million, a \$287.1 million increase from \$98.7 million net cash used in first nine months 2014. This increase primarily resulted from the net proceeds of \$306.7 million from the issuance and sale of the 2020 Notes and a \$2.8 million increase in proceeds from other financing activities, partially offset by an increase in dividend payments of \$5.7 million and \$16.5 million of net costs for the bond hedge and warrant transactions.

## Other

Our combined short-term and long-term deferred revenue balance at September 30, 2015 was approximately \$406.5 million, a decrease of \$11.6 million from December 31, 2014. We have no material obligations associated with such deferred revenue. The decrease was due to \$126.0 million of deferred revenue recognized, which was partially offset by a gross increase in deferred revenue of \$91.1 million associated with fixed-fee agreement payments or payments due within twelve months. The deferred revenue recognized was primarily comprised of \$100.1 million of amortized fixed-fee royalty payments and \$25.9 million in per-unit exhaustion of prepaid royalties.

Based on current license agreements, we expect the amortization of fixed-fee royalty payments to reduce the September 30, 2015 deferred revenue balance of \$406.5 million by \$116.4 million over the next twelve months.

Additional

37

---

Table of Contents

reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

**RESULTS OF OPERATIONS**

Third Quarter 2015 Compared to Third Quarter 2014

**Revenues**

The following table compares third quarter 2015 revenues to third quarter 2014 revenues (in thousands):

	For the Three Months Ended		Increase/(Decrease)		
	September 30,				
	2015	2014			
Per-unit royalty revenue	\$43,698	\$37,626	\$6,072	16	%
Fixed-fee amortized royalty revenue	33,373	33,359	14	—	%
Current patent royalties <sup>a</sup>	77,071	70,985	6,086	9	%
Past patent royalties <sup>b</sup>	21,817	2,414	19,403	804	%
Total patent licensing royalties	98,888	73,399	25,489	35	%
Current technology solutions revenue <sup>a</sup>	1,520	2,224	(704)	(32)	)%
Patent sales	—	1,999	(1,999)	(100)	)%
Total revenue	\$100,408	\$77,622	\$22,786	29	%

a. Recurring revenues consist of current patent royalties and current technology solutions revenue.

b. Past sales consist of past patent royalties and past technology solutions revenue.

The \$22.8 million increase in total revenue was attributable to the \$19.4 million increase in past sales and an increase of \$5.4 million in recurring revenue. The increase in past sales was driven by the Sony patent license agreement signed during the quarter. The increase in recurring revenue was driven by a \$6.1 million increase in current patent royalties, primarily as a result of an increase in per-unit royalty revenue resulting from increased shipments by Pegatron and other Taiwan-based licensees. Current technology solutions revenue decreased by \$0.7 million primarily related to decreased shipments by one of our technology solutions customers.

In third quarter 2015 and third quarter 2014, 72% and 55% of our total revenue, respectively, was attributable to companies that individually accounted for 10% or more of our total revenue. In third quarter 2015 and third quarter 2014, the following companies accounted for 10% or more of our total revenue:

	For the Three Months Ended September 30,	
	2015	2014
Sony	32%	13%
Pegatron	23%	20%
Samsung	17%	22%

**Operating Expenses**

The following table summarizes the changes in operating expenses between third quarter 2015 and third quarter 2014 by category (in thousands):

	For the Three Months Ended		Increase/ (Decrease)		
	September 30,				
	2015	2014			
Patent administration and licensing	\$28,363	\$33,923	\$(5,560)	(16)	)%
Development	16,618	19,072	(2,454)	(13)	)%
Selling, general and administrative	10,040	9,286	754	8	%
Total operating expenses	\$55,021	\$62,281	\$(7,260)	(12)	)%

Table of Contents

Operating expenses decreased 12% to \$55.0 million in third quarter 2015 from \$62.3 million in third quarter 2014. The \$7.3 million decrease in total operating expenses was primarily due to (decreases) increases in the following items (in thousands):

	(Decrease)/Increase
Intellectual property enforcement and non-patent litigation	\$ (4,929 )
Consulting services	(1,417 )
Personnel-related costs	(1,224 )
Cost of patent sales	(700 )
Performance-based incentive compensation	(461 )
Other	257
Depreciation and amortization	280
Commercial initiatives	934
Total decrease in operating expenses	\$ (7,260 )

The \$7.3 million decrease in operating expenses was primarily due to the \$4.9 million decrease in intellectual property enforcement and non-patent litigation primarily related to decreased costs associated with the USITC actions, which was partially offset by costs associated with licensee arbitrations. The \$1.4 million decrease in consulting services primarily related to non-recurring corporate initiatives and the timing of licensing-related costs. The \$1.2 million decrease in personnel-related costs was due to a prior year adjustment related to payroll taxes and employment level tax credits, primarily as a result of an ongoing audit. The \$0.7 million decrease in cost of patent sales related to a third quarter 2014 patent sale. The \$0.5 million decrease in performance-based incentive compensation was primarily due to higher accrual rates in third quarter 2014 as a result of new license agreements signed during second quarter 2014. These decreases were partially offset by the \$0.9 million increase in commercial initiatives expense attributable to activities to commercialize certain IoT and next generation networks technologies. Additionally, the \$0.3 million increase in depreciation and amortization was primarily related to recent patent acquisitions.

**Patent Administration and Licensing Expense:** The decrease in patent administration and licensing expense primarily resulted from the above-noted decreases in intellectual property enforcement and non-patent litigation costs, consulting services and cost of patent sales. These decreases were partially offset by the above-noted increase in patent amortization.

**Development Expense:** The decrease in development expense primarily resulted from the above-noted decrease in other personnel-related costs and performance-based incentive compensation as described above. These decreases were partially offset by the increase in commercial initiatives expense.

**Selling, General and Administrative Expense:** The increase in selling, general and administrative expense primarily resulted from a portion of the increase in expenses related to commercial initiatives discussed above. These increases were partially offset by a decrease in consulting services, as discussed above.

**Other (Expense) Income**

The following table compares third quarter 2015 other (expense) income to third quarter 2014 other (expense) income (in thousands):

	For the Three Months		Change		
	Ended September 30,				
	2015	2014			
Interest expense	\$(8,331 )	\$(4,018 )	\$(4,313 )	107	%
Other	(300 )	313	(613 )	(196)	)%
Interest and investment income	523	538	(15 )	(3)	)%
	\$(8,108 )	\$(3,167 )	\$(4,941 )	156	%

In third quarter 2015, other expense was \$8.1 million as compared to other expense of \$3.2 million in third quarter 2014. The change between periods was primarily due to additional interest expense as a result of the issuance of the 2020 Notes during first quarter 2015 as discussed above.



Table of Contents

## Income tax provision

In third quarter 2015, our effective tax rate was approximately 36.2% as compared to 3.8% during third quarter 2014, based on the statutory federal tax rate net of discrete federal and state taxes. The third quarter 2014 effective tax rate benefited from the inclusion of a \$5.7 million discrete net benefit from available U.S. federal research and development tax credits.

## First Nine Months 2015 Compared to First Nine Months 2014

## Revenues

The following table compares first nine months 2015 revenues to first nine months 2014 revenues (in thousands):

	For the Nine Months Ended		Increase/(Decrease)		
	September 30,				
	2015	2014			
Per-unit royalty revenue	\$175,270	\$108,030	\$67,240	62	%
Fixed-fee amortized royalty revenue	100,119	88,545	11,574	13	%
Current patent royalties <sup>a</sup>	275,389	196,575	78,814	40	%
Past patent royalties <sup>b</sup>	49,094	123,186	(74,092)	(60)	)%
Total patent licensing royalties	324,483	319,761	4,722	1	%
Current technology solutions revenue <sup>a</sup>	4,770	7,140	(2,370)	(33)	)%
Past technology solutions revenue <sup>b</sup>	84	800	(716)	(90)	)%
Patent sales	—	1,999	(1,999)	(100)	)%
Total revenue	\$329,337	\$329,700	\$(363)	—	%

a. Recurring revenues consist of current patent royalties and current technology solutions revenue.

b. Past sales consist of past patent royalties and past technology solutions revenue.

Revenue for the nine months ended September 30, 2015 was relatively flat compared to the prior year period. The increase in recurring revenue of \$76.4 million primarily related to a \$67.2 million increase in per-unit royalty revenue, which was driven by increased shipments by Pegatron and our other Taiwan-based licensees. The increase in recurring revenue was also due to a \$11.6 million increase in fixed-fee royalties primarily attributable to new patent license agreements signed during second quarter 2014. The decrease in past sales was primarily related to three new patent license agreements signed during second quarter 2014, partially offset by past sales in the current year period attributable to Sony and Arima Communications Corporation ("Arima"). Past sales in third quarter 2015 includes revenue recognized as a result of the Sony patent license agreement signed during the quarter, described above. Current technology solutions revenue decreased by \$2.4 million primarily related to decreased shipments by one of our technology solutions customers.

In first nine months 2015 and first nine months 2014, 63% and 52% of our total revenue, respectively, were attributable to companies that individually accounted for 10% or more of our total revenue. In first nine months 2015 and first nine months 2014, the following companies accounted for 10% or more of our total revenue:

	For the Nine Months Ended	
	September 30,	
	2015	2014
Pegatron	31%	15%
Sony	16%	< 10%
Samsung	16%	37%

## Operating Expenses

The following table summarizes the changes in operating expenses between first nine months 2015 and first nine months 2014 by category (in thousands):

Table of Contents

	For the Nine Months Ended		
	September 30,		
	2015	2014	Increase/ (Decrease)
Patent administration and licensing	\$91,200	\$98,889	\$(7,689 ) (8 )%
Development	52,935	57,860	(4,925 ) (9 )%
Selling, general and administrative	29,993	29,279	714 2 %
Total operating expenses	\$174,128	\$186,028	\$(11,900 ) (6 )%

Operating expenses decreased 6% to \$174.1 million in first nine months 2015 from \$186.0 million in first nine months 2014. The \$11.9 million decrease in total operating expenses was primarily due to (decreases)/increases in the following items (in thousands):

	(Decrease)/Increase
Performance-based incentive compensation	\$ (11,412 )
Intellectual property enforcement and non-patent litigation	(10,151 )
Cost of patent sales	(700 )
Other	87
Consulting services	489
Depreciation and amortization	4,196
Commercial initiatives	5,591
Total decrease in operating expenses	\$ (11,900 )

The \$11.9 million decrease in operating expenses was primarily due to the \$11.4 million decrease in performance-based incentive compensation. The higher performance-based incentive compensation in first nine months 2014 was primarily related to accrual increases in second quarter 2014 as a result of new license agreements signed during that quarter. The \$10.2 million decrease in intellectual property enforcement and non-patent litigation primarily related to decreased costs associated with the USITC actions. The \$0.7 million decrease in cost of patent sales was related to a third quarter 2014 patent sale. These decreases were partially offset by a \$5.6 million increase in commercial initiatives expense that was primarily attributable to activities to commercialize certain IoT and next generation networks technologies that have ramped up over the last twelve months. The \$4.2 million increase in depreciation and amortization primarily related to recent patent acquisitions. The \$0.5 million increase in consulting services was primarily related to corporate strategy-related initiatives in 2015.

**Patent Administration and Licensing Expense:** The decrease in patent administration and licensing expense primarily resulted from the above-noted decreases in performance-based incentive compensation and intellectual property enforcement and non-patent litigation. These decreases were partially offset by increases in patent amortization expense and personnel-related costs related to hiring activities.

**Development Expense:** The decrease in development expense primarily resulted from the above-noted decrease in performance-based incentive compensation. This decrease was partially offset by an increase in commercial initiative costs as described above.

**Selling, General and Administrative Expense:** The increase in selling, general and administrative expense primarily resulted from the increases in consulting services. Additionally, a portion of the expenses related to commercial initiatives discussed above contributed to this increase. These increases were partially offset by a decrease in performance-based incentive compensation as described above.



Table of Contents

## Other (Expense) Income

The following table compares first nine months 2015 other (expense) income to first nine months 2014 other (expense) income (in thousands):

	For the Nine Months Ended				
	September 30,		Change		
	2015	2014			
Interest expense	\$ (21,955 )	\$ (11,987 )	\$ (9,968 )	83	%
Other	(564 )	143	(707 )	(494)	)%
Interest and investment income	1,429	1,111	318	29	%
	\$ (21,090 )	\$ (10,733 )	\$ (10,357 )	96	%

In first nine months 2015, other expense was \$21.1 million as compared to other expense of \$10.7 million in first nine months 2014. The change between periods was primarily due to additional interest expense as a result of the issuance of the 2020 Notes during first quarter 2015 as discussed above.

## Income tax provision

In first nine months 2015, our effective tax rate was approximately 37.3% as compared to 33.7% during first nine months 2014, based on the statutory federal tax rate net of discrete federal and foreign taxes. The increase in the effective tax rate related to the impact of a \$5.7 million net benefit recognized during first nine months 2014 from available U.S. federal research and development tax credits and an increase during the first nine months 2015 in certain expenses that are not deductible for tax purposes.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 —  
FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include certain information under the heading “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other information regarding our current beliefs, plans and expectations, including without limitation the matters set forth below. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “forecast,” “goal,” variations of any such words or similar expressions are intended to identify such forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

• The potential effects of new accounting standards on our financial position, results of operations or cash flows;

• Our expectation that the amortization of fixed-fee royalty payments will reduce our September 30, 2015 deferred revenue balance over the next twelve months;

• Our expectation that we will use deferred tax assets to offset future U.S. federal income taxes;

• The timing, outcome and impact of, and plans, expectations and beliefs with respect to, our various litigation, arbitration and administrative matters;

• Our belief that we have the ability to obtain additional liquidity through debt and equity financings;

• Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months; and

• Our expectation that we will continue to pay dividends comparable to our quarterly \$0.20 per share cash dividend in the future.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A of our 2014 Form 10-K, Part II, Item 1A Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and Part II, Item 1A Risk Factors in this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.



Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2014 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Nokia and ZTE 2013 USITC Proceeding (337-TA-868) and Related Delaware District Court Proceedings

Reference is made to the USITC proceeding and related Delaware District Court proceedings initiated in January 2013 involving InterDigital, Nokia and ZTE previously disclosed in the 2014 Form 10-K, the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (the "First Quarter 2015 Form 10-Q") and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the "Second Quarter 2015 Form 10-Q"). On September 14, 2015, a panel of Administrative Law Judges of the United States Patent and Trademark Office issued a final written decision in two Inter Partes Review ("IPR") cases concerning the '244 patent. These IPR proceedings were commenced on petitions filed by ZTE Corporation and ZTE (USA) Inc. and by Microsoft Corporation, respectively. Specifically, the panel determined that a number of claims of the '244 patent are unpatentable as obvious. On October 13, 2015, by stipulation of the parties, the Delaware District Court stayed the action involving MMO and Nokia Inc., including the November trial concerning the '244 patent, pending completion of the IPR, including all appeals and subsequent proceedings before the Patent Trial and Appeal Board. This stay is with respect to MMO and Nokia Inc. only, and does not apply to the Delaware action pending against ZTE. On October 13, 2015, the Delaware District Court denied the pending summary judgment cross-motions without prejudice in light of the stay discussed above, indicating that the motions could be considered refiled if and when the stay is lifted if either party requests it.

Huawei Arbitration

Reference is made to the Huawei Arbitration previously disclosed in the 2014 Form 10-K and the Second Quarter 2015 Form 10-Q. On July 24, 2015, Huawei opposed InterDigital's petition in the District Court for the Southern District of New York for an order confirming the arbitration award (the "New York Proceeding") and filed a motion to stay the New York Proceeding pending Huawei's Paris annulment action (the "Paris Proceeding"). On August 14, 2015, InterDigital amended its petition to take into account the issuance of the arbitration panel's final award. On August 24, 2015, InterDigital filed a reply in support of its petition to confirm and an opposition to Huawei's motion to stay. On September 14, 2015, Huawei filed a reply in opposition to InterDigital's petition to confirm and a reply in support of its motion to stay. All of the foregoing motions are currently pending in the New York Proceeding. Huawei filed its brief seeking annulment in the Paris Proceeding on July 24, 2015. InterDigital's opposition brief is due on November 24, 2015. Trial preparation in the Paris Proceeding is scheduled to close on February 4, 2016, and a hearing is scheduled for March 8, 2016.

To date, Huawei has not made any payments under the arbitration award. The company will recognize any related revenue in the period in which the amount of revenue is fixed or determinable and collectability is reasonably assured.

ZTE China Proceedings

Reference is made to the ZTE China Proceedings in which InterDigital was served in July 2014 with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China previously disclosed in the 2014 Form 10-K, the First Quarter 2015 Form 10-Q and the Second Quarter 2015 Form 10-Q. The Shenzhen Intermediate People's Court held hearings in the FRAND case on July 29-31, 2015, and held a second hearing on the Anti-Monopoly Law case on October 12, 2015.

LG Arbitration

Reference is made to the arbitration initiated against InterDigital by LG Electronics, Inc. in March 2012 previously disclosed in the 2014 Form 10-K, the First Quarter 2015 Form 10-Q and the Second Quarter 2015 Form 10-Q. The arbitration tribunal held a supplemental oral argument on October 19, 2015. InterDigital expects that the tribunal will issue a final award in late 2015 or early 2016.

Nokia 2007 USITC Proceeding (337-TA-613), Related Delaware District Court Proceeding and Federal Circuit Appeal

Reference is made to the USITC proceeding initiated in 2007 and the related Federal Circuit appeal involving InterDigital and Nokia previously disclosed in the 2014 Form 10-K, the First Quarter 2015 Form 10-Q and the Second Quarter 2015 Form 10-Q. The Commission issued its final determination on August 28, 2015, finding that issue preclusion applied with respect to the construction of the claim limitations at issue, and that issue preclusion also required a finding of non-

## Table of Contents

infringement. The Commission determined there was no violation of Section 337 and terminated the 337-TA-613 investigation. The Commission found that consideration of the public interest issues was moot and did not address them.

### Pegatron Actions

Reference is made to the Pegatron actions previously disclosed in the 2014 Form 10-K and the Second Quarter 2015 Form 10-Q. On August 3, 2015, Pegatron filed an answer and counterclaims to InterDigital's CA Northern District Court complaint. Pegatron accused InterDigital of violating multiple sections of the Taiwan Fair Trade Act, violating Section 2 of the Sherman Act, breaching ETSI, IEEE, and ITU contracts, promissory estoppel (pled in the alternative), violating Section 17200 of the California Business & Professions Code, and violating the Delaware Consumer Fraud Act. These counterclaims stem from Pegatron's accusation that InterDigital violated FRAND obligations. As relief, Pegatron seeks a declaration regarding the appropriate FRAND terms and conditions for InterDigital's "declared essential patents," a declaration that InterDigital's standards-essential patents are unenforceable due to patent misuse, an order requiring InterDigital to grant Pegatron a license on FRAND terms, an order enjoining InterDigital's alleged ongoing breaches of its FRAND commitments, and damages in the amount of allegedly excess non-FRAND royalties Pegatron has paid to InterDigital, plus interest and treble damages. On August 7, 2015, Pegatron responded to InterDigital's arbitration demand, disputing the arbitrability of Pegatron's claims. On September 24, 2015, InterDigital moved to compel arbitration and dismiss Pegatron's counterclaims or, in the alternative, stay the counterclaims pending the parties' arbitration. Pegatron's opposition to this motion was filed on October 22, 2015, and InterDigital's reply is due on November 12, 2015. The CA Northern District Court has scheduled a case management conference for February 3, 2016. The parties have agreed to stay the arbitration proceeding pending the CA Northern District Court's resolution of InterDigital's motion to compel arbitration.

### Microsoft Sherman Act Delaware Proceedings

On August 20, 2015, Microsoft Mobile, Inc. and Microsoft Mobile Oy (collectively, "Microsoft") filed a complaint in the United States District Court for the District of Delaware against InterDigital, Inc., InterDigital Communications, Inc., InterDigital Technology Corporation, InterDigital Patent Holdings, Inc., InterDigital Holdings, Inc., and IPR Licensing, Inc. The complaint alleges that InterDigital has monopolized relevant markets for 3G and 4G cellular technology in violation of Section 2 of the Sherman Act. As relief, Microsoft seeks declaratory judgments that InterDigital has violated Section 2 of the Sherman Act, that "each of InterDigital's U.S. patents declared by it to be Essential" to the 3G and 4G standards is unenforceable, and that all agreements InterDigital has entered into in furtherance of its alleged unlawful conduct are void. Microsoft also seeks an award of treble damages and the following injunctive relief: requiring InterDigital to grant Microsoft a non-confidential license to its U.S. standards-essential patents ("SEPs") on FRAND terms as determined by a court, requiring InterDigital to disclose to Microsoft the terms of its other SEP licenses, preventing InterDigital from enforcing any exclusion orders it might receive with respect to its SEPs, and requiring InterDigital to re-assign any declared SEPs that it has assigned to controlled entities. InterDigital's response to the complaint is due on November 4, 2015.

See Note 6, "Litigation and Legal Proceedings," to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding these and other proceedings.

### Item 1A. RISK FACTORS.

In addition to the factors set forth in the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 -- Forward-Looking Statements in Part I, Item 2 of this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors of the 2014 Form 10-K and in Part II, Item 1A Risk Factors of the First Quarter 2015 Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q and in the 2014 Form 10-K and First Quarter 2015 Form 10-Q are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we

currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Table of Contents

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table provides information regarding Company purchases of its common stock during third quarter 2015.

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2015 - July 31, 2015	12,000	\$57.53	12,000	\$176,113,034
August 1, 2015 - August 31, 2015	171,000	\$50.32	171,000	\$167,504,946
September 1, 2015 - September 30, 2015	189,000	\$48.56	189,000	\$158,323,158
Total	372,000	\$49.44	372,000	\$158,323,158

(1) Total number of shares purchased during each period reflects share purchase transactions that were completed (i.e., settled) during the period indicated.

(2) Shares were purchased pursuant to the Company's \$400.0 million share repurchase program (the "2014 Repurchase Program"), \$300 million of which was authorized by the Company's Board of Directors on June 11, 2014 and announced on June 12, 2014 and \$100 million of which was authorized by the Company's Board of Directors and announced on June 11, 2015. The 2014 Repurchase Program has no expiration date. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases.

(3) Amounts shown in this column reflect the amounts remaining under the 2014 Repurchase Program.

In addition, from October 1, 2015 through October 29, 2015, we repurchased 147 thousand shares at a cost of \$7.4 million under the 2014 Repurchase Program.



Table of Contents

Item 6. EXHIBITS.

The following is a list of exhibits filed with this Quarterly Report on Form 10-Q:

Exhibit Number	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**
101	<p>The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the Securities and Exchange Commission on October 30, 2015, formatted in eXtensible Business Reporting Language:</p> <p>(i) Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (v) Notes to Condensed Consolidated Financial Statements.</p>

---

\*\* This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that InterDigital, Inc. specifically incorporates it by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERDIGITAL, INC.

Date: October 30, 2015

/s/ WILLIAM J. MERRITT  
William J. Merritt  
President and Chief Executive Officer

Date: October 30, 2015

/s/ RICHARD J. BREZSKI  
Richard J. Brezski  
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**
101	<p>The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the Securities and Exchange Commission on October 30, 2015, formatted in eXtensible Business Reporting Language:</p> <p>(i) Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (v) Notes to Condensed Consolidated Financial Statements.</p>

---

\*\* This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that InterDigital, Inc. specifically incorporates it by reference.