

InterDigital, Inc.  
Form 10-K  
February 19, 2015  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2014

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

23-1882087

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

200 Bellevue Parkway, Suite 300

19809

Wilmington, Delaware

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code (302) 281-3600

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

Common Stock (par value \$0.01 per share)

NASDAQ

(title of class)

(name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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(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 Act). Yes  No   
The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,907,242,992 as of June 30, 2014.

The number of shares outstanding of the registrant's common stock was 37,136,023 as of February 17, 2015.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with the registrant's 2015 annual meeting of shareholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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In this Form 10-K, the words “we,” “our,” “us,” “the Company” and “InterDigital” refer to InterDigital, Inc. and/or its subsidiaries, individually and/or collectively, unless otherwise indicated or the context otherwise requires. InterDigital® is a registered trademark and SlimChip™ is a trademark of InterDigital, Inc. All other trademarks, service marks and/or trade names appearing in this Form 10-K are the property of their respective holders.

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PART I

Item 1. BUSINESS.

Overview

InterDigital, Inc. ("InterDigital") designs and develops advanced technologies that enable and enhance wireless communications and capabilities. Since our founding in 1972, our engineers have designed and developed a wide range of innovations that are used in digital cellular and wireless products and networks, including 2G, 3G, 4G and IEEE 802-related products and networks. We are a leading contributor of intellectual property to the wireless communications industry.

Given our long history and focus on advanced research and development, InterDigital has one of the most significant patent portfolios in the wireless industry. As of December 31, 2014, InterDigital's wholly owned subsidiaries held a portfolio of approximately 20,500 patents and patent applications related to a range of technologies including the fundamental technologies that enable wireless communications. In that portfolio are a number of patents and patent applications that we believe are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards. That portfolio has largely been built through internal development, supplemented by joint development projects with other companies as well as select patent acquisitions. Products incorporating our patented inventions include: mobile devices, such as cellular phones, tablets, notebook computers and wireless personal digital assistants; wireless infrastructure equipment, such as base stations; and components, dongles and modules for wireless devices.

InterDigital derives revenues primarily from patent licensing and sales, with contributions from technology solutions licensing and sales and engineering services. In 2014, our total revenues were \$415.8 million, an increase of \$90.5 million compared to 2013. Our patent licensing revenues in 2014 were \$403.4 million, an increase of \$139.2 million compared to 2013. Additional information about our revenues, profits and assets, as well as additional financial data, is provided in the selected financial data in Part II, Item 6, and in the financial statements and accompanying Notes in Part II, Item 8, of this Form 10-K.

Our Strategy

Our objective is to continue to be a leading designer and developer of technology solutions and intellectual property for the mobile industry and to monetize those solutions and intellectual property through a combination of licensing, sales and other revenue opportunities.

To execute our strategy, we intend to:

Develop and source innovative technologies related to wireless. We intend to maintain a leading position in advanced mobile technology and to advance our position in the fields of the Internet of Things (IoT) and media content delivery by leveraging our expertise in digital cellular, wireless and video technologies to guide internal research and development capabilities and by directing our efforts in partnering with leading inventors and industry players to source new technologies.

Establish and grow our patent-based revenue. We intend to grow our licensing revenue base by adding licensees, expanding into adjacent technology areas that align with our intellectual property position and leveraging the continued growth of the overall mobile technology market. Those licensing efforts can be self-driven or executed in conjunction with licensing partnerships, trusts and other efforts, and may involve the vigorous defense of our intellectual property through litigation and other means. We also believe that the size and growth rate of our patent portfolio enable us to sell patent assets that are not essential to our core licensing programs as a sustainable revenue stream, as well as to execute patent swaps that can strengthen our overall portfolio.

Pursue commercial opportunities for our advanced platforms and solutions. We intend to pursue, through our InterDigital Solutions unit, the commercialization of technology platforms and solutions. As part of our ongoing research and development efforts, InterDigital often builds out entire functioning platforms in various technology areas. InterDigital Solutions seeks to bring those technologies, as well as other technologies we may develop or acquire, to market through various structures including technology licensing, stand-alone commercial initiatives, joint ventures, and partnerships.

Maintain a collaborative relationship with key industry players and worldwide standards bodies. We intend to continue contributing to the ongoing process of defining mobile standards and other industry-wide efforts and incorporating our inventions into those technology areas. Those efforts, and the knowledge gained through them, underpin internal development efforts and also help guide technology and intellectual property sourcing through partners and other external sources.

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### Technology Research and Development

InterDigital pursues a diversified approach to sourcing the innovations that underpin our business. That approach incorporates internally driven research and development efforts by our InterDigital Labs unit, as well as externally focused efforts by our Innovation Partners unit. Our efforts are guided by our vision of the future of mobile communications - The Living Network<sup>SM</sup> - which is articulated around the variables of content, context and connectivity, and how the interplay of these elements drives future technology capabilities and needs.

As of December 31, 2014, our patent portfolio consisted of approximately 1,700 U.S. patents (approximately 220 of which were issued in 2014) and approximately 10,600 non-U.S. patents (approximately 1,300 of which were issued in 2014). As of the same date, we also had numerous patent applications pending worldwide, with close to 1,200 applications pending in the United States and approximately 7,000 pending non-U.S. applications. The patents and applications comprising our portfolio relate predominantly to digital wireless radiotelephony technology (including, without limitation, 2G, 3G and 4G technologies). Issued patents expire at differing times ranging from 2015 through 2033. The company operates six research and development facilities in four countries, including the addition of research and development offices in London in 2013 and in Seoul in 2014.

### InterDigital Labs

As an early and ongoing participant in the digital wireless market, InterDigital developed pioneering solutions for the primary cellular air interface technologies in use today, TDMA and CDMA. That early involvement, our continued development of those advanced digital wireless technologies and innovations in OFDM/OFDMA and MIMO technologies have enabled us to create our significant worldwide portfolio of patents. In conjunction with our participation in certain standards bodies, we have filed declarations stating that we have patents that we believe are or may be essential or may become essential to cellular and other wireless standards and that, with respect to our essential patents, we are prepared to grant licenses on fair, reasonable and non-discriminatory terms or similar terms consistent with the requirements of the respective standards organizations.

Our capabilities in the development of advanced mobile technologies are based on the efforts of a highly specialized engineering team, leveraging leading-edge equipment and software platforms. As of December 31, 2014, InterDigital employed over 170 engineers, approximately 80% of whom hold advanced degrees (including 54 doctorate degrees). Over the last three years, investment in development has ranged from \$64.7 million to \$75.3 million, and the largest portion of this expense has been personnel costs. Additional information about our development expenses is provided in the results of operations, under the heading "Operating Expenses," in Part II, Item 7, of this Form 10-K.

Our current research efforts are focused on technology solutions to solve the industry's challenges and unlock new capabilities related to connectivity, content delivery, and contextual data, particularly as they relate to handset and other connected devices, such as tablets and laptops, video content delivery, as well as areas of network infrastructure including spectrum research and wireless backhaul. We have taken a broad approach to solve these challenges, which includes air interface enhancements, policy-driven bandwidth management, cognitive radio and intelligent and optimized data delivery. We are developing technologies that will enable efficient multimedia content delivery across heterogeneous devices and networks, to enable richer multimedia experience with optimal data usage and radio network efficiency. From a connectivity standpoint, we are creating evolved system architectures that enable operation in small cells and additional frequency bands, improved cell-edge performance as well as device-to-device communications. These solutions provide interference mitigation across cells, uniform coverage and significantly improved data rates, system capacity and energy efficiency. We are also developing technologies that will optimize use of the current network resources by dynamically allocating and aggregating bandwidth across different networks and spectrum bands. With the goal of reducing the looming bandwidth supply/demand gap in mobile networks, our technologies will enable the aggregation, segregation and offload of traffic. Many of these technologies are being developed within the scope of the company's efforts to define future generations of wireless including 5G, which is expected to comprise a number of these technologies. In the field of video delivery, we are developing solutions that optimize the delivery of content to a range of devices based on contextual data, as well as helping to define and develop new compression technologies. In the field of machine-to-machine (M2M) applications and IoT, we are developing technologies to enable seamless interconnection for multiple access types (cellular, WLAN, WPAN) and M2M service frameworks that can be managed by an operator and leveraged by a diverse set of vertical applications.

#### Innovation Partners

To supplement our own development efforts, our Innovation Partners unit pursues an external sourcing model based around partnerships with leading inventors and research organizations, as well as the acquisition of technology and patent portfolios that align with InterDigital's roadmap. Building on collaborations entered into in 2013 with a wholly owned subsidiary of DDD Group plc, VTT Technical Research Centre of Finland, and BIO-key International Inc., Innovation Partners added new relationships in 2014, including an expansion of our relationship with McGill University and an agreement with IfU,

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an elite private research institution in Germany. The unit also evaluated and engaged in targeted acquisitions and investments in areas that are complementary to InterDigital Labs' main research areas.

InterDigital's Technology Development Focus

Cellular Technologies

We have a long history of developing cellular technologies, including those related to CDMA and TDMA and, more recently, OFDM/OFDMA and MIMO. A number of our TDMA-based and CDMA-based inventions are being used in all 2G, 2.5G and 3G wireless networks and mobile terminal devices.

We led the industry in establishing TDMA-based TIA/EIA-54 as a U.S. digital wireless standard in the 1980s. We developed a substantial portfolio of TDMA-based patented inventions. These inventions include or relate to fundamental elements of TDMA-based systems in use around the world. Some of our TDMA inventions include or relate to:

• The fundamental architecture of commercial TD/FDMA systems;

• Methods of synchronizing TD/FDMA systems;

• A flexible approach to managing system capacity through the reassignment of online subscriber units to different time slots and/or frequencies in response to system conditions;

• The design of a multi-component base station, utilizing distributed intelligence, which allows for more robust performance; and

• Initializing procedures that enable roaming.

We have also developed and patented innovative CDMA technology solutions. Today, we hold a significant worldwide portfolio of CDMA patents and patent applications. Similar to our TDMA inventions, we believe that a number of our CDMA inventions are or may be essential or may become essential to the implementation of CDMA systems in use today. Some of our CDMA inventions include or relate to:

• Global pilot: The use of a common pilot channel to synchronize sub-channels in a multiple access environment;

• Bandwidth allocation: Techniques including multi-channel and multi-code mechanisms;

• Power control: Highly efficient schemes for controlling the transmission output power of terminal and base station devices, a vital feature in a CDMA system;

• Joint detection and interference cancellation techniques for reducing interference;

• Soft handover enhancement techniques between designated cells;

• Various sub-channel access and coding techniques;

• Packet data;

• Fast handoff;

• Geo-location for calculating the position of terminal users;

• Multi-user detection;

• High-speed packet data channel coding; and

• High-speed packet data delivery in a mobile environment, including enhanced uplink.

The cellular industry has ongoing initiatives aimed at technology improvements. We have engineering development projects to build and enhance our technology portfolio in many of these areas, including the LTE and LTE-Advanced projects for 3GPP radio technology, further evolution of the 3GPP WCDMA Standard (including HSPA+) and continuing improvements to the legacy GSM-EDGE Radio Access Network. The common goal is to improve the user experience and reduce the cost to operators via increased capacity, reduced cost per bit, increased data rates, improved cell-edge or coverage solutions and reduced latency. Of the above technologies, LTE is the most advanced in that it uses the newer OFDMA/MIMO. Some of our LTE inventions include or relate to:

• MIMO technologies for reducing interference and increasing data rates;

• OFDM/OFDMA/SC-FDMA;

• Power control;

• Hybrid-ARQ for fast error correction;



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• Discontinuous reception for improved battery life;  
• Control channel structures for efficient signaling;  
• Advanced resource scheduling/allocation (bandwidth on-demand);  
• Security;  
• Home Node-B (femto cells);  
• Relay communications for improved cell-edge performance;  
• LTE receiver implementations;  
• Carrier aggregation for LTE-Advanced;  
• Multi-carrier HSDPA;  
• Coordinated Multi-Point Communications for LTE-Advanced; and  
• Machine Type Communications.

### Other Wireless Technologies

Our strong wireless background includes engineering and corporate development activities that focus on solutions that apply to other wireless market segments. These segments primarily fall within the continually expanding scope of the IEEE 802, IETF and ETSI standards. We are building a portfolio of technology related to Wi-Fi, WLAN, WMAN, WRAN and the digital cellular area that includes, for example, improvements to the IEEE 802.11 PHY and MAC to increase peak data rates (i.e., completed specifications such as 802.11n, 802.11ac, and 802.11ad and future specifications like 802.11ax and NG60), the use of lower frequency bands for IoT and other new use cases such as TV-Whitespace (802.11af) and sub 1 GHz (802.11ah), and fast initial link setup (802.11ai) to enhance hotspot operation (WFA HOTSPOT 2.0). High efficiency WLAN (HEW) and carrier grade Wi-Fi initiatives are investigating ways of bringing cellular-like quality to WLANs and we are actively participating (802.11ax). We have contributed to many earlier efforts that are complete or in the later phases of standardization such as handover among radio access technologies (IEEE 802.21), mesh networks (IEEE 802.11s), radio resource measurements (IEEE 802.11k), wireless network management (IEEE 802.11v), and wireless network security and broadband wireless (IEEE 802.16, including WiMAX wireless technology). We also are expanding our portfolio of technologies in areas such as M2M or MTC, mobility, spectrum management and session continuity within ETSI and IETF. In addition, we have commenced development of a portfolio related to improved video delivery, including solutions related to the ITU-T HEVC standards.

### Patent-Based Revenue

We believe that companies making, importing, using or selling products compliant with the standards covered by our patent portfolio, including all manufacturers of mobile handsets, tablets and other devices, require a license under our patents and will require licenses under patents that may issue from our pending patent applications. We have successfully entered into license agreements with many of the leading mobile communications companies globally, including Samsung Electronics Co., Ltd. ("Samsung"), Sony Corporation of America ("Sony"), HTC Corporation and BlackBerry Limited, among others.

Most of our patent license agreements are structured on a royalty-bearing basis, while others are structured on a paid-up basis or a combination thereof. Upon entering into a new patent license agreement, the licensee typically agrees to pay consideration for sales made prior to the effective date of the license agreement (i.e., past patent royalties) and also agrees to pay royalties or license fees on licensed products sold during the term of the agreement. We expect that, for the most part, new license agreements will follow this model. Almost all of our patent license agreements provide for the payment of royalties based on sales of licensed products designed to operate in accordance with particular standards (convenience-based licenses), as opposed to the payment of royalties if the manufacture, sale or use of the licensed product infringes one of our patents (infringement-based licenses).

In most cases, we recognize the revenue from per-unit royalties in the period when we receive royalty reports from licensees. In circumstances where we receive consideration for past patent royalties, we recognize such payments as revenue in the period in which the patent license agreement is signed. Some of these patent license agreements provide for the non-refundable prepayment of royalties that are usually made in exchange for prepayment discounts. As the licensee reports sales of covered products, the royalties are calculated and either applied against any prepayment or become payable in cash or other consideration. Additionally, royalties on sales of licensed products

under the license agreement become payable or applied against prepayments based on the royalty formula applicable to the particular license agreement. These formulas include flat dollar rates per unit, a percentage of sales, a percentage of sales with a per-unit cap and other similar measures. The formulas can also vary by other factors, including territory, covered standards, quantity and dates sold.

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Some of our patent licenses are paid up, requiring no additional payments relating to designated sales under agreed upon conditions. Those conditions can include paid-up licenses for a period of time, for a class of products, for a number of products sold, under certain patents or patent claims, for sales in certain countries or a combination thereof. Licenses have become paid-up based on the payment of fixed amounts or after the payment of royalties for a term. With the exception of amounts allocated to past patent royalties, we recognize revenues related to fixed amounts on a straight-line basis. Our license agreements typically contain provisions that give us the right to audit our licensees' books and records to ensure compliance with the licensees' reporting and payment obligations under those agreements. From time to time, these audits reveal underreporting or underpayments under the applicable agreements. In such cases, we seek payment for the amount owed and enter into negotiations with the licensee to resolve the discrepancy. The company also pursues, on occasion, targeted sales of portions of its large and growing patent portfolio as a revenue stream. This strategy is based on the expectation that the company's portfolio and its growth rate extend well beyond the requirements for a successful licensing program. In addition, the strategy leverages the desire from new entrants in the mobile technology space to build strong intellectual property positions to support their businesses.

### Signal Trust for Wireless Innovation

In 2013, InterDigital formed the Signal Trust for Wireless Innovation (the "Signal Trust"). The goal of the Signal Trust is to monetize a large InterDigital patent portfolio related to cellular infrastructure. More than 500 patents and patent applications were transferred to the Signal Trust, focusing primarily on 3G and LTE technologies and developed by InterDigital's engineers and researchers over more than a decade. A number of these innovations have been contributed to the worldwide standards process, resulting in a portfolio that includes patents for pioneering inventions that the company believes are used pervasively in the cellular wireless industry.

InterDigital has committed funding to the Signal Trust to help ensure its successful launch, and the company is also the primary beneficiary of the Signal Trust. 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.

### Other Potential Revenue Sources

The company's strong technology expertise and research and development team also form the basis for other potential revenue opportunities, focused around such areas as engineering services, research joint ventures and the continued development, commercialization and licensing of research and development projects that have progressed to a pre-commercial or commercial phase.

### InterDigital Solutions

Our InterDigital Solutions unit is focused on incubating and commercializing market-ready technologies. These include:

Smart Access Manager, a bandwidth management solution for operators, infrastructure companies and device manufacturers. Smart Access Manager enables operators and others to integrate Wi-Fi management seamlessly into their offerings.

Perceptual Pre-Filter and other video technologies that enhance the streaming of high quality content while reducing bandwidth requirements.

InterDigital Solutions' mission also includes leveraging InterDigital's technology and people in strategic engineering services engagements that supplement the company's core research while acting as new sources of revenue.

### Standalone Commercial Initiatives

We have identified several areas that present robust commercial opportunities. In such cases, we have chosen to establish separate commercial initiatives focused on the specific opportunity and developing commercial products to address the identified need. While such initiatives are in their early stages, they are potential revenue sources for the company. These initiatives currently consist of:

wot.io™, which offers a data service exchange™ for connected device platforms. wot.io™ solves the challenge of rapidly and flexibly extracting business value from connected data. This solution is independent of individual technologies and complements existing vendor platforms for organizations operating in the IoT and M2M markets.



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- XCellAir™, a cloud-based, multi-vendor, multi-technology mobile network management and optimization solution that enables mobile network operators, mobile system operators and Internet service providers to manage, optimize and monetize heterogeneous network resources.

Conviva Wireless

During 2012, we completed the formation of a joint venture with Sony. Called Conviva Wireless, the joint venture combines InterDigital's advanced M2M research capabilities with Sony's consumer electronics expertise. Conviva Wireless provides an outlet for driving new research in the growing M2M wireless communications field.

Wireless Communications Industry Overview

The wireless communications industry continues to experience rapid growth worldwide, as well as an expansion of device types entering the market. In smartphones alone, the market is seeing rapid expansion: IHS estimates that just over 480 million LTE handsets were shipped in 2014, and they expect that number to triple by 2018 (source: IHS, H2 2014 Mobile Handset Design Forecast Tool). In addition, new markets are emerging related to core wireless connectivity. IHS estimates that the IoT market will grow to more than 40 billion connected devices by 2019, and to more than 80 billion by 2025, spanning most industry segments (source: IHS - Consumer IoT, January 2015).

Global Mobile Device Shipments

Worldwide shipments of mobile handsets, mobile PCs and tablets, 2009-2018 ('000s). Source: IHS Consumer, Mobile & IT Market Tracker.

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### Global 3G & LTE Handset Shipments

Worldwide shipments of 3G and LTE mobile handsets, 2012-2018 ('000s). Source: IHS H2 2014 Mobile Handset Design Forecast Tool.

To achieve economies of scale and support interoperability among different participants, products for the wireless industry have typically been designed to operate in accordance with certain standards. Wireless communications standards are formal guidelines for engineers, designers, manufacturers and service providers that regulate and define the use of the radio frequency spectrum in conjunction with providing detailed specifications for wireless communications products. A primary goal of the standards is to ensure interoperability of products marketed by multiple companies. A large number of international and regional wireless Standards Development Organizations (“SDOs”), including the ITU, ETSI, TTA (USA), IEEE, ATIS (USA), TTA (Korea), ARIB (Japan) and ANSI, have responsibility for the development and administration of wireless communications standards. New standards are typically adopted with each new generation of products, are often compatible with previous generations and are defined to ensure equipment interoperability and regulatory compliance.

Standards have evolved in response to consumer demand for services and expanded capabilities of mobile devices. Cellular standards have evolved from voice-oriented services to multimedia services that exploit the higher speeds offered by newer technologies, such as LTE. The wireless communications industry has also made significant advances in non-cellular wireless technologies. In particular, IEEE 802.11 WLAN has gained momentum in recent years as a wireless broadband solution in the home, office and select public areas. IEEE 802.11 technology offers high-speed data connectivity through unlicensed spectra within a relatively modest operating range. The IEEE wireless standards bodies are creating sets of standards to enable higher data rates, provide coverage over longer distances, enable roaming and integrate more fully with cellular networks.

SDOs typically ask participating companies to declare formally whether they believe they hold patents or patent applications essential to a particular standard and whether they are willing to license those patents on either a royalty-bearing basis on fair, reasonable and nondiscriminatory terms or on a royalty-free basis. To manufacture, have made, sell, offer to sell or use such products on a non-infringing basis, a manufacturer or other entity doing so must first obtain a license from the holder of essential patent rights. The SDOs do not have enforcement authority against entities that fail to obtain required licenses, nor do they have the ability to protect the intellectual property rights of holders of essential patents.

InterDigital often publicly characterizes its business, including license agreements and development projects, as pertaining to standards generally characterized as 2G, 3G and/or 4G. In doing this, we generally rely on the positions of the applicable standards-setting organizations in defining the relevant standards. However, the definitions may evolve or change over time, including after we have characterized certain transactions.

### Business Activities

#### 2014 Patent Licensing Activity

During second quarter 2014, we entered into a patent license agreement with Samsung. The multi-year agreement also resolved all pending litigation between the companies. The royalty-bearing license agreement sets forth terms covering the sale by Samsung of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013.

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We also entered into two additional patent license agreements during second quarter 2014, including a worldwide, non-exclusive, royalty bearing patent license agreement with Fujitsu Limited ("Fujitsu"). The agreement covers the sale of Fujitsu's 2G, 3G and 4G terminal unit and infrastructure equipment products, including LTE and LTE-Advanced products.

### Customers Generating Revenues Exceeding 10% of Total 2014 Revenues

Samsung and Pegatron Corporation ("Pegatron") comprised approximately 33% and 18% of our total 2014 revenues, respectively.

As discussed above, in second quarter 2014, we entered into a patent license agreement with Samsung. During 2014, we recognized \$138.0 million of revenue, including \$86.3 million of past patent royalties and \$51.7 million of recurring fixed-fee royalties, associated with this agreement.

In 2008, we entered into a patent license agreement with Pegatron (the "2008 Pegatron PLA") that covers Pegatron and its affiliates. Under the terms of the 2008 Pegatron PLA, we granted Pegatron a non-exclusive, non-transferable, world-wide royalty-bearing license covering the sale of certain products designed to operate in accordance with 2G and 3G wireless standards ("Licensed Products"). In second quarter and fourth quarter 2013, we received arbitration awards in separate proceedings we initiated against Pegatron and Apple, respectively. Taken together, these arbitration awards clarified that Pegatron owes us royalties on certain products it produces for Apple. The Pegatron arbitration award confirmed that, to the extent that Pegatron manufactures Licensed Products for Apple that are not licensed under our 2007 patent license agreement with Apple (the "2007 Apple PLA"), those products are covered by the 2008 Pegatron PLA and are royalty bearing under that agreement. Upon the expiration of the 2007 Apple PLA at the end of June 2014, Apple has become unlicensed as to all products that were covered under the agreement and therefore all Apple sales are unlicensed, except to the extent certain products are licensed under the terms of our license agreements with certain Apple suppliers, including Pegatron. We recognized \$75.1 million of revenue under the 2008 Pegatron PLA in 2014, all of which was associated with sales of Apple products.

### Patent Infringement and Declaratory Judgment Proceedings

From time to time, if we believe any party is required to license our patents in order to manufacture and sell certain products and such party refuses to do so, we may institute legal action against them. This legal action has typically taken the form of a patent infringement lawsuit or an administrative proceeding such as a Section 337 proceeding before the United States International Trade Commission ("USITC" or the "Commission"). In a patent infringement lawsuit, we would typically seek damages for past infringement and an injunction against future infringement. In a USITC proceeding, we would seek an exclusion order to bar infringing goods from entry into the United States, as well as a cease and desist order to bar further sales of infringing goods that have already been imported into the United States. Parties may bring administrative and/or judicial challenges to the validity, enforceability, essentiality and/or applicability of our patents to their products. Parties may also allege that our efforts to enter into a license with that party do not comply with any obligations we may have in connection with our participation in standards-setting organizations, and therefore that we are not entitled to the relief that we seek. For example, a party may allege that we have not complied with an obligation to offer a license to that party on fair, reasonable and non-discriminatory terms and conditions. In addition, a party might file a declaratory judgment action to seek a court's declaration that our patents are invalid, unenforceable, not infringed by the other party's products or are not essential. Our response to such a declaratory judgment action may include claims of infringement. When we include claims of infringement in a patent infringement lawsuit, a favorable ruling for the company can result in the payment of damages for past patent royalties, the setting of a royalty for future sales or issuance by the court of an injunction enjoining the manufacturer from manufacturing and/or selling the infringing product.

### Contractual Arbitration Proceedings

We and our customers, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales and royalties. Our license agreements typically provide for audit rights as well as private arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by the arbitrators or by settlement between the parties. Parties to arbitration might have the right to have the award reviewed in a court of competent jurisdiction. However, based on public policy favoring the use of arbitration,

it is generally difficult to have arbitration awards vacated or modified. The party securing an arbitration award may seek to have that award converted into a judgment through an enforcement proceeding. The purpose of such a proceeding is to secure a judgment that can be used for, if need be, seizing assets of the other party.



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## Competition

With respect to our technology development activities, we face competition from companies, including in-house development teams at other wireless device companies and semiconductor companies and wireless operators, developing other and similar technologies that are competitive with our solutions that we may market or set forth into the standards-setting arena.

Due to the exclusionary nature of patent rights, we do not compete, in a traditional sense, with other patent holders for licensing relationships or sale transactions. Other patent holders do not have the same rights to the inventions and technologies encompassed by our patent portfolio. In any device or piece of equipment that contains intellectual property, the manufacturer may need to obtain licenses from multiple holders of intellectual property. In licensing our patent portfolio, we compete with other patent holders for a share of the royalties, which may face practical limitations. We believe that licenses under a number of our patents are required to manufacture and sell 2G, 3G and 4G products. However, numerous companies also claim that they hold 2G, 3G and 4G patents that are or may be essential or may become essential to cellular and other wireless standards. To the extent that multiple parties all seek royalties on the same product, the manufacturers could claim to have difficulty in meeting the financial requirements of each patent holder. In the past, certain manufacturers have sought antitrust exemptions to act collectively on a voluntary basis. In addition, certain manufacturers have sought to limit aggregate licensing fees or rates for essential patents. Similarly, potential purchasers of our patents often amass patent portfolios for defensive and/or cross-licensing purposes and could choose to acquire patent assets within the same general technology space from other patent holders.

## Employees

As of December 31, 2014, we had approximately 320 employees. None of our employees are represented by a collective bargaining unit.

## Geographic Concentrations

We have one reportable segment. During 2014, the majority of our revenue was derived from a limited number of licensees based outside of the United States, primarily in Asia. These revenues were paid in U.S. dollars and were not subject to any substantial foreign exchange transaction risk. The table below lists the countries of the headquarters of our licensees and customers and the total revenue derived from each country or region for the periods indicated (in thousands):

	For the Year Ended December 31,		
	2014	2013	2012
South Korea	\$144,398	\$15,334	\$118,078
Taiwan	115,955	128,551	40,394
United States	53,163	108,728	406,950
Japan	52,194	27,494	39,558
Sweden	24,530	—	—
Canada	15,422	36,148	40,667
Germany	5,293	4,539	3,470
Other Europe	4,064	3,004	4,700
China	800	1,563	9,246
Other Asia	2	—	—
Total	\$415,821	\$325,361	\$663,063

At December 31, 2014, 2013 and 2012, we held \$278.1 million, \$215.9 million and \$185.4 million, respectively, or nearly 100% in each year, of our property and equipment and patents in the United States net of accumulated depreciation and amortization. At each of December 31, 2014, 2013 and 2012, we held less than \$0.1 million of property and equipment, net of accumulated depreciation, collectively, in Canada, the United Kingdom and South Korea.

## Corporate Information

The ultimate predecessor company of InterDigital, Inc. was incorporated in 1972 under the laws of the Commonwealth of Pennsylvania and conducted its initial public offering in November 1981. Our corporate headquarters and administrative offices are located in Wilmington, Delaware, USA. Our research and technology development centers are located in the following locations: King of Prussia, Pennsylvania, USA; Melville, New York, USA; San Diego, California, USA; Montreal, Quebec, Canada; London, England, United Kingdom; and Seoul, South Korea.

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Our Internet address is [www.interdigital.com](http://www.interdigital.com), where, in the “Investors” section, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, certain other reports and filings required to be filed under the Securities Exchange Act of 1934, as amended, and all amendments to those reports or filings as soon as reasonably practicable after such material is electronically filed with or furnished to the United States Securities and Exchange Commission. The information contained on or connected to our website is not incorporated by reference into this Form 10-K.

### Item 1A. RISK FACTORS.

We face a variety of risks that may affect our business, financial condition, operating results, the trading price of our common stock, or any combination thereof. You should carefully consider the following information and the other information in this Form 10-K in evaluating our business and prospects and before making an investment decision with respect to our common stock. If any of these risks were to occur, our business, financial condition, results of operations or prospects could be materially and adversely affected. In such an event, the market price of our common stock could decline and you could lose all or part of your investment. The risks and uncertainties we describe below are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also affect our business.

#### Risks Related to Our Business

Potential patent and litigation reform legislation and USPTO and international patent rule changes may affect our investments in research and development and our strategies for patent prosecution, licensing and enforcement and could have a material adverse effect on our licensing business as well as our business as a whole.

Potential changes to certain U.S. and international patent laws, rules and regulations may occur in the future, some or all of which may affect our research and development investments, patent prosecution costs, the scope of future patent coverage we secure and remedies that we may be entitled to in patent litigation and may require us to reevaluate and modify our research and development activities and patent prosecution, licensing and enforcement strategies. We continue to monitor and evaluate our strategies for research and development and patent prosecution, licensing and enforcement with regard to these developments; however, any resulting change in such strategies may have an adverse impact on our business and financial condition.

Rulings in legal proceedings, potential legislation affecting the jurisdiction and authority of the U.S. International Trade Commission (“USITC”), and potential changes to the intellectual property rights (“IPR”) policies of worldwide standards bodies may affect our investments in research and development and our strategies for patent prosecution, licensing and enforcement and could have a material adverse effect on our licensing business as well as our business as a whole.

Rulings in our legal proceedings as well as those of third parties may affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, the USITC and U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken some actions that have been viewed as unfavorable to patentees, including the company. Decisions that occur in these forums may change the law applicable to various patent law issues, such as, for example, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages, in ways that are detrimental to the abilities of patentees to enforce patents and obtain damages awards. Similarly, legislation designed to reduce the jurisdiction and remedial authority of the USITC has periodically been introduced in Congress. Any potential changes in the law, the IPR policies of standards bodies or other developments that reduce the number of forums available or the type of relief available in such forums (such as injunctive relief), restrict permissible licensing practices (such as our ability to license on a worldwide portfolio basis) or that otherwise cause us to seek alternative forums (such as arbitration or state court), would make it more difficult for InterDigital to enforce its patents, whether in adversarial proceedings or in negotiations. Because we have historically depended on the availability of certain forms of legal process to enforce our patents and obtain fair and adequate compensation for our investments in research and development and the unauthorized use of our intellectual property, developments that undermine our ability to do so could have a negative impact on the company’s revenue and future licensing efforts. We continue to monitor and evaluate our strategies for prosecution, licensing and enforcement with regard to these developments; however, any resulting change in such strategies may have an adverse impact on our business and financial condition.

Royalty rates, or other terms, under our patent license agreements could be subject to determination through arbitration or other third party adjudications or regulatory proceedings, and arbitrators or other third party adjudicators or regulators could determine that our patent royalty rates should be at levels lower than our agreed or historical rates. Historically, the terms of our patent license agreements, including our royalty rates, have been reached through arms-length bilateral negotiations with our licensees. We could agree, as we have with Huawei pursuant to our December 2013

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settlement agreement, to have royalty rates, or other terms, set by third party adjudicators such as arbitrators, and it is also possible that courts or regulators could decide to set or otherwise determine the fair, reasonable and non-discriminatory (“FRAND”) consistency of such terms. Changes to or clarifications of our obligations to be prepared to offer licenses to standards-essential patents on FRAND terms and conditions could require such terms, including our royalty rates, to be determined through third party adjudications. Finally, our current and prospective licensees could instigate legal proceedings or regulatory proceedings requesting third party adjudicators or regulators, such as China's National Development and Reform Commission and Taiwan's Fair Trade Commission, to set FRAND terms and conditions for, or determine the FRAND-consistency of current terms and conditions in, our patent license agreements. To the extent that our patent royalty rates are determined through arbitration or other third party adjudications or regulatory proceedings rather than through bilateral negotiations, because such proceedings are inherently unpredictable and uncertain and there are currently few precedents for such determinations, it is possible that such rates may be lower than our agreed or historical rates, which may have an adverse effect on our revenue and cash flow.

Challenges relating to our ability to enter into new license agreements could cause our revenue and cash flow to decline.

We face challenges in entering into new patent license agreements. The most significant challenge we face is that most potential licensees do not voluntarily seek to enter into license agreements with us before they commence manufacturing and/or selling devices that use our patented inventions. As a result, we must approach companies that are reluctant to take licenses and attempt to establish license agreements with them. The process of identifying potential users of our inventions and negotiating license agreements with reluctant prospective licensees requires significant time, effort and expense. Once discussions with unlicensed companies have commenced, we face the additional challenges imposed by the significant negotiation issues that arise from time to time. Given these challenges relating to our ability to enter into new license agreements, we cannot assure that all prospective licensees will be identified or, if they are identified, will be persuaded during negotiations to enter into a patent license agreement with us, either at all or on terms acceptable to us, and, as a result, our revenue and cash flow could materially decline. In addition, the length of time required to negotiate a license agreement leads to delays in the receipt of the associated revenue stream, which could also cause our revenue and cash flow to decline.

Increased scrutiny by regulatory authorities may affect our strategies for patent prosecution, licensing and enforcement and may increase our costs of doing business and/or lead to monetary fines, penalties or other remedies or sanctions.

Domestic and foreign antitrust and other regulatory authorities, such as China's National Development and Reform Commission and Taiwan's Fair Trade Commission, have increased their scrutiny of the use of standards-essential patents in the mobile wireless industry, including the enforcement of such patents against competitors. Such scrutiny has resulted in, and may lead to additional, inquiries that may lead to enforcement actions against the company and/or impact the availability of injunctive and monetary relief, which may adversely affect our strategies for patent prosecution, licensing and enforcement and increase our costs of operation. Such inquiries and/or enforcement actions could result in monetary fines, penalties or other remedies or sanctions that could adversely affect our business and financial condition.

Setbacks in defending and enforcing our patent rights could cause our revenue and cash flow to decline.

Major telecommunications equipment manufacturers have challenged, and we expect will continue to challenge, the infringement, validity and enforceability of certain of our patents. In some instances, certain of our patent claims could be substantially narrowed or declared invalid, unenforceable, not essential or not infringed. We cannot assure that the validity and enforceability of our patents will be maintained or that our patents will be determined to be applicable to any particular product or standard. Moreover, third parties could attempt to circumvent certain of our patents through design changes. Any significant adverse finding as to the validity, enforceability or scope of certain of our patents and/or any successful design-around of certain patents could result in the loss of patent licensing revenue from existing licensees, through termination or modification of agreements or otherwise, and could substantially impair our ability to secure new patent licensing arrangements, either at all or on beneficial terms.

Our revenues are derived primarily from a limited number of licensees or customers.

We earn a significant amount of our revenues from a limited number of licensees or customers, and we expect that a significant portion of our revenues will continue to come from a limited number of licensees or customers for the foreseeable future. For example, in 2014, Samsung and Pegatron accounted for approximately 33% and 18% of our total revenues, respectively. In the event that we are unable to renew one or more of such license agreements upon expiration, our future revenue and cash flow could be materially adversely affected. In addition, in the event that one or more of our significant licensees or customers fail to meet their payment or reporting obligations (for example, due to a credit issue or in connection with a legal dispute or similar proceeding) under their respective license agreements, our future revenue and cash flow could be materially adversely affected. See Item 3, Legal Proceedings, in this Form 10-K for a description of our material legal proceedings. In addition, in the event that there is a material decrease in shipments of licensed products by one of our

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significant per-unit licensees, such as Pegatron (as a result of a change in the Apple supply chain or otherwise), our revenues from such licensee would significantly decline and our future revenue and cash flow could be materially adversely affected.

Royalty rates could decrease for future license agreements due to downward product pricing pressures and competition over a finite pool of patent royalties.

Royalty payments to us under future license agreements could be lower than anticipated. Certain licensees and others in the wireless industry, individually and collectively, are demanding that royalty rates for patents be lower than historic royalty rates. There is also increasing downward pricing pressure on certain wireless products, including handsets, that we believe implement our patented inventions, and some of our royalty rates are tied to the pricing of handsets. In addition, a number of other companies also claim to hold patents that are essential with respect to products for the cellular market. The pricing pressure, as well as the number of patent holders seeking royalties on their cellular technologies, could result in a decrease in the royalty rates we receive for use of our patented inventions, thereby decreasing future revenue and cash flow.

Our plans to broaden our patent-based revenue sources through enhanced intellectual property sourcing, joint ventures, and developing technology in new areas may not be successful and could materially adversely affect our long-term business, financial condition and operating results.

As part of our business strategy, we are seeking to broaden our patent-based revenue sources through targeted acquisitions, research partnerships, joint ventures and the continued development of new technologies. There is no guarantee that we will succeed in acquiring or developing technology and patents or partnering with inventors and research organizations to add new dimensions to our existing portfolio of intellectual property and potentially create new patent licensing programs. Also, our development activities may experience delays, which could reduce our opportunities for patent sales and licensing. In the event that any of these risks materialize, our long-term business, financial condition and operating results may be materially adversely affected.

Our plans to expand our revenue sources through commercializing our market-ready technologies and developing new technology with commercial applicability may not be successful and could materially adversely affect our long-term business, financial condition and operating results.

As part of our business strategy, we are seeking to expand our revenue sources through the continued development, commercialization and licensing of technology projects. Our technology development activities may experience delays, or the markets for our technology solutions may fail to materialize to the extent or at the rate we expect, each of which could reduce our opportunities for technology sales and licensing. Additionally, investing in technology development is costly and may require structural changes to the organization that could require additional costs, including without limitation legal and accounting fees. Furthermore, delays or failures to enter into additional partnering relationships to facilitate technology development efforts or delays or failures to enter into technology licensing agreements to secure integration of additional functionality could impair our ability to introduce into the market portions of our technology and resulting products, cause us to miss critical market windows, or decrease our ability to remain competitive. In addition, the commercialization of certain technologies could potentially lead to patent exhaustion or implied license issues that could limit the company's ability to derive licensing revenue from certain patents under its patent licensing program. In the event that any of these risks materialize, our long-term business, financial condition and operating results may be materially adversely affected.

Our investments in new commercial initiatives may not generate meaningful revenues.

We have invested, and may continue to invest, in new businesses focused on commercializing technology that we have developed, incubated internally and/or acquired. Commercial success depends on many factors, including the demand for the technology, the highly competitive markets for our technology products, regulatory issues associated with such technology products, and effective marketing and licensing or product sales. In addition, our new technology offerings may require robust ecosystems of customers and service providers that may fail to materialize. Further, the establishment and operation of these commercial initiatives requires significant support, including technical, legal and financial resources. It is possible that these commercial initiatives will not be successful and/or will not achieve meaningful revenues for a number of years, if at all. Further, we may attempt to develop technologies or services that we believe we would be able to sell or license commercially using inside or outside technical, legal

and financial resources. If our new commercial initiatives are not successful, or are not successful in the timeframe we anticipate, we may incur significant costs, our business may not grow as anticipated and/or our reputation may be harmed. The commercialization of certain technologies could potentially lead to patent exhaustion or implied license issues that could limit the company's ability to derive licensing revenue from certain patents under its patent licensing program. In the event that any of these risks materialize, our long-term business, financial condition and operating results may be materially adversely affected.



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Our strategy to diversify our patent-based revenue by pursuing alternative patent licensing arrangements and patent sales may not be successful.

There is no guarantee that we will succeed in our pursuit of select patent licensing arrangements or patent sales, and, if we are successful, there is no guarantee that the revenue and cash flow generated through such patent sales or alternative licensing arrangements (including trust arrangements) will be greater than the revenue and cash flow we would have generated if we had retained and licensed the patents ourselves. In addition, potential licensees may be reluctant to enter into new patent license agreements, and current licensees may be reluctant to renew their agreements, either at all or on terms acceptable to the company, based on the belief that we plan to sell or transfer some of the patents we are asking them to license.

Our revenue and cash flow are dependent upon our licensees' sales and market conditions and other factors that are beyond our control or are difficult to forecast.

A significant portion of our licensing revenues are running royalty-based and dependent on sales by our licensees that are outside our control and that could be negatively affected by a variety of factors, including global and/or country-specific economic conditions, country-specific natural disasters impacting licensee manufacturing and sales, buying patterns of end users, competition for our licensees' products and any decline in the sale prices our licensees receive for their covered products. In addition, our operating results also could be affected by general economic and other conditions that cause a downturn in the market for the licensees of our products or technologies. Our revenue and cash flow also could be affected by (i) the unwillingness of any licensee to satisfy all of their royalty obligations on the terms or within the timeframe we expect, (ii) a decline in the financial condition of any licensee or (iii) the failure of sales to meet market forecasts due to global economic conditions, political instability, natural disasters, competitive technologies or otherwise. It is also difficult to predict the timing, nature and amount of licensing revenue associated with past infringement and new licenses, strategic relationships and the resolution of legal proceedings. The foregoing factors are difficult to forecast and could adversely affect both our quarterly and annual operating results and financial condition. In addition, some of our patent license agreements provide for fixed payments or prepayments that cover our licensees' future sales for a specified period and reduce future cash receipts from those licensees. As a result, our cash flow has historically fluctuated from period to period. Depending upon the payment structure of any new patent license agreements into which we may enter, such cash flow fluctuations may continue in the future. Due to the nature of our business, we could be involved in a number of costly litigation, arbitration and administrative proceedings to enforce our intellectual property rights.

While some companies seek licenses before they commence manufacturing and/or selling devices that use our patented inventions, most do not. Consequently, we approach companies and seek to establish license agreements for using our inventions. We expend significant time and effort identifying users and potential users of our inventions and negotiating license agreements with companies that may be reluctant to take licenses. However, if we believe that a third party is required to take a license to our patents in order to manufacture, sell, offer for sale, import or use products, we may commence legal or administrative action against the third party if they refuse to enter into a license agreement with us. In turn, we could face counterclaims that challenge the essential nature of our patents, that our patents are invalid, unenforceable or not infringed or that we have not complied with certain commitments to standards-setting organizations (for example, that our royalty rates or other licensing terms and conditions are allegedly other than fair, reasonable and nondiscriminatory). As a result of enforcing our patents, we could be subject to significant legal fees and costs, including the costs and fees of opposing counsel in certain jurisdictions if we are unsuccessful. In addition, litigation, arbitration and administrative proceedings require significant key employee involvement for significant periods of time, which could divert these employees from other business activities. In addition, the cost of enforcing and defending our intellectual property has been and may continue to be significant. Litigation may be required to enforce our intellectual property rights, protect our trade secrets, enforce patent license and confidentiality agreements or determine the validity, enforceability and scope of proprietary rights of others. In addition, third parties could commence litigation against us seeking to invalidate our patents or obtain a determination that our patents are not infringed, are not essential, are invalid or are unenforceable. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to protect our intellectual property rights could be costly and could require significant amounts of time by key members of executive

management and other personnel.

Our revenue may be affected by the deployment of next-generation wireless standards in place of 2G, 3G and 4G technologies or by the need to extend or modify certain existing license agreements to cover subsequently issued patents.

Although we own a growing portfolio of issued and pending patents related to 2G, 3G and 4G cellular technologies and non-cellular technologies, our patent portfolio licensing program for the next-generation wireless standards may not be as successful in generating licensing income as our current licensing programs. Although we continue to participate in worldwide standards bodies and contribute our intellectual property to the next-generation wireless standards, our technologies might not be adopted by the relevant standards, we may not be as successful in the licensing of next-generation products as we have been

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in licensing 2G, 3G and 4G products, or we may not achieve a level of royalty revenues on such products that is comparable to that which we have historically received on 2G, 3G and 4G products.

The licenses that we grant under our patent license agreements typically only cover products designed to operate in accordance with specified cellular technologies and that were manufactured or deployed or anticipated to be manufactured or deployed at the time of entry into the agreement. Also, we have patent license agreements with licensees that now offer for sale types of products that were not sold by such licensees at the time the patent license agreements were entered into and, thus, are not licensed by us. We do not derive patent licensing revenue from the sale of products by our licensees that are not covered by a patent license agreement. In order to grant a patent license for any such products, we will need to extend or modify our patent license agreements or enter into new license agreements with such licensees. We may not be able to modify these license agreements on financial terms acceptable to us, without affecting the other material terms and conditions of our license agreements with such licensees or at all. Further, such modifications may adversely affect our revenue on the sale of products covered by the license prior to modification.

We may engage in acquisitions or other strategic transactions or make investments that could result in significant changes, costs and/or management disruption and fail to enhance shareholder value.

We may acquire businesses, technology and/or intellectual property, enter into joint ventures or other strategic transactions, or make investments in other entities, by purchasing minority equity interests or corporate bonds/notes in publicly traded or privately held companies. In some cases, such strategic investments may serve as consideration for a license in lieu of cash royalties. Most strategic investments entail a high degree of risk and will not become liquid for a period of time, if at all. Acquisitions or strategic investments may increase our costs, including but not limited to accounting and legal fees, and may not generate financial returns or result in increased adoption or continued use of our technologies. In addition, other investments may not generate financial returns or may result in losses due to market volatility, the general level of interest rates and inflation expectations. We could make strategic investments in early-stage companies, which require us to consolidate or record our share of the earnings or losses of those companies. Our share of any such losses may adversely affect our financial results until we exit from or reduce our exposure to these investments.

Achieving the anticipated benefits of acquisitions depends in part upon our ability to integrate the acquired companies, businesses and/or assets in an efficient and effective manner. The integration of acquired companies or businesses may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. We cannot assure you that the integration of acquired businesses, technology and/or intellectual property with our business will result in the realization of the full benefits we anticipate to result from such acquisitions. In addition, any acquired company or business would be subject to its own risks that may or may not be the same as the risks already disclosed herein. We may not derive any commercial value from the acquired technology or intellectual property or from future technologies or products based on the acquired technology and/or intellectual property, and we may be subject to liabilities that are not covered by the indemnification protection we may obtain.

We face risks from doing business in international markets.

A significant portion of our licensees, potential licensees and customers are international, and our licensees, potential licensees and customers sell their products to markets throughout the world. Accordingly, we could be subject to the effects of a variety of uncontrollable and changing factors, including, but not limited to: difficulty in protecting our intellectual property in foreign jurisdictions; enforcing contractual commitments in foreign jurisdictions or against foreign corporations; government regulations, tariffs and other applicable trade barriers; biased enforcement of foreign laws and regulations to promote industrial or economic policies at our expense; currency control regulations and variability in the value of the U.S. dollar against foreign currency; social, economic and political instability; natural disasters, acts of terrorism, widespread illness and war; potentially adverse tax consequences; and general delays in remittance of and difficulties collecting non-U.S. payments. In addition, we also are subject to risks specific to the individual countries in which we and our licensees, potential licensees and customers do business.

We depend on key senior management, engineering, patent and licensing resources.

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified

personnel with specialized patent, licensing, engineering and other skills. The market for such talent in our industry is extremely competitive. In particular, competition exists for qualified individuals with expertise in patents and in licensing and with significant engineering experience in cellular and air interface technologies. Our ability to attract and retain qualified personnel could be affected by any adverse decisions in any litigation or arbitration, by our ability to offer competitive cash and equity compensation and work environment conditions and by the geographic location of our various offices. The failure to attract and retain such persons with relevant and appropriate experience could interfere with our ability to enter into new license

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agreements and undertake additional technology and product development efforts, as well as our ability to meet our strategic objectives.

Our technologies may not be become patented, adopted by wireless standards or widely deployed.

We invest significant resources in the development of advanced wireless technology and related solutions. However, certain of our inventions that we believe will be employed in current and future products, including 4G and beyond, are the subject of patent applications where no patent has been issued to us yet by the relevant patent issuing authorities. There is no assurance that these applications will issue as patents, either at all or with claims that would be required by products in the market currently or in the future. Our investments may not be recoverable or may not result in meaningful revenue if a sufficient number of our technologies are not patented and adopted by the relevant standards or if products based on the technologies in which we invest are not widely deployed. Competing digital wireless technologies could reduce the opportunities for the adoption or deployment of technologies we develop. If the technologies in which we invest do not become patented or are not adopted by the relevant standards or deployed in the mainstream markets, at all or at the rate or within time periods we expect, or if we are unable to secure partner support for our technologies, our business, financial condition and operating results could be adversely affected. Consolidation in the wireless communications industry could adversely affect our business.

The wireless communications industry has experienced consolidation of participants and sales of participants or their businesses, and these trends may continue. Any concentration or sale within the wireless industry may reduce the number of licensing opportunities or, in some instances, result in the reduction, loss or elimination of existing royalty obligations. For example, in 2014, Samsung, Nokia and Apple collectively accounted for 44% of worldwide handset shipments. Further, if wireless carriers consolidate with companies that utilize technologies that are competitive with our technologies or that are not covered by our patents, we could lose market opportunities, which could negatively impact our revenues and financial condition.

Changes to our tax assets or liabilities could have an adverse effect on our consolidated financial condition or results of operations.

The calculation of tax assets and liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to examinations by the Internal Revenue Service (IRS) and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings and foreign tax liability and withholding. With our January 1, 2007 adoption of the guidance for accounting for uncertainty in income taxes, certain tax contingencies are recognized when they are determined to be more likely than not to occur. Although we believe we have adequately recorded tax assets and accrued for tax contingencies that meet this criterion, we may not fully recover our tax assets or may be required to pay taxes in excess of the amounts we have accrued. As of December 31, 2014 and 2013, there were certain tax contingencies that did not meet the applicable criteria to record an accrual. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have an adverse effect on our consolidated financial condition or results of operations.

It can be difficult for us to verify royalty amounts owed to us under our licensing agreements, and this may cause us to lose potential revenue.

The standard terms of our license agreements require our licensees to document the sale of licensed products and report this data to us on a quarterly basis. Although our standard license terms give us the right to audit books and records of our licensees to verify this information, audits can be expensive, time consuming, incomplete and subject to dispute. From time to time, we audit certain of our licensees to verify independently the accuracy of the information contained in their royalty reports in an effort to decrease the likelihood that we will not receive the royalty revenues to which we are entitled under the terms of our license agreements, but we cannot give assurances that these audits will be numerous enough and/or effective to that end.

Delays in renewing or an inability to renew existing license agreements could cause our revenue and cash flow to decline.

Many of our license agreements have fixed terms. Although we endeavor to renew license agreements with fixed terms prior to the expiration of the license agreements, due to various factors, including the technology and business needs and competitive positions of our licensees and, at times, reluctance on the part of our licensees to participate in

renewal discussions, we may not be able to renegotiate the license agreements on acceptable terms before the expiration of the license agreement, on acceptable terms after the expiration of the license agreement, or at all. If there is a delay in renegotiating and renewing a license agreement prior to its expiration, there could be a gap in time during which we may be unable to recognize revenue from that licensee or we may be forced to renegotiate and renew the license agreement on terms that are more favorable to such

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licensee, and, as a result, our revenue and cash flow could be materially adversely affected. In addition, if we fail to renegotiate and renew our license agreements at all, we could lose existing licensees, and our revenue and cash flow could be materially adversely affected.

Our industry is subject to rapid technological change, uncertainty and shifting market opportunities.

Our success depends, in part, on our ability to define and keep pace with changes in industry standards, technological developments and varying customer requirements. Changes in industry standards and needs could adversely affect the development of, and demand for, our technology, rendering our technology currently under development obsolete and unmarketable. The patents and applications comprising our portfolio have fixed terms, and, if we fail to anticipate or respond adequately to these changes through the development or acquisition of new patentable inventions, patents or other technology, we could miss a critical market opportunity, reducing or eliminating our ability to capitalize on our patents, technology solutions or both.

The high amount of capital required to obtain radio frequency licenses, deploy and expand wireless networks and obtain new subscribers could slow the growth of the wireless communications industry and adversely affect our business.

Our growth is dependent upon the increased use of wireless communications services that utilize our technology. In order to provide wireless communications services, wireless operators must obtain rights to use specific radio frequencies. The allocation of frequencies is regulated in the United States and other countries throughout the world, and limited spectrum space is allocated to wireless communications services. Industry growth may be affected by the amount of capital required to obtain licenses to use new frequencies, deploy wireless networks to offer voice and data services, expand wireless networks to grow voice and data services and obtain new subscribers. The significant cost of licenses, wireless networks and subscriber additions may slow the growth of the industry if wireless operators are unable to obtain or service the additional capital necessary to implement or expand advanced wireless networks. The growth of our business could be adversely affected if this occurs.

Market projections and data are forward-looking in nature.

Our strategy is based on our own projections and on analyst, industry observer and expert projections, which are forward-looking in nature and are inherently subject to risks and uncertainties. The validity of their and our assumptions, the timing and scope of wireless markets, economic conditions, customer buying patterns, timeliness of equipment development, pricing of products, growth in wireless telecommunications services that would be delivered on wireless devices and availability of capital for infrastructure improvements could affect these predictions. In addition, market data upon which we rely is based on third party reports that may be inaccurate. The inaccuracy of any of these projections and/or market data could adversely affect our operating results and financial condition.

The markets for our technology solutions may fail to materialize in the manner we expect.

We are positioning some of our current development projects for the evolving advanced digital wireless markets. Certain of these markets may continue to develop at a slower rate or pace than we expect and may be of a smaller size than we expect. In addition, there could be fewer applications for our technology and products than we expect. The development of advanced wireless markets also could be affected by general economic conditions, customer buying patterns, timeliness of equipment development, pricing of advanced wireless infrastructure and mobile devices, rate of growth in telecommunications services and the availability of capital for, and the high cost of, radio frequency licenses and infrastructure improvements. Failure of the markets for our technologies and/or our products to materialize to the extent or at the rate we expect could reduce our opportunities for sales and licensing and could materially adversely affect our long-term business, financial condition and operating results.

We face competition from companies developing other or similar technologies.

We face competition from companies, including the in-house development teams at wireless device and semiconductor manufacturing companies and operators, developing other and similar technologies that are competitive with our solutions that we may market or set forth into the standards-setting arena. Due to competing solutions, our solutions may not find a viable commercial marketplace or be adopted by the relevant standards. In addition, in licensing our patent portfolio, we may compete with other companies, many of whom also claim to hold essential patents, for a share of the available royalties. In any device or piece of equipment that contains intellectual property, the manufacturer may need to obtain a license from multiple holders of intellectual property. To the extent

that multiple parties all seek royalties on the same product, the manufacturers could claim to have difficulty in meeting the financial requirements of each patent holder.



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Our technology development activities may experience delays.

We may experience technical, financial, resource or other difficulties or delays related to the further development of our technologies. Delays may have adverse financial effects and may allow competitors with comparable technology offerings to gain an advantage over us in the marketplace or in the standards setting arena. There can be no assurance that we will continue to have adequate staffing or that our development efforts will ultimately be successful.

Moreover, certain of our technologies have not been fully tested in commercial use, and it is possible that they may not perform as expected. In such cases, our business, financial condition and operating results could be adversely affected, and our ability to secure new licensees and other business opportunities could be diminished.

We rely on relationships with third parties to develop and deploy technology solutions.

Successful exploitation of our technology solutions is partially dependent on the establishment and success of relationships with equipment producers and other industry participants. Delays or failure to enter into licensing or other relationships to facilitate technology development efforts or delays or failure to enter into technology licensing agreements to secure integration of additional functionality could impair our ability to introduce into the market portions of our technology and resulting products, cause us to miss critical market windows or impair our ability to remain competitive.

Our engineering services business could subject us to specific costs and risks that we might fail to manage adequately. We derive a portion of our revenues from engineering services. Any mismanagement of, or negative development in, a number of areas, including, among others, the perceived value of our intellectual property portfolio, our ability to convince customers of the value of our engineering services and our reputation for performance under our service contracts, could cause our revenues from engineering services to decline, damage our reputation and harm our ability to attract future licensees, which would in turn harm our operating results. If we fail to deliver as required under our service contracts, we could lose revenues and become subject to liability for breach of contract. We need to monitor these services adequately in order to ensure that we do not incur significant expenses without generating corresponding revenues. Our failure to monitor these services adequately may harm our business, financial position, results of operations or cash flows.

Changes in financial accounting standards or policies may affect our reported financial condition or results of operations.

From time to time the Financial Accounting Standards Board (the "FASB") and the SEC change their guidance governing the form and content of our external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles ("GAAP"), such as the FASB and the SEC may change or even reverse their previous interpretations or positions with regard to how these standards should be applied. A change in accounting principles or their interpretation can have a significant effect on our reported results. In certain cases, the company could be required to apply new or revised guidance retroactively or apply existing guidance differently. For example, in May 2014, the FASB and International Accounting Standards Board issued revenue guidance, Revenue from Contracts with Customers, that, once adopted by the company in 2017, could significantly impact the timing of revenue recognition for new and existing contracts with licensees. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview -- New Accounting Guidance. This and other potential changes in reporting standards could substantially change our reporting practices in a number of areas, including revenue recognition and recording of assets and liabilities, and affect our reported financial condition or results of operations.

Currency fluctuations could negatively affect future product sales or royalty revenues or increase the U.S. dollar cost of our activities and international strategic investments.

We are exposed to risk from fluctuations in currencies, which may change over time as our business practices evolve, that could impact our operating results, liquidity and financial condition. We operate and invest globally. Adverse movements in currency exchange rates may negatively affect our business due to a number of situations, including the following:

- If the effective price of products sold by our licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for the products could fall, which in turn would reduce our royalty revenues.

Assets or liabilities of our consolidated subsidiaries may be subject to the effects of currency fluctuations, which may affect our reported earnings. Our exposure to foreign currencies may increase as we expand into new markets. Certain of our operating and investing costs, such as foreign patent prosecution, are based in foreign currencies. If these costs are not subject to foreign exchange hedging transactions, strengthening currency values in selected regions could adversely affect our near-term operating expenses, investment costs and cash

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flows. In addition, continued strengthening of currency values in selected regions over an extended period of time could adversely affect our future operating expenses, investment costs and cash flows.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated. These attempts, which in some cases could be related to industrial or other espionage, include covertly introducing malware to computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. While we have not identified any material incidents of unauthorized access to date, the theft, unauthorized use or publication of our intellectual property and/or confidential business or personal information could harm our competitive or negotiating positions, reduce the value of our investment in research and development and other strategic initiatives, compromise our patent enforcement strategies or outlook, damage our reputation or otherwise adversely affect our business. In addition, to the extent that any future security breach results in inappropriate disclosure of our employees', licensees', or customers' confidential and /or personal information, we may incur liability or additional costs to remedy any damages caused by such breach. We could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection.

If wireless handsets are perceived to pose health and safety risks, demand for products of our licensees could decrease. Media reports and certain studies have suggested that radio frequency emissions from wireless handsets may be linked to health concerns, such as brain tumors, other malignancies and genetic damage to blood, and may interfere with electronic medical devices, such as pacemakers, telemetry and delicate medical equipment. Growing concerns over radio frequency emissions, even if unfounded, could discourage the use of wireless handsets and cause a decrease in demand for the products of our licensees. In addition, concerns over safety risks posed by the use of wireless handsets while driving and the effect of any resulting legislation could reduce demand for the products of our licensees.

Risks Relating to Our Common Stock and the Notes

The price of our common stock is volatile and may decline regardless of our operating performance.

Historically, we have had large fluctuations in the price of our common stock, and such fluctuations could continue.

From January 3, 2012 to February 18, 2015, the trading price of our common stock has ranged from a low of \$22.37 per share to a high of \$54.90 per share. The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC and announcements relating to licensing, technology development, litigation, arbitration and other legal proceedings in which we are involved and intellectual property impacting us or our business;
- announcements concerning strategic transactions, such as commercial initiatives, joint ventures, strategic investments, acquisitions or divestitures;
- financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in financial estimates or ratings by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- investor perceptions as to the likelihood of achievement of near-term goals;
- changes in market share of significant licensees;
- changes in operating performance and stock market valuations of other wireless communications companies generally; and
- market conditions or trends in our industry or the economy as a whole.

In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

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Our increased indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under such indebtedness.

Our total consolidated long-term debt as of December 31, 2014 was approximately \$217.8 million. This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under our 2.50% senior convertible notes due 2016 (the “Notes”);
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes.

Our ability to meet our payment and other obligations under the Notes depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us, in an amount sufficient to enable us to meet our payment obligations under the Notes and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes, and this default could cause us to be in default on any other future outstanding indebtedness.

Our stockholders may not receive the level of dividends provided for in our dividend policy or any dividend at all, and any decrease in or suspension of the dividend could cause our stock price to decline.

Our current dividend policy, contemplates the payment of a regular quarterly cash dividend of \$0.20 per share on our outstanding common stock. We expect to continue to pay quarterly cash dividends on our common stock at the rate set forth in our current dividend policy. However, the dividend policy and the payment and timing of future cash dividends under the policy are subject to the final determination each quarter by our Board of Directors that (i) the dividend will be made in compliance with laws applicable to the declaration and payment of cash dividends, including Section 1551(b) of the Pennsylvania Business Corporation Law, and (ii) the policy remains in our best interests, which determination will be based on a number of factors, including our 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 the Board of Directors. Given these considerations, our Board of Directors may increase or decrease the amount of the dividend at any time and may also decide to vary the timing of or suspend or discontinue the payment of cash dividends in the future. Any decrease in the amount of the dividend, or suspension or discontinuance of payment of a dividend, could cause our stock price to decline.

If securities or industry analysts fail to continue publishing research about our business, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

The convertible note hedge transactions and warrant transactions that we entered into in connection with the offering of the Notes may affect our earnings per share and/or the market price for our common stock.

In connection with the offering of the Notes, we entered into convertible note hedge transactions with an affiliate of the initial purchaser (the “option counterparty”). We also sold warrants to the option counterparty. These transactions have been accounted for as an adjustment to our shareholders' equity. The convertible note hedge transactions are expected to reduce the potential equity dilution upon conversion of the Notes. The warrants will have a dilutive effect to the extent that the market



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value per common share of our common stock, as measured under the warrants, exceeds the strike price of the warrants at the time the warrants are exercisable.

In connection with establishing its initial hedge of these transactions, the option counterparty (and/or an affiliate thereof) purchased our common stock in open market transactions and/or privately negotiated transactions and/or entered various cash-settled derivative transactions with respect to our common stock concurrently with, or shortly after, the pricing of the Notes. The option counterparty (and/or an affiliate thereof) may modify its hedge positions from time to time (including during any conversion period related to a conversion of the Notes) by entering into or unwinding various derivative transactions with respect to our common stock and/or by purchasing or selling our common stock in open market transactions and/or privately negotiated transactions. The effect, if any, of any of these transactions and activities on the market price of our common stock will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the market price of our common stock.

Future sales or other dilution of our equity could depress the market price of our common stock.

Sales of our common stock in the public market, or the perception that such sales could occur, could negatively impact the market price of our common stock. We also have several institutional stockholders that own significant blocks of our common stock. If one or more of these stockholders were to sell large portions of their holdings in a relatively short time, for liquidity or other reasons, the prevailing market price of our common stock could be negatively affected.

Under certain circumstances, shares of our common stock could be issued upon conversion of the Notes, which would dilute the ownership interest of our existing stockholders. In addition, the issuance of additional common stock, or issuances of securities convertible into or exercisable for our common stock or other equity linked securities, including preferred stock or warrants, would dilute the ownership interest of our common stockholders and could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

Approved stock repurchase programs may not result in a positive return of capital to stockholders.

Our board-approved stock repurchase program may not return value to stockholders because the market price of the stock may decline significantly below the levels at which we repurchased shares of stock. Stock repurchase programs are intended to deliver stockholder value over the long term, but stock price fluctuations can reduce the effectiveness of such programs.

Provisions of the Notes could discourage an acquisition of us by a third party.

Certain provisions of the Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, including the sale of all or substantially all of our assets, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes. We may also be required to issue additional shares upon conversion in the event of certain fundamental change transactions. These provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock and could have the effect of discouraging delaying or preventing an acquisition of us by a third party.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

The option counterparty is a financial institution or the affiliate of a financial institution, and we will be subject to the risk that the option counterparty may default or otherwise fail to perform, or may exercise certain rights to terminate their obligations, under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparty will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If the option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our common stock market price and in volatility of our common stock. In addition, upon a default by the option counterparty, we may suffer adverse tax consequences and dilution with respect to our common stock. We can provide no assurance as to the financial stability or viability of the option counterparty.

Item 1B. UNRESOLVED STAFF COMMENTS.  
None.

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## Item 2. PROPERTIES.

Our headquarters are located in Wilmington, Delaware, USA. Our research and development activities are conducted primarily in facilities located in King of Prussia, Pennsylvania, USA; Melville, New York, USA; San Diego, California, USA; and Montreal, Quebec, Canada. The following table sets forth information with respect to our principal properties:

Location	Approximate Square Feet	Principal Use	Lease Expiration Date
King of Prussia, Pennsylvania	52,000	Administrative office and research space	Owned
Melville, New York	44,800	Administrative office and research space	February 2020
Wilmington, Delaware	36,200	Corporate headquarters	November 2022
Montreal, Quebec	17,300	Office and research space	June 2016
San Diego, California	11,800	Office and research space	April 2018

We are also a party to leases for several smaller spaces, including our offices in London, England, United Kingdom, and Seoul, South Korea that contain office and research space. In addition, we own a building in Washington, District of Columbia, USA, that houses administrative office space.

We believe that the facilities described above are suitable and adequate for our present purposes and our needs in the near future.

## Item 3. 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 extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC seeks 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 seeks 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 have been 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 are not being asserted against those 337-TA-868 Respondents in this investigation. On February 21, 2013, each 337-TA-868 Respondent filed their respective responses to the complaint.

On February 6, 2013, the Administrative Law Judge ("ALJ") overseeing the proceeding issued an order setting a target date of June 4, 2014 for the Commission's final determination in the investigation, with the ALJ's Initial Determination on alleged violation due on February 4, 2014. On September 26, 2013, the ALJ issued an order modifying the procedural schedule and extending the target date for completion of the investigation. The ALJ set new dates for the evidentiary hearing of February 10 to February 21, 2014, moved the due date for the ALJ's Final Initial Determination ("ID") to April 25, 2014 and extended the target date for the Commission's completion of the



investigation to August 25, 2014. On October 18, 2013, the ALJ issued an order, in light of the 16-day federal government shutdown, modifying the date for the ALJ's Final ID and extending the target date for completion of the investigation. The date for the ALJ's Final ID and the target date for the

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Commission's final determination were set for May 12, 2014 and September 10, 2014, respectively. The trial dates were unchanged, and the trial commenced on February 10, 2014 and ended on February 20, 2014. On April 18, 2014, the ALJ issued an initial determination extending the target date for completion of the investigation by approximately one month to October 14, 2014, thereby moving the due date for the ALJ's final initial determination to June 13, 2014. On May 16, 2014, the Commission determined not to review the ALJ's initial determination extending the target date. On February 21, 2013, Samsung moved for partial termination of the investigation as to six of the seven patents asserted against Samsung, alleging that Samsung was authorized to import the specific 3G or 4G devices that InterDigital relied on to form the basis of its complaint. InterDigital opposed this motion on March 4, 2013. On May 10, 2013, the ALJ denied Samsung's motion for partial termination.

On February 22, 2013, Huawei and ZTE moved to stay the investigation pending their respective requests to the United States District Court for the District of Delaware (described below) to set a fair, reasonable and non-discriminatory ("FRAND") royalty rate for a license that covers the asserted patents, or in the alternative, until a Final Determination issues in the 337-TA-800 investigation. Nokia joined this motion on February 28, 2013, and InterDigital opposed it on March 6, 2013. Also, on March 6, 2013, Samsung responded to Huawei's and ZTE's motion, noting that it does not join their motion, but does not oppose the requested stay. On March 12, 2013, the ALJ denied Huawei's and ZTE's motion to stay the investigation.

On March 13, 2013, InterDigital moved to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 (the "'244 patent") by all 337-TA-868 Respondents. On March 25, 2013, the 337-TA-868 Respondents opposed InterDigital's motion. On May 10, 2013, the ALJ denied InterDigital's motion to amend the complaint. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which was scheduled to be completed by December 19, 2013. InterDigital opposed that motion on July 29, 2013. On August 8, 2013, the ALJ denied the motion. On June 19, 2013, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of over 30 collective claims from five of the seven asserted patents. The ALJ granted the motion on June 24, 2013. On August 22, 2013, InterDigital also filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of eight collective claims from the other two asserted patents. The ALJ granted the motion on August 26, 2013.

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 6, 2013, Samsung moved for partial summary determination that certain of the asserted claims of U.S. Patent Nos. 7,190,966 ("the '966 patent"), 7,286,847 ("the '847 patent"), and 7,706,830 ("the '830 patent") are invalid for lack of sufficient written description. ZTE and Huawei joined Samsung's motion on December 12, 2013. InterDigital opposed Samsung's motion on December 18, 2013. On January 30, 2014, the ALJ denied the motion.

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 No. 8,009,636 (the "'636 patent"), and the '830, '966, and '847 patents. 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 December 12, 2013, Respondents moved for summary determination that InterDigital has failed to satisfy the technical prong of the domestic industry requirement with respect to U.S. Patent No. 7,941,151 ("the '151 patent"). InterDigital opposed the motion on January 2, 2014. On January 30, 2014, the ALJ denied the motion.

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On December 12, 2013, InterDigital moved for summary determination that Respondents infringe limitations of the asserted claims of the '966 and '847 patents. Respondents opposed the motion on January 2, 2014. InterDigital moved for leave to file a reply on January 16, 2014, and Respondents opposed InterDigital's motion for leave on January 23, 2014. On January 30, 2014, the ALJ denied the motion.

On December 12, 2013, InterDigital moved for summary determination that the '151 patent is not unenforceable for inequitable conduct. Respondents opposed InterDigital's motion on January 2, 2014. InterDigital moved for leave to file a reply on January 13, 2014, and Respondents opposed InterDigital's motion for leave on January 16, 2014. On February 4, 2014, the ALJ denied the motion.

On December 12, 2013, Samsung moved to terminate the investigation 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 6, 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 appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 6, 2014, the Commission's Office of Unfair Import Investigations responded in support of the underlying legal analysis but stated that it would not support the motion in the form of a motion to terminate. Samsung withdrew the motion to terminate and, on January 9, 2014, Samsung moved for partial summary determination of no violation of Section 337 as to 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 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 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 the same day, InterDigital and Huawei also moved to stay the procedural schedule with respect to the Huawei Respondents pending the parties' motion to terminate. 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 the '151 patent asserted against ZTE, Samsung and Nokia. On March 7, 2014, InterDigital and Respondents filed opening post-hearing briefs. On March 21, 2014, InterDigital and Respondents filed reply post-hearing briefs.

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,

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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 has appealed that claim construction from the 337-TA-800 investigation to the Federal Circuit. InterDigital believes it has a strong appeal based on a favorable prior ruling from the Federal Circuit related to this claim term on both the '966 and '847 patents, a favorable decision from the U.S. District Court for the District of Delaware involving this claim term in these same patents, and the Commission’s own decision in connection with the remand proceeding in the 337-TA-613 investigation, discussed below, dealing with these patents.

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.

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 July 8, 2014, oppositions to the petitions were filed.

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 June 23, 2014, Nokia Corp. and MMO petitioned the Commission for review of the initial determination to the extent it added MMO to the investigation but did not substitute MMO for Nokia Corp., which InterDigital opposed on June 30, 2014. On July 14, 2014, the Commission determined not to review this initial determination.

On August 8, 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.

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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 November 5, 2014, MMO and Nokia filed a motion for leave to intervene in the appeal. On November 6, 2014, ZTE also filed a motion for leave to intervene. The Federal Circuit granted both of these motions on November 7, 2014.

On December 29, 2014, InterDigital and the USITC filed a joint unopposed motion to stay the appeal pending the Federal Circuit's final disposition in the appeal of the 337-TA- 800 investigation (described below). InterDigital also notified the court that it would not pursue its appeal of the Commission's determination as it relates to the '151 patent. The appeal is thus directed only to the '966 and '847 patents. The court granted the motion to stay on January 9, 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 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 11, 2013, Huawei and ZTE filed motions to expedite discovery and trial on their FRAND-related counterclaims. Huawei sought a schedule for discovery and trial on its FRAND-related counterclaims that would afford Huawei the opportunity to accept a FRAND license rate at the earliest opportunity, and in any case before December 28, 2013. ZTE sought a trial on its FRAND-related counterclaims no later than November 2013. On March 14, 2013, those motions were denied.

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

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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.

In June 2013, the Delaware District Court set separate schedules for InterDigital's cases against Nokia, Huawei and ZTE, on the one hand, and Samsung, on the other. On June 10, 2013, the court set a schedule in InterDigital's case against Samsung that includes a trial beginning on June 15, 2015. On June 26, 2013, the court set a common pretrial schedule in InterDigital's cases against Nokia, Huawei, and ZTE, along with separate trials beginning on the following days: September 8, 2014 for Nokia, October 6, 2014 for Huawei, and October 20, 2014 for ZTE.

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 granted 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 January 5, 2015, the Delaware District Court entered a scheduling order that contained a schedule related to damages and FRAND-related issues. Accordingly, trials related to damages and FRAND-related issues are tentatively scheduled for March 21, 2016 with ZTE and April 11, 2016 with MMO.

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 are 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 is 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 is 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 and in appeals of those investigations before the Federal Circuit), 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's claim constructions, which are not final and may be altered prior to the trials against ZTE and Nokia, may be considered and given weight by the USITC and its ALJs, as well as other courts, at their discretion. 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

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[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 September 2, 2014, Nokia and MMO moved the court for further construction of the term “logical connection” in the ’244 patent. InterDigital opposed that request. On September 22, 2014, the court denied the request of Nokia and MMO, declining to construe the term further.

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 June 3, 2014, InterDigital and Samsung jointly moved to stay the case against Samsung until August 18, 2014, to allow the parties time to fulfill certain contractual obligations under their settlement agreement before they jointly stipulate to dismissal with prejudice of the action. On June 9, 2014, the court granted the parties’ joint motion. On August 5, 2014, the parties 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 August 29, 2014, a final pre-trial conference was held for the Nokia and MMO trial. On that same day the Delaware District Court continued the trial as to Nokia and MMO to a date to be determined. On September 4, 2014, the defendants requested that the court permit the Nokia and MMO trial to proceed in place of the ZTE trial, scheduled to commence on October 20, 2014. InterDigital opposed that request. On September 16, 2014, the court denied defendants’ request. On September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO 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 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 tentatively scheduled for March 21, 2016 with ZTE and April 11, 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'

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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 will 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 trial involving Nokia, MMO and InterDigital on the issue of inequitable conduct on May 6, 2015.

**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. This arbitration is expected to be completed in 2015.

**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. 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

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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 may convene a further hearing before deciding whether to grant a 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, 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.
- 3.



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. If the Chinese Manufacturer accepts InterDigital's binding arbitration

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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 extends to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital's complaint with the USITC seeks 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 seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. 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 6, 2012, the ALJ granted the parties' motion to extend the target date for completion of the investigation from February 28, 2013 to June 28, 2013. On March 23, 2012, the ALJ issued a new procedural schedule for the investigation, setting a trial date of October 22, 2012 to November 2, 2012.

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 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).

On March 21, 2012, InterDigital filed an unopposed motion requesting that the Commission add newly formed entity Huawei Device USA, Inc. as a 337-TA-800 Respondent. On April 11, 2012, the ALJ granted this motion and, on May 1, 2012, the Commission determined not to review the ALJ's determination, thus adding Huawei Device USA, Inc. as a 337-TA-800 Respondent.

On July 20, 2012, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital voluntarily moved to withdraw certain claims from the investigation, including all of the asserted claims from U.S. Patent No. 7,349,540 (the "540 patent"). By doing so, InterDigital expressly reserved all arguments regarding the infringement, validity

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and enforceability of those claims. On July 24, 2012, the ALJ granted the motion. On August 8, 2012, the Commission determined not to review the ALJ's Initial Determination granting the motion to terminate the investigation as to the asserted claims of the '540 patent.

On August 23, 2012, the parties jointly moved to extend the target date in view of certain outstanding discovery to be provided by the 337-TA-800 Respondents and third parties. On September 10, 2012, the ALJ granted the motion and issued an Initial Determination setting the evidentiary hearing for February 12, 2013 to February 22, 2013. The ALJ also set June 28, 2013 as the deadline for his Initial Determination as to violation and October 28, 2013 as the target date for the Commission's Final Determination in the investigation. On October 1, 2012, the Commission determined not to review the Initial Determination setting those deadlines, thereby adopting them.

On January 2, 2013, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital voluntarily moved to withdraw certain additional patent claims from the investigation. By doing so, InterDigital expressly reserved all arguments regarding the infringement, validity and enforceability of those claims. On January 3, 2013, the ALJ granted the motion. On January 23, 2013, the Commission determined not to review the ALJ's Initial Determination granting the motion to terminate the investigation as to those withdrawn patent claims. InterDigital continues to assert seven U.S. patents in this investigation.

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 parties submitted initial post-hearing briefs on March 8, 2013 and reply post-hearing briefs on March 22, 2013. 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. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that the '830, '636, '406 and '332 patents were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 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." Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the Commission to issue its Final Determination, in view of the federal government shutdown, from November 13, 2013 to December 19, 2013.

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 January 17, 2014, the Nokia and ZTE Respondents moved for leave to intervene in the appeal. On January 30, 2014, the court granted these motions. On July 2, 2014, Nokia Corporation, Nokia Inc., and MMO filed an unopposed motion to substitute MMO for Nokia Corporation as intervenor. The court granted this motion on July 11, 2014.

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On April 7, 2014, InterDigital filed its opening appellate brief. The USITC and intervenors Nokia and ZTE filed responsive briefs on July 1, 2014. InterDigital filed its reply brief on August 8, 2014. Oral argument occurred on November 7, 2014. 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.

### 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

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 December 31, 2014), 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. The Shenzhen Court has not yet set trial dates for the anti-monopoly law or FRAND cases. InterDigital filed a petition for retrial with the Supreme People's Court regarding its jurisdictional challenges to both cases on February 10, 2015.

### LG Arbitration and Related Delaware Chancery Court Proceeding

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

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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 final evidentiary hearing is scheduled to take place July 20-23, 2015.

Also on June 9, 2014, LG filed an action in the Court of Chancery of the State of Delaware seeking a declaration that InterDigital breached a non-disclosure agreement between the parties by submitting certain evidence regarding the parties’ licensing communications to the arbitration tribunal; LG also seeks related injunctive relief. On June 23, 2014, InterDigital filed a motion to dismiss LG’s complaint. The court held a hearing on InterDigital’s motion on July 16, 2014, and on August 20, 2014 the court dismissed the action without prejudice. On August 28, 2014, LG filed a notice of appeal to the Delaware Supreme Court. On October 13, 2014, LG filed its opening appeal brief, on November 12, 2014, InterDigital filed its answering brief and on December 1, 2014, LG filed its reply brief. The Delaware Supreme Court will hear oral argument on LG’s appeal on March 11, 2015.

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

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 seeks 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 seeks 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.

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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 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

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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.

The Commission's action is important for several reasons. Foremost, it confirms the validity of the asserted claims of the '966 and '847 patents in light of the evidence and arguments presented by Nokia in the 337-TA-613 investigation. Additionally, the Commission's determination that 3GPP WCDMA PRACH preambles satisfy the "code"/"signal" limitation of the asserted claims of the '966 and '847 patents, and that the transmission of the PRACH preambles meet the claim limitation "increased power level" in the asserted claims of the '966 and '847 patents, both based on the Federal Circuit's revised claim constructions, demonstrates the scope and vitality of the '966 and '847 patents, particularly as these patents apply to 3G WCDMA capable devices.

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 termination of the investigation as to Nokia Corp. On June 26, 2014, Nokia Corp. and MMO petitioned the Commission for review of the initial determination to the extent it added MMO to the investigation but did not substitute MMO for Nokia Corp., which InterDigital opposed on July 3, 2014. The Commission determined not to review the initial determination on July 18, 2014.

On October 6, 2014, respondents filed a motion for summary determination that the accused products do not infringe the claims of the '966 and '847 patents, and for termination of the investigation. InterDigital opposed respondents' motion on October 16, 2014, and on November 20, 2014, the ALJ denied respondents' motion.

On November 17, 2014, InterDigital filed a motion for summary determination that the accused products meet certain claim elements of the '966 and '847 patents. On December 1, 2014, respondents filed an opposition to this motion, and on December 22, 2014, the ALJ denied InterDigital's motion.

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 January 22, 2015, respondents filed a petition for review of the ALJ's order. InterDigital opposed the petition for review on January 29, 2015. The Commission has not yet ruled on respondents' petition.

The evidentiary hearing in the remand proceeding was held January 26 - 28, 2015. Pursuant to the procedural schedule in issue, the ALJ's initial determination is due no later than April 27, 2015, and the Commission must determine whether to review the ALJ's initial determination no later than June 26, 2015. If the Commission determines to review the initial determination, its final determination will be due no later than August 28, 2015.

**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

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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).

### Arbitration with Arima Communications Corporation

On May 13, 2014, a panel convened by the American Arbitration Association's International Centre for Dispute Resolution issued a partial final award in a dispute between InterDigital and Arima Communications Corporation ("Arima"), headquartered in Taiwan, regarding the obligations of the parties relating to Arima's patent license agreement with the company. The arbitration panel awarded InterDigital unpaid patent license fees of approximately \$14.5 million plus interest and related fees and costs (including reasonable attorneys' fees) in an amount to be determined. After InterDigital submitted an application for fees and costs, on July 1, 2014, the panel issued a final award, which was subsequently modified on July 14, 2014, resulting in an award of approximately \$23.6 million. On July 2, 2014, InterDigital commenced an action in the Delaware District Court to confirm the arbitration award, and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately \$23.6 million (which will continue to accrue interest until payment by Arima). On August 21, 2014, Arima filed a cross-petition to vacate, or in the alternative to modify, the arbitration award. The parties have fully briefed their respective petitions, and on December 11, 2014, the parties submitted a joint status report to the court. The parties are awaiting a decision from the court.

On September 10, 2014, InterDigital filed a petition for recognition of its arbitration award against Arima in the Shilin District Court in Taiwan. Arima filed an opposition to that petition for recognition on January 14, 2015, including a motion to stay the enforcement proceeding, and InterDigital filed its brief in opposition to the motion to stay the proceeding on February 2, 2015. The petition is under consideration by the Taiwan court.

### Investigation by Taiwan Fair Trade Commission

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.

### Arima Taiwan Proceedings

On December 18, 2014, InterDigital was served with a complaint filed by Arima in Taiwan's Intellectual Property Court on July 25, 2014. The complaint names as defendants InterDigital's wholly owned subsidiaries InterDigital Technology

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Corporation and IPR Licensing, Inc. The complaint alleges that InterDigital abused its dominant position by forcing Arima to sign its patent license agreement with InterDigital in 2005, setting an unreasonably high and discriminatory royalty rate, and including other abusive and discriminatory provisions in the license agreement, in violation of the Fair Trade Act of Taiwan. The complaint seeks damages in the amount of NTD 100,000,000 (approximately \$3.2 million based on the exchange rate as of December 31, 2014), and that this amount be trebled as an intentional violation. On December 18, 2014, InterDigital was also served with a motion filed by Arima on July 25, 2014 to enjoin its wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. from enforcing the terms of their patent license agreement with Arima. On December 23, 2014, there was an initial hearing on these matters. InterDigital filed jurisdictional objections and an opposition to the injunction motion on January 23, 2015. On February 3, 2015, the Intellectual Property Court held a hearing on the jurisdictional issues and the injunction motion, during which Arima submitted a supplemental brief on jurisdiction. The court set of deadline of March 3, 2015 for Arima to submit its next brief, and March 19, 2015 for InterDigital to submit its response to Arima's brief. Another hearing on those issues has been set for March 24, 2015.

Arima China Proceeding

On September 22, 2014, InterDigital was served with a complaint filed by Arima and Arima Communications (Jiangsu) Co., Ltd. in the Jiangsu High People's Court in China on July 9, 2014. The complaint names as defendants InterDigital, Inc., InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. The complaint alleges that InterDigital has abused its dominant market position and violated China's anti-monopoly laws by licensing its patents at excessively high prices, engaging in discriminatory treatment, and imposing unreasonable trading conditions. Arima seeks relief in the amount of 120.0 million RMB (approximately \$19.5 million based on the exchange rate as of December 31, 2014), and an order requiring InterDigital to license all of its patents to Arima on a fair, reasonable and non-discriminatory basis. On October 22, 2014, InterDigital filed a petition challenging the jurisdiction of the Jiangsu High People's Court to hear the action. On December 11, 2014, Arima served an opposition to this jurisdictional challenge, and on January 9, 2015, InterDigital filed its reply to Arima's opposition. On January 16, 2015, the court held a hearing on the jurisdictional petition. On February 2, 2015, InterDigital filed a post-hearing statement on the jurisdictional challenge, along with a rebuttal opinion regarding Arima's evidence related to the jurisdictional challenge. The court's decision on the jurisdictional issue is pending.

Pegatron Civil Suit

We recently learned that on or about February 3, 2015, Pegatron Corporation, 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. We have not yet been served with or otherwise received a copy of the complaint.

Other

We are party to certain other disputes and legal actions in the ordinary course of business. We do not 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.

**Item 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II**

**Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES.**

Market Information

The NASDAQ Stock Market ("NASDAQ") is the principal market for our common stock, which is traded under the symbol "IDCC." The following table sets forth the high and low sales prices of our common stock for each quarterly period in 2014 and 2013, as reported by NASDAQ.





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2014	High	Low
First quarter	\$33.60	\$26.25
Second quarter	49.10	31.45
Third quarter	48.93	39.40
Fourth quarter	54.90	38.64
2013	High	Low
First quarter	\$48.68	\$41.67
Second quarter	48.60	38.60
Third quarter	41.24	35.02
Fourth quarter	39.87	28.53

## Holders

As of February 17, 2015, there were 692 holders of record of our common stock.

## Dividends

Cash dividends on outstanding common stock declared in 2014 and 2013 were as follows (in thousands, except per share data):

	Per Share	Total	Cumulative by Fiscal Year
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	
2013			
First quarter	\$0.10	\$4,115	\$4,115
Second quarter	0.10	4,118	8,233
Third quarter	0.10	4,119	12,352
Fourth quarter	0.10	4,031	16,383
	\$0.40	\$16,383	

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.

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## Performance Graph

The following graph compares five-year cumulative total returns of the company, the NASDAQ Composite Index and the NASDAQ Telecommunications Stock Index. The graph assumes \$100 was invested in the common stock of InterDigital and each index as of December 31, 2009 and that all dividends were re-invested. Such returns are based on historical results and are not intended to suggest future performance.

## COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

among InterDigital, Inc., the NASDAQ Composite Index and the NASDAQ Telecommunications Index

	12/09	12/10	12/11	12/12	12/13	12/14
InterDigital, Inc.	100.00	156.78	165.84	163.70	118.38	215.71
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
NASDAQ Telecommunications	100.00	107.95	96.16	100.40	139.11	148.69

The above performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference into any filing of InterDigital under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

## Issuer Purchases of Equity Securities

## Repurchase of Common Stock

The following table provides information regarding company purchases of its common stock during fourth quarter 2014.

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Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchases 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)
October 1, 2014 - October 31, 2014	1,415,000	\$41.20	1,415,000	\$154,432,447
November 1, 2014 - November 30, 2014	138,600	\$49.21	138,600	\$147,639,950
December 1, 2014 - December 31, 2014	5,300	\$49.95	5,300	\$147,375,338
Total	1,558,900	\$44.96	1,558,900	\$147,375,338

(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 \$300.0 million share repurchase program (the "2014 Repurchase Program"), which was authorized by the company's Board of Directors on June 11, 2014 and announced on June 12, 2014. 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 January 1, 2015 through February 18, 2015, we repurchased less than 0.1 million shares at a cost of \$2.2 million under the 2014 Repurchase Program.

#### Item 6. SELECTED FINANCIAL DATA.

The following data should be read in conjunction with the Consolidated Financial Statements, related Notes and other financial information contained in this Form 10-K.

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	2014	2013	2012	2011	2010
	(in thousands except per share data)				
Consolidated statements of operations data:					
Revenues (a)	\$415,821	\$325,361	\$663,063	\$301,742	\$394,545
Income from operations (b)	\$168,960	\$84,756	\$419,030	\$134,757	\$235,873
Income tax provision (c)	\$(52,108)	\$(25,836)	\$(136,830)	\$(35,140)	\$(84,831)
Net income applicable to Interdigital, Inc. common shareholders	\$104,342	\$38,165	\$271,804	\$89,468	\$153,616
Net income per common share — basic	\$2.65	\$0.93	\$6.31	\$1.97	\$3.48
Net income per common share — diluted	\$2.62	\$0.92	\$6.26	\$1.94	\$3.43
Weighted average number of common shares outstanding — basic	39,420	41,115	43,070	45,411	44,084
Weighted average number of common shares outstanding — diluted	39,879	41,424	43,396	46,014	44,824
Cash dividends declared per common share (d)	\$0.70	\$0.40	\$1.90	\$0.40	\$0.10
Consolidated balance sheets data:					
Cash and cash equivalents	\$428,567	\$497,714	\$349,843	\$342,211	\$215,451
Short-term investments	275,361	200,737	227,436	335,783	326,218
Working capital	638,010	731,076	641,434	595,734	440,996
Total assets	1,194,591	1,113,183	1,056,609	996,968	874,643
Total debt	217,835	208,813	200,391	192,709	468
Total InterDigital, Inc. shareholders' equity	468,328	528,650	518,705	471,682	353,116
Noncontrolling interest	7,349	5,170	—	—	—
Total shareholders' equity	\$475,677	\$533,820	\$518,705	\$471,682	\$353,116

In 2014, our revenues included \$125.0 million in past sales primarily related to newly signed license agreements. In (a)2013, our revenues included \$127.0 million of past sales primarily related to arbitration awards. In 2012, our revenues included \$384.0 million associated with patent sales.

(b) Our income from operations included charges of \$1.5 million and \$12.5 million in 2013 and 2012, respectively, associated with actions to reposition the company's operations.

In 2014, our income tax provision included the impact of a \$4.2 million net tax benefit, primarily attributable to available U.S. federal research and development tax credits, which was partially offset by an audit settlement. In 2012, our income tax provision included a tax benefit of \$6.7 million related to the release of valuation allowances (c)on deferred tax assets, which we now expect to utilize. In 2011, our income tax provision included benefits of \$6.8 million related to the favorable resolution of tax contingencies and \$1.5 million associated with after-tax interest income on tax refunds. See Note 11 to the Consolidated Financial Statements for further discussion on these foreign tax credits.

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. On December 5, 2012, we announced that our Board of Directors had declared a (d) special cash dividend of \$1.50 per share on InterDigital common stock. The special cash dividend was payable on December 28, 2012 to stockholders of record as of the close of business on December 17, 2012.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The following discussion should be read in conjunction with the Selected Financial Data, the Consolidated Financial Statements and the Notes thereto contained in this Form 10-K.

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Throughout the following discussion and elsewhere in this Form 10-K, we refer to “recurring revenues” and “past sales.” Recurring revenues are comprised of “current patent royalties” and “current technology solutions revenue.” Past sales are comprised of “past patent royalties” and “past technology solutions revenue.”

### Business

InterDigital, Inc. ("InterDigital") designs and develops advanced technologies that enable and enhance wireless communications and capabilities. Since our founding in 1972, our engineers have designed and developed a wide range of innovations that are used in digital cellular and wireless products and networks, including 2G, 3G, 4G and IEEE 802-related products and networks. We are a leading contributor of intellectual property to the wireless communications industry.

Given our long history and focus on advanced research and development, InterDigital has one of the most significant patent portfolios in the wireless industry. As of December 31, 2014, InterDigital's wholly owned subsidiaries held a portfolio of approximately 20,500 patents and patent applications related to a range of technologies including the fundamental technologies that enable wireless communications. In that portfolio are a number of patents and patent applications that we believe are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards. That portfolio has largely been built through internal development, supplemented by joint development projects with other companies as well as select patent acquisitions. Products incorporating our patented inventions include: mobile devices, such as cellular phones, tablets, notebook computers and wireless personal digital assistants; wireless infrastructure equipment, such as base stations; and components, dongles and modules for wireless devices.

InterDigital derives revenues primarily from patent licensing and sales, technology solutions licensing and sales and engineering services. In 2014, 2013, and 2012, our total revenues were \$415.8 million, \$325.4 million and \$663.1 million, respectively. Our revenues in 2012 included \$384.0 million related to the sale of less than ten percent of our patent portfolio. Our recurring revenues in 2014, 2013, and 2012 were \$288.8 million, \$198.3 million and \$252.8 million, respectively.

In 2014, the amortization of fixed-fee royalty payments accounted for approximately 42% of our recurring revenues. These fixed-fee revenues are not affected by the related licensees' success in the market or the general economic climate. The majority of the remaining portion of our recurring revenue is variable in nature due to the per-unit structure of the related license agreements. Approximately 70% of this per-unit, variable portion for 2014 related to sales by our collection of Taiwanese licensees, the majority of which revenue was derived from the sale of Apple products.

### New Agreements

During second quarter 2014, we entered into a patent license agreement with Samsung. The multi-year agreement resolved all pending litigation between the companies and set forth terms covering Samsung's sales of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013. For the period through the earlier of any exercise or expiration of Samsung's termination right, we expect to recognize revenue associated with this agreement on a straight-line basis. The amount of revenue we will recognize after 2017 will depend on, among other things, whether or not Samsung elects to terminate certain rights and obligations under the license and amounts payable in 2017 and thereafter. During 2014, we recognized \$138.0 million of revenue, including \$86.2 million of past patent royalties and \$51.8 million in recurring fixed-fee royalties associated with this agreement. Consistent with our accounting policies, we have not recorded in accounts receivable any amounts due more than twelve months from the balance sheet date.

Additionally, during second quarter 2014, we entered into patent license agreements with two additional licensees. Both of these agreements cover infrastructure equipment and one of the agreements also covers terminal units. We recognized past sales from each agreement in second quarter 2014 and are recognizing future revenue from these agreements on a straight-line basis over their respective expected terms, beginning with second quarter 2014. A portion of the consideration received under these agreements was in the form of patents. In 2014, these two agreements contributed \$48.1 million of revenue, including \$16.0 million of recurring revenue and \$32.1 million of past patent royalties.

Huawei Settlement Agreement

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing dispute. The agreement is based on an expedited process leading to a license on terms set by the arbitration panel, with the arbitration process expected to be completed in 2015.

Arbitration with Arima Communications Corporation

On July 1, 2014, a panel convened by the American Arbitration Association's International Centre for Dispute Resolution issued a final award in a dispute between InterDigital and Arima Communications Corporation ("Arima"),



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headquartered in Taiwan, regarding the obligations of the parties relating to Arima's patent license agreement with the Company. This award was subsequently modified on July 14, 2014, resulting in an award to InterDigital of approximately \$23.6 million (which included \$14.5 million of unpaid patent license fees plus interest and related fees and costs). On July 2, 2014, we commenced an action in the Delaware District Court to confirm the arbitration award, and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately \$23.6 million (which will continue to accrue interest until payment by Arima). On August 21, 2014, Arima filed a cross-petition to vacate, or in the alternative to modify, the arbitration award. The parties have fully briefed their respective petitions and are awaiting a decision from the Delaware District Court. On September 10, 2014, InterDigital filed a petition for recognition of its arbitration award against Arima in the Shilin District Court in Taiwan. Arima filed an opposition to that petition for recognition on January 14, 2015. The petition is under consideration by the Taiwan court. We will recognize any related revenue in the period in which collectability is reasonably assured.

### Expiration and Termination of Patent License Agreements

Our patent license agreement with Apple, which covered certain Apple iPhones (but did not cover Apple iPads or any Apple products designed to operate on CDMA2000 or LTE networks), expired at the end of June 2014. Because this was a fixed-fee agreement, we recognized the revenue associated with this agreement on a straight-line basis over the life of the agreement. Upon expiration of the agreement, Apple has become unlicensed as to all products that were covered under the agreement and therefore all Apple sales are unlicensed, except to the extent certain products are licensed under the terms of our license agreements with certain Apple suppliers.

In addition, on October 31, 2014, we received notice of the termination of the patent license agreement from the court receiver for one of our fixed-fee licensees. As of November 1, 2014, all sales of products that were covered by such license are unlicensed. As of June 30, 2014, we had determined that the patent license agreement with such licensee no longer met all of the revenue recognition criteria and, as a result, we reduced both accounts receivable and deferred revenue by \$15.0 million. This amount represented the amount due to us over the next twelve months from such licensee.

Together, the two agreements mentioned above contributed approximately \$11.0 million to our patent licensing royalties during 2014.

Our patent license agreement with Sony expires at the end of November 2015. This is a fixed-fee agreement and, as a result, we continue to recognize revenue associated with this agreement on a straight-line basis over the life of the agreement. Upon expiration of this agreement, Sony will become unlicensed as to all products covered under the agreement. Including Sony, five patent license agreements, or portions of such agreements, are scheduled to expire during 2015, and, accordingly, we may not recognize revenue from each such license in every period in 2015. Collectively, these agreements contributed approximately \$46.3 million of revenue to our patent licensing royalties in 2014.

### Revenue

Recurring revenue in 2014 of \$288.8 million increased 46% from the prior year. This \$90.5 million year-over-year increase in recurring revenue was primarily driven by an increase in fixed-fee revenues attributable to new patent license agreements signed during 2014, as discussed above, as well as increased per-unit royalties that are primarily attributable to Pegatron.

Additionally, during 2014, we recognized \$125.0 million of past sales revenue, primarily attributable to the new agreements discussed above, as compared to \$127.0 million recognized in 2013. The 2013 past sales amount was primarily attributable to revenue recognized as a result of arbitration awards.

Refer to "Results of Operations -- 2014 Compared with 2013" for further discussion of our 2014 revenue.

### USITC Proceedings

Nokia and ZTE 2013 USITC Proceeding (337-TA-868) and 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 a complaint with the USITC against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America (collectively, "Samsung"), LLC, Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co.,

Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Samsung, Nokia and Huawei 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

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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 certain of InterDigital's U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC seeks 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 seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. On January 16, 2014, the Administrative Law Judge ("ALJ") overseeing the proceeding granted a joint motion by InterDigital and Huawei to terminate the investigation as to Huawei, and on February 12, 2014, the USITC determined not to review the initial determination terminating the investigation as to Huawei. Certain of the asserted patents have been asserted against Nokia and ZTE in earlier pending USITC proceedings (including the Nokia and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. 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 June 13, 2014, the ALJ issued an Initial Determination ("ID") in the in the 337-TA-868 investigation. On August 8, 2014, the Commission determined to review in part the ID and terminated the investigation with a finding of no violation. 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 December 29, 2014, InterDigital and the USITC filed a joint unopposed motion to stay the appeal pending the Federal Circuit's final disposition in the appeal of the 337-TA- 800 investigation (described below). The court granted the motion to stay on January 9, 2015.

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 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 March 13, 2013, InterDigital filed an amended complaint against Nokia and Samsung, respectively, in Delaware District Court to assert allegations of infringement of the recently issued '244 patent. 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 December 30, 2013, the Delaware District Court granted the stipulation of dismissal filed by InterDigital and Huawei, terminating the Huawei district court action. 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 September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO 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 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 court has 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. Trials related to damages and FRAND-related issues are tentatively scheduled for March 2016 with ZTE and April 2016 with MMO.

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

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 certain of InterDigital's U.S. patents. The action also extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC seeks 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 seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States.

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The ALJ's Initial Determination issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Petitions for review of the Initial Determination ("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. 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. In December 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. In January 2014, the court granted motions filed by the Nokia and ZTE Respondents for leave to intervene in the appeal. Oral argument in the appeal occurred in November 2014. 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.

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

On August 1, 2012, the Federal Circuit issued its decision in InterDigital's appeal of the USITC's Final Determination in this 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. On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. The evidentiary hearing in the remand proceeding was held January 26 - 28, 2015. The ALJ has set August 28, 2015 as the target date for completion of the investigation.

Please see Part I, Item 3, of this Form 10-K for a fuller discussion of our USITC proceedings.

#### Cash and Short-Term Investments

At December 31, 2014, we had \$703.9 million of cash and short-term investments and up to an additional \$527.7 million of payments due under signed agreements, including \$51.7 million recorded in accounts receivable that is due within twelve months of the balance sheet date. A substantial portion of our cash and short-term investments relates to fixed and prepaid royalty payments we have received that relate to future sales of our licensees' products. As a result, our cash receipts from existing licenses subject to fixed and prepaid royalties will be lower than if the royalty payments were structured to coincide with the underlying sales. During 2014, we recorded \$560.6 million of cash receipts related to patent licensing, technology solutions agreements and patent sales as follows (in thousands):

	Cash In
Fixed royalty payments	\$285,041
Past fixed royalty payments	103,959
Current royalties	151,706
Technology solutions	11,649
Past per-unit patent royalties	3,726
Prepaid royalties	2,500
Patent sales	1,999
	\$560,580

The \$287.5 million of fixed-fee and prepaid royalty cash receipts, together with a \$48.7 million accrual of accounts receivable related to scheduled payments, more than offset the \$163.1 million in deferred revenue recognized, resulting in a net \$114.0 million increase in deferred revenue to \$418.0 million at December 31, 2014. Approximately \$223.7 million of our \$418.0 million deferred revenue balance relates to fixed royalty payments that are scheduled to amortize as follows (in thousands):

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2015	\$124,695
2016	80,635
2017	15,823
2018	858
2019	858
Thereafter	857
	\$223,726

The remaining \$194.3 million of deferred revenue primarily relates to prepaid royalties that will be recorded as revenue as our licensees report their sales of covered products.

**Repurchase of Common Stock**

In March 2009, our Board of Directors authorized a \$100.0 million share repurchase program (the “2009 Repurchase Program”). We repurchased shares under the 2009 Repurchase Program through pre-arranged trading plans and completed the program in second quarter 2012. In May 2012, our Board of Directors authorized a share repurchase program, which was then expanded in June 2012 to increase the amount of the program from \$100 million to \$200 million (the “2012 Repurchase Program”). Of the \$200 million authorized under the 2012 Repurchase Program, \$106.8 million was utilized prior to the termination of the program in June 2014. In June 2014, our Board of Directors authorized a new \$300 million share repurchase program (the “2014 Repurchase Program”). We 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 2009 Repurchase Program, the 2012 Repurchase Program and the 2014 Repurchase Program, in thousands.

	2009 Repurchase Program		2012 Repurchase Program		2014 Repurchase Program		Total All Programs	
	# of Shares	Value	# of Shares	Value	# of Shares	Value	# of Shares	Value
2014	—	\$—	—	\$—	3,554	\$152,625	3,554	\$152,625
2013	—	—	917	29,135	—	—	917	29,135
2012	2,286	75,000	2,552	77,694	—	—	4,838	152,694
Prior to 2012	1,012	25,000	—	—	—	—	1,012	25,000
Total	3,298	\$100,000	3,469	\$106,829	3,554	\$152,625	10,321	\$359,454

In addition, from January 1, 2015 through February 18, 2015, we repurchased less than 0.1 million shares at a cost of \$2.2 million under the 2014 Repurchase Program.

**Intellectual Property Rights Enforcement**

If we believe any party is required to license our patents in order to manufacture and sell certain products and such party refuses to do so, we may institute legal action against them. This legal action typically takes the form of a patent infringement lawsuit or an administrative proceeding such as a Section 337 proceeding before the USITC. In addition, we and our licensees, in the normal course of business, might seek to resolve disagreements between the parties with respect to the rights and obligations of the parties under the applicable license agreement through arbitration or litigation.

In 2014, our intellectual property enforcement costs decreased to \$52.1 million from \$75.0 million and \$52.7 million in 2013 and 2012, respectively. This represented 39% of our 2014 total patent administration and licensing costs of \$133.8 million. Intellectual property enforcement costs will vary depending upon activity levels, and it is likely they will continue to be a significant expense for us in the future.

**Comparability of Financial Results**

When comparing 2014 financial results against other periods, the following items should be taken into consideration:

Our 2014 revenue includes:



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\$125.0 million of past sales primarily related to the new patent license agreements signed during the year; and  
\$2.0 million of patent sale revenue.

Our 2014 operating expenses include:

\$6.4 million of expenses to increase certain accrual rates under our incentive compensation plans;

a \$1.2 million adjustment related to payroll taxes and employment level tax credits, primarily due to an ongoing audit;  
and

\$0.7 million of non-cash cost of patents sold during the year.

Our 2014 other expense includes:

a charge of \$0.6 million related to an impairment of an investment.

Our 2014 income tax provision includes:

a \$5.8 million net tax benefit, primarily attributable to available U.S. federal research and development tax credits;  
and

a \$1.6 million, net of federal benefit, charge related to an audit settlement.

Critical Accounting Policies and Estimates

Our consolidated financial statements are based on the selection and application of accounting principles generally accepted in the United States of America ("GAAP"), which require us to make estimates and assumptions that affect the amounts reported in both our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from these estimates and any such differences may be material to the financial statements. Our significant accounting policies are described in Note 2 to our Consolidated Financial Statements and are included in Item 8 of Part II of this Form 10-K. We believe the accounting policies that are of particular importance to the portrayal of our financial condition and results and that may involve a higher degree of complexity and judgment in their application compared to others are those relating to revenue recognition, compensation and income taxes. If different assumptions were made or different conditions existed, our financial results could have been materially different.

Revenue Recognition

We derive the vast majority of our revenue from patent licensing. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Such agreements are often complex and include multiple elements. These agreements can include, without limitation, elements related to the settlement of past patent infringement liabilities, up-front and non-refundable license fees for the use of patents and/or know-how, patent and/or know-how licensing royalties on covered products sold by licensees, cross-licensing terms between us and other parties, the compensation structure and ownership of intellectual property rights associated with contractual technology development arrangements, advanced payments and fees for service arrangements and settlement of intellectual property enforcement. For agreements entered into or materially modified prior to 2011, due to the inherent difficulty in establishing reliable, verifiable, and objectively determinable evidence of the fair value of the separate elements of these agreements, the total revenue resulting from such agreements has often been recognized over the performance period. Beginning in January 2011, all new or materially modified agreements are being accounted for under the Financial Accounting Standards Board ("FASB") revenue recognition guidance, "Revenue Arrangements with Multiple Deliverables." This guidance requires consideration to be allocated to each element of an agreement that has stand alone value using the relative fair value method. In other circumstances, such as those agreements involving consideration for past and expected future patent royalty obligations, after consideration of the particular facts and circumstances, the appropriate recording of revenue between periods may require the use of judgment. In all cases, revenue is only recognized after all of the following criteria are met: (1) written agreements have been executed; (2) delivery of technology or intellectual property rights has occurred or services have been rendered; (3) fees are fixed or determinable; and (4) collectibility of fees is reasonably assured.

We establish a receivable for payments expected to be received within twelve months from the balance sheet date based on the terms in the license. Our reporting of such payments often results in an increase to both accounts receivable and deferred revenue. Deferred revenue associated with fixed-fee royalty payments is classified on the



balance sheet as short-term

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when it is scheduled to be amortized within twelve months from the balance sheet date. All other deferred revenue is classified as long-term, as amounts to be recognized over the next twelve months are not known.

### Patent License Agreements

Upon signing a patent license agreement, we provide the licensee permission to use our patented inventions in specific applications. We account for patent license agreements in accordance with the guidance for revenue arrangements with multiple deliverables. We have elected to utilize the leased-based model for revenue recognition, with revenue being recognized over the expected period of benefit to the licensee. Under our patent license agreements, we typically receive one or a combination of the following forms of payment as consideration for permitting our licensees to use our patented inventions in their applications and products:

**Consideration for Past Patent Royalties:** Consideration related to a licensee's product sales from prior periods may result from a negotiated agreement with a licensee that utilized our patented inventions prior to signing a patent license agreement with us or from the resolution of a disagreement or arbitration with a licensee over the specific terms of an existing license agreement. We may also receive consideration for past patent royalties in connection with the settlement of patent litigation where there was no prior patent license agreement. In each of these cases, we record the consideration as revenue when we have obtained a signed agreement, identified a fixed or determinable price and determined that collectibility is reasonably assured.

**Fixed-Fee Royalty Payments:** These are up-front, non-refundable royalty payments that fulfill the licensee's obligations to us under a patent license agreement for a specified time period or for the term of the agreement for specified products, under certain patents or patent claims, for sales in certain countries, or a combination thereof — in each case for a specified time period (including for the life of the patents licensed under the agreement). We recognize revenues related to Fixed-Fee Royalty Payments on a straight-line basis over the effective term of the license. We utilize the straight-line method because we cannot reliably predict in which periods, within the term of a license, the licensee will benefit from the use of our patented inventions.

**Prepayments:** These are up-front, non-refundable royalty payments towards a licensee's future obligations to us related to its expected sales of covered products in future periods. Our licensees' obligations to pay royalties typically extend beyond the exhaustion of their Prepayment balance. Once a licensee exhausts its Prepayment balance, we may provide them with the opportunity to make another Prepayment toward future sales or it will be required to make Current Royalty Payments.

**Current Royalty Payments:** These are royalty payments covering a licensee's obligations to us related to its sales of covered products in the current contractual reporting period.

Licensees that either owe us Current Royalty Payments or have Prepayment balances are obligated to provide us with quarterly or semi-annual royalty reports that summarize their sales of covered products and their related royalty obligations to us. We typically receive these royalty reports subsequent to the period in which our licensees' underlying sales occurred. As a result, it is impractical for us to recognize revenue in the period in which the underlying sales occur, and, in most cases, we recognize revenue in the period in which the royalty report is received and other revenue recognition criteria are met due to the fact that without royalty reports from our licensees, our visibility into our licensees' sales is very limited. When a licensee is required to gross-up their royalty payment to cover applicable foreign withholding tax requirements, the additional consideration is recorded as revenue.

The exhaustion of Prepayments and Current Royalty Payments are often calculated based on related per-unit sales of covered products. From time to time, licensees will not report revenues in the proper period, most often due to legal disputes. When this occurs, the timing and comparability of royalty revenue could be affected. In cases where we receive objective, verifiable evidence that a licensee has discontinued sales of products covered under a patent license agreement with us, we recognize any related deferred revenue balance in the period that we receive such evidence.

### Patent Sales

During 2012, we expanded our business strategy of monetizing our intellectual property to include the sale of select patent assets. As patent sales executed under this expanded strategy represent a component of our ongoing major or central operations and activities, we will record the related proceeds as revenue. We will recognize the revenue when there is persuasive evidence of a sales arrangement, fees are fixed or determinable, delivery has occurred and collectibility is reasonably assured. These requirements are generally fulfilled upon closing of the patent sale

transaction.

Technology Solutions and Engineering Services

Technology solutions revenue consists primarily of revenue from royalty payments. We recognize revenue from royalty payments using the same methods described above under our policy for recognizing revenue from patent license agreements. Technology solutions revenues also consist of revenues from software licenses and engineering services.

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Software license revenues are recognized in accordance with the original and revised guidance for software revenue recognition. When the arrangement with a customer includes significant production, modification, or customization of the software, we recognize the related revenue using the percentage-of-completion method in accordance with the accounting guidance for construction-type and certain production-type contracts. Under this method, revenue and profit are recognized throughout the term of the contract, based on actual labor costs incurred to date as a percentage of the total estimated labor costs related to the contract. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When such estimates indicate that costs will exceed future revenues and a loss on the contract exists, a provision for the entire loss is recognized at that time.

We recognize revenues associated with engineering service arrangements that are outside the scope of the accounting guidance for construction-type and certain production-type contracts on a straight-line basis, unless evidence suggests that the revenue is earned in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. In such cases we often recognize revenue using proportional performance and measure the progress of our performance based on the relationship between incurred labor hours and total estimated labor hours or other measures of progress, if available. Our most significant cost has been labor and we believe both labor hours and labor cost provide a measure of the progress of our services. The effect of changes to total estimated contract costs is recognized in the period such changes are determined.

**2014 Multiple Element Arrangements**

During 2014, we signed three patent license agreements that were considered multiple-element arrangements for accounting purposes. In accordance with our revenue recognition policy, 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 to the following key estimate would have had on 2014 revenue is summarized in the following table (in thousands):

	Change in estimate	
	+5%	-5%
Allocation to past patent royalties	\$5,343	\$(5,343)
Revenue from Non-financial Sources		

During 2014, 2013, and 2012 our patent licensing royalties were derived from patent license agreements ("PLAs") with 25, 21, and 24 independent licensees, respectively. During 2014, 2013 and 2012, we recognized revenue from two PLAs, one PLA and one PLA, respectively, for which patents comprised less than one-third of the total consideration paid or due to us under those agreements. In addition, during 2014, we recognized revenue from one PLA that was executed in connection with a patent purchase agreement ("PPA") with the licensee. Total cash paid or due to our licensee under this PPA is approximately 56% of the total cash due to us under this licensee's PLA. During 2014, 2013, and 2012 approximately 7%, 3%, 2% respectively, of our total revenue was based on the estimated fair value of the patents in the above transactions. We estimated the fair value of the patents in the above transactions by a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). 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. For the market approach, judgment was applied as to which market transactions were most comparable to this transaction. The development of a number of these inputs and

assumptions requires a significant amount of management judgment and is based upon a number of factors, including the selection of industry comparables, assumed royalty rates, sales volumes, economic lives of the patents and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the fair value assigned to the patents for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transaction. The impact that a five percent change in the estimated value of the patents would have had on 2014 revenue, patent amortization and pre-tax income is summarized in the following table (in thousands):

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	Change in estimate		
	+5%	-%5	
Revenue	\$ 1,507	\$(1,507	)
Less: Patent amortization	332	(332	)
Pre-tax income	\$ 1,175	\$(1,175	)

## Compensation Programs

We use a variety of compensation programs to both attract and retain employees, and to more closely align employee compensation with company performance. These programs include, but are not limited to, short-term incentive awards tied to performance goals and cash awards to inventors for filed patent applications and patent issuances, as well as stock option awards, time-based restricted stock unit ("RSU") awards and performance-based awards under our long-term compensation program ("LTCP"). Our LTCP typically includes annual grants with a three-year vesting period; as a result, in any one year, we are typically accounting for three active LTCP cycles.

The aggregate amount of performance compensation expense we record in a period, under both short-term and long-term performance compensation programs, requires the input of subjective assumptions and is a function of our estimated progress toward performance compensation goals at the beginning of the period, and our estimated progress or final assessment of progress toward performance compensation goals at the end of the period. Our estimated progress toward goals under performance equity grants is based on a meeting a minimum confidence level in accordance with ASC 718. Achievement rates can vary by performance cycle and from period to period, resulting in variability in our compensation expense.

If we had accrued all performance compensation cost throughout 2014 on the assumption that all plans would be paid out at 100%, we would have recorded \$10.3 million less in compensation expense in 2014 than we actually recorded.

There are two LTCP cycles that will carry over into 2015, for which if we record the performance-based incentive components at a 100% accrual rate during 2015, we estimate that we will record \$4.5 million in incentive-based compensation for those cycles in 2015.

We account for compensation costs associated with share-based transactions based on the fair value of the instruments issued, net of any estimated award forfeitures. This requires us to make subjective assumptions around the value of the equity at the time of issuance and the expected forfeiture rates, which in both cases are generally based on historical experience. The estimated value of stock options includes assumptions around expected life, stock volatility, and dividends. The expected life of our stock option awards are based on the simplified method as prescribed by Staff Accounting Bulletin Topic 14. In all periods, our policy has been to set the value of RSUs and restricted stock awards equal to the value of our underlying common stock on the date of measurement. For grants with graded vesting, we amortize the associated unrecognized compensation cost using an accelerated method. For grants that cliff vest, we amortize the associated unrecognized compensation cost on a straight-line basis over their vesting term. In 2006, we adopted the short-cut method to establish the historical additional paid-in-capital pool ("APIC Pool") related to the tax effects of employee share-based compensation. Any positive balance would be available to absorb tax shortfalls (which occur when the tax deductions resulting from share-based compensation are less than the related book expense) recognized subsequent to the adoption of the stock-based compensation guidance.

The below table summarizes our performance-based and other share-based compensation expense for 2014, 2013 and 2012, in thousands:

	2014	2013	2012
Short-term incentive compensation	\$20,404	\$10,550	\$8,469
Time-based awards	6,734	4,641	4,761
Performance-based awards (d)	8,947	a 7,260	b 8,204
Other share-based compensation	2,814	4,039	1,702
Total performance-based and other share-based compensation expense	\$38,899	\$26,490	\$23,136

(a) Included in 2014 is a charge of \$4.8 million to increase the accrual rates under our LTCP driven by the company's success toward achieving goals for the related cycles.

(b) Included in 2013 is a charge of \$6.5 million to increase the accrual rates under our LTCP driven by the company's success toward achieving goals for the related cycles.

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(c) Included in 2012 is a charge of \$4.4 million to increase the accrual rates under our LTCP driven by the company's success toward achieving goals for the related cycles.

(d) In January 2013, the Compensation Committee of our Board of Directors determined that the performance-based component of two then existing performance cycles would be paid out in equity (as opposed to making the determination at the end of the respective cycles as to whether to pay out in cash or equity), and, therefore, performance-based RSUs for such cycles were immediately granted. As the determination was made subsequent to December 31, 2012, the performance-based awards for such cycles were accounted for as cash awards during 2012 and as equity awards in 2013 and 2014.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if management has determined that it is more likely than not that such assets will not be realized.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to examinations by the Internal Revenue Service ("IRS") and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have a material adverse effect on our consolidated financial condition or results of operations.

The financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable tax authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have a material adverse effect on our consolidated financial condition or results of operations.

Between 2006 and 2014, we paid approximately \$239.8 million in foreign taxes for which we have claimed foreign tax credits against our U.S. tax obligations. It is possible that as a result of tax treaty procedures, the U.S. government may reach an agreement with the related foreign governments that will result in a partial refund of foreign taxes paid with a related reduction in our foreign tax credits. Due to both foreign currency fluctuations and differences in the interest rate charged by the U.S. government compared to the interest rates, if any, used by the foreign governments, any such agreement could result in net interest expense and/or foreign currency gain or loss.

During 2014, we completed research and development credit studies for the periods from 2010 through 2013. As a result of the study, we amended our United States federal income tax returns for the periods from 2010 through 2012 to claim the research and development credit for those periods. After all periods were amended and the 2013 federal income tax return was filed, we recognized a net benefit after consideration of any unrecognized tax benefits from the tax credits in the amount of \$5.7 million. Additionally, in 2014, we recognized a benefit after consideration of any unrecognized tax benefits of \$0.9 million for the estimated research and development credit for 2014. In addition, in 2014 we recorded \$0.7 million of unrecognized tax benefits related to other matters.

### New Accounting Guidance

#### Accounting Standards Update: Discontinued Operations

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The



implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations.

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

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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, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

**Legal Proceedings**

We are routinely involved in disputes associated with enforcement and licensing activities regarding our intellectual property, including litigations, arbitrations and other proceedings. These litigations, arbitrations and other proceedings are important means to enforce our intellectual property rights. We are a party to other disputes and legal actions not related to our intellectual property, but also arising in the ordinary course of our business. Refer to Part I, Item 3, of this Form 10-K for a description of our material legal proceedings.

**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. 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, debt obligations and existing stock repurchase program and dividend program for the next twelve months. We also may from time to time access the capital markets to augment our liquidity position as our business dictates and to take advantage of favorable interest rate environments or other market conditions.

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

At December 31, 2014 and December 31, 2013, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

	December 31, 2014	December 31, 2013	Increase / (Decrease)
Cash and cash equivalents	\$428,567	\$497,714	\$(69,147)
Short-term investments	275,361	200,737	74,624
Total cash and cash equivalents and short-term investments	\$703,928	\$698,451	\$5,477

The increase in cash, cash equivalents and short-term investments was primarily attributable to \$242.0 million of cash provided by operating activities, which was partially offset by the cost of repurchasing common stock of \$152.6 million, dividend payments of \$23.7 million and \$65.3 million in capital investments, including capitalized patent costs and patent acquisitions.

**Cash flows from operations**

We generated the following cash flows from our operating activities in 2014 and 2013 (in thousands):

	For the Year Ended December 31,		
	2014	2013	Increase / (Decrease)
Cash flows provided by operating activities	\$242,013	\$218,175	\$23,838

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 increase in cash flows provided by operating activities of \$23.8 million was primarily attributable to an increase in cash receipts of \$119.6 million primarily from new agreements signed during the year. These cash receipts were offset by an increase in cash outflows of \$71.5 million primarily due to income taxes paid. The table below provides the significant items comprising our cash flows provided by operating activities during the years ended December 31, 2014 and 2013 (in thousands).



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	For the Year Ended December 31,		
	2014	2013	Increase / (Decrease)
<b>Cash Receipts:</b>			
Fixed fee royalty payments <sup>a</sup>	\$389,000	\$42,150	\$346,850
Current royalties <sup>b</sup>	155,432	132,518	22,914
Technology solutions	11,649	19,882	(8,233 )
Prepaid royalties	2,500	242,401	(239,901 )
Patent Sales	1,999	4,000	(2,001 )
Total cash receipts	\$560,580	\$440,951	\$119,629
<b>Cash Outflows:</b>			
Cash operating expenses <sup>c</sup>	(185,421 )	(191,280 )	5,859
Income taxes paid <sup>d</sup>	(114,876 )	(24,961 )	(89,915 )
VERP payments	—	(12,600 )	12,600
Total cash outflows	(300,297 )	(228,841 )	(71,456 )
Other working capital adjustments	(18,270 )	6,065	(24,335 )
Cash flows provided by operating activities	\$242,013	\$218,175	\$23,838

(a) Fixed fee royalty payments for the year ended December 31, 2014 include \$118.4 million of cash receipts recognized as past sales revenue.

(b) Current patent royalty payments for the years ended December 31, 2014 and 2013 include \$3.7 million and \$73.8 million, respectively, of cash receipts recognized as past sales revenue.

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

(d) Income taxes paid include foreign withholding taxes.

**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 December 31, 2014 and December 31, 2013 (in thousands) as follows:

	December 31, 2014	December 31, 2013	Increase / (Decrease)
Current assets	\$843,179	\$857,514	\$(14,335 )
Less: current liabilities	205,169	126,438	78,731
Working capital	638,010	731,076	(93,066 )
Subtract:			
Cash and cash equivalents	428,567	497,714	(69,147 )
Short-term investments	275,361	200,737	74,624
Add:			
Current deferred revenue	124,695	60,176	64,519
Adjusted working capital	\$58,777	\$92,801	\$(34,024 )



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The \$34.0 million decrease in adjusted working capital in 2014 compared to 2013 is primarily attributable to decreases in accounts receivable from patent license agreements, as well as a net increase in current liabilities. The decrease in accounts receivable is primarily attributable to the collection of per-unit receivables as well as a decrease associated with the previously discussed terminated patent license agreement with one of our fixed-fee licensees. The net increase in current liabilities is primarily attributable to higher accounts payable, related to a payment due on a patent purchase, and higher accrued compensation, due to higher achievement levels with respect to our short-term incentive compensation goals. These decreases to adjusted working capital were partially offset by an increase in deferred tax assets related to the expected utilization of timing differences between book and tax recognition.

**Cash used in or provided by investing and financing activities**

We used net cash in investing activities of \$140.3 million and \$38.3 million, respectively, in 2014 and 2013. We purchased \$75.0 million, net of sales, and sold \$25.3 million, net of purchases, of short-term marketable securities in 2014 and 2013, respectively. The change was primarily due to higher cash receipts in 2014. Investment costs associated with capitalized patent costs and acquisition of patent costs decreased to \$58.2 million in 2014 from \$59.1 million in 2013, primarily due to a decreased investment in patent acquisitions in 2014.

Net cash used in financing activities increased by \$138.9 million in 2014 primarily due to an increase in repurchases of common stock of \$123.5 million, an increase in dividend payments of \$11.4 million, and a decrease in proceeds from non-controlling interests of \$2.6 million.

**Other**

Our combined short-term and long-term deferred revenue balance at December 31, 2014 was approximately \$418.0 million, an increase of \$114.0 million from December 31, 2013. We have no material obligations associated with such deferred revenue. The increase in deferred revenue was primarily due to a gross increase in deferred revenue of \$272.9 million, primarily associated with new prepayments, which was partially offset by \$163.1 million of deferred revenue recognized. This deferred revenue recognized was comprised of \$121.9 million of amortized fixed-fee royalty payments and \$26.2 million in per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees).

Based on current license agreements, we expect the amortization of fixed-fee royalty payments to reduce the December 31, 2014 deferred revenue balance of \$418.0 million by \$124.7 million over the next twelve months. Additional reductions to deferred revenue over the next twelve months will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

**Contractual Obligations**

On April 4, 2011, InterDigital entered into an indenture (the "Indenture"), by and between the company and The Bank of New York Mellon Trust Company, N.A., as trustee, pursuant to which the \$230.0 million in Notes were issued. The Notes bear interest at a rate of 2.50% per year, payable in cash on March 15 and September 15 of each year, commencing September 15, 2011. The Notes will mature on March 15, 2016, unless earlier converted or repurchased. For more information on the Notes, see Note 6, "Obligations," in the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Form 10-K.

The following table summarizes our contractual obligations as of December 31, 2014 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 year	1-3 Years	3-5 Years	Thereafter
2.50% Senior Convertible Notes due 2016	\$230,000	\$—	\$230,000	\$—	\$—
Contractual interest payments on Notes	7,188	5,750	1,438	—	—
Operating lease obligations	15,016	3,121	7,176	4,719	—
Purchase obligations (a)	37,132	37,132	—	—	—
Total contractual obligations	\$289,336	\$46,003	\$238,614	\$4,719	\$—

(a)

Purchase obligations consist of agreements to purchase goods and services that are legally binding on us, as well as accounts payable. Our consolidated balance sheet at December 31, 2014 included a \$1.4 million noncurrent liability for uncertain tax positions. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

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## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K.

## RESULTS OF OPERATIONS

## 2014 Compared with 2013

## Revenues

The following table compares 2014 revenues to 2013 revenues (in thousands):

	For the Year Ended December 31,		(Decrease)/Increase		
	2014	2013			
Per-unit royalty revenue	\$ 157,250	\$ 122,709	\$ 34,541	28	%
Fixed-fee amortized royalty revenue	121,903	67,658	54,245	80	%
Current patent royalties <sup>a</sup>	279,153	190,367	88,786	47	%
Past patent royalties <sup>b</sup>	124,236	73,808	50,428	68	%
Total patent licensing royalties	403,389	264,175	139,214	53	%
Patent sales	1,999	—	1,999	100	%
Current technology solutions revenue <sup>a</sup>	9,633	7,960	1,673	21	%
Past technology solutions revenue <sup>b</sup>	800	53,226	(52,426)	(98)	)%
Total revenue	\$ 415,821	\$ 325,361	\$ 90,460	28	%

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 \$90.5 million increase in total revenue was primarily attributable to the \$88.8 million increase in current patent royalties and a \$50.4 million increase in past patent royalties. The new patent license agreements signed during 2014, as discussed above, contributed \$186.1 million in total to the increased fixed-fee and past patent royalties. These increases were partially offset by a decrease of \$13.6 million in fixed-fee amortized royalty revenue related to agreements that have expired or were terminated, and past patent royalties in 2013 included approximately \$71.4 million recognized as a result of arbitration awards received in 2013. Additionally, per-unit royalty revenue increased \$34.5 million, and was primarily related to a \$49.8 million increase associated with increased shipments by, and the coverage of additional products under, our agreement with Pegatron. This increase in per-unit royalties from Pegatron was partially offset by a total decrease of \$15.3 million attributable to certain of our other per-unit licensees with concentrations in the smartphone market. Current technology solutions revenue increased by \$1.7 million primarily due to the inclusion of royalties on certain products upon the resolution in 2013 of our arbitration with Intel Mobile Communications GmbH ("Intel"). These increases were partially offset by a decrease in past technology solutions revenue of \$52.4 million, primarily due to revenue that was recognized in 2013 as a result of the award received upon the resolution of the Intel arbitration.

In 2014 and 2013, 51% and 60% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In 2014 and 2013, the following licensees or customers accounted for 10% or more of our total revenues:



	For the Year Ended December 31,	
	2014	2013
Samsung <sup>a</sup>	33%	—%
Pegatron <sup>b</sup>	18%	30%
Intel <sup>c</sup>	< 10%	18%
Sony	< 10%	12%

a. 2014 revenues include \$86.3 million of past patent royalties.

b. 2013 revenues include \$71.4 million of past patent royalties.

c. 2013 revenues include \$53.3 million of past technology solutions revenue.

#### Operating Expenses

The following table summarizes the change in operating expenses by category (in thousands):

	For the Year Ended December 31,			Increase/(Decrease) (Decrease)	
	2014	2013			
Patent administration and licensing	\$133,808	\$143,037	\$(9,229)	(6)	)%
Development	75,300	64,729	10,571	16	%
Selling, general and administrative	37,753	31,295	6,458	21	%
Repositioning	—	1,544	(1,544)	(100)	)%
Total operating expenses	\$246,861	\$240,605	\$6,256	3	%

Operating expenses increased 3% to \$246.9 million in 2014 from \$240.6 million in 2013. The \$6.3 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in thousands):

	Increase/ (Decrease)
Performance-based incentive compensation	\$13,441
Depreciation and amortization	8,490
Consulting services	4,603
Commercial initiatives and Signal Trust	4,460
Personnel-related costs	1,844
Cost of patent sales	700
Other	120
Patent maintenance and evaluation	(2,963)
Intellectual property enforcement	(22,895)
Total increase in operating expenses not including repositioning charge	7,800
Repositioning charge	(1,544)
Total increase in operating expenses	\$6,256

The \$13.4 million increase in performance-based incentive compensation, including both short-term and long-term compensation, was primarily attributable to both a true-up to increase the beginning period compensation to the current accrual rate and higher accrual rates in 2014 as compared to significantly lower accrual rates in 2013. The \$8.5 million