InterDigital, Inc.
Form 10-K
February 27, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K

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

o 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.)
781 Third Avenue	19406-1409
King of Prussia, Pennsylvania	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code (610) 878-7800

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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 þ No o
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 o No þ
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 þ No o
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 þ No o
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. o
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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(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 o No þ

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: $1,839,185,424 as of June 30, 2011.

The number of shares outstanding of the registrant's common stock was 45,100,011 as of February 23, 2012.

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 2012 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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GLOSSARY OF TERMS

1xEV-DO

"First Evolution Data Optimized." An evolution of cdma2000.

2G

"Second Generation." A generic term usually used in reference to voice-oriented digital wireless products, primarily mobile handsets, that provide basic voice services.

2.5G

A generic term usually used in reference to fully integrated voice and data digital wireless devices offering higher data rate services and features compared to 2G.

3G

"Third Generation." A generic term usually used in reference to the generation of digital mobile devices and networks after 2G and 2.5G, which provide high speed data communications capability along with voice services.

3GPP

"3G Partnership Project." A partnership of worldwide accredited Standards organizations the purpose of which is to draft specifications for Third Generation mobile telephony.

4G

"Fourth Generation." A generic marketing term used in reference to the generation of digital mobile devices and networks after 3G, which provide very high speed, low latency data and video communications capability as well as voice services. It is typically (but not always) used to refer to air interfaces that utilize OFDMA/MIMO technologies, such as LTE, LTE-Advanced, IEEE 802.16e and IEEE 802.16m.

802.11

An IEEE Standard for wireless LAN interoperability. Letter appendages (i.e., 802.11 a/b/g) identify various amendments to the Standards which denote different features and capabilities.

air interface

The wireless interface between a terminal unit and the base station or between wireless devices in a communication system.

ANSI

"American National Standards Institute." The United States national standards accreditation and policy agency. ANSI monitors and provides oversight of all accredited U.S. Standards Development Organizations to ensure they follow an open public process.

ATIS

"Alliance for Telecommunications Industry Solutions." An ANSI-accredited U.S.-based Standards association that concentrates on developing and promoting technical/operational standards for the communications and information technology industries worldwide.

bandwidth

A range of frequencies that can carry a signal on a transmission medium, measured in Hertz and computed by subtracting the lower frequency limit from the upper frequency limit.

base station

The central radio transmitter/receiver, or group of central radio transmitters/receivers, that maintains communications with subscriber equipment sets within a given range (typically a cell site).

CDMA

"Code Division Multiple Access." A method of digital spread spectrum technology wireless transmission that allows a

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large number of users to share access to a single radio channel by assigning unique code sequences to each user.

cdmaOne

A wireless cellular system application based on 2G narrowband CDMA technologies (e.g., TIA/EIA-95).

cdma2000®

A Standard that evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne). The CDMA family includes, without limitation, CDMA2000 1x, CDMA 1xEV-DO, CDMA2000 1xEV-DV and CDMA2000 3x. Although CDMA2000 1x is included under the IMT-2000 family of 3G Standards, its functionality is similar to 2.5G technologies. CDMA2000® and cdma2000® are registered trademarks of the Telecommunications Industry Association (TIA - USA).

chip

An electronic circuit that consists of many individual circuit elements integrated onto a single substrate.

chip rate

The rate at which information signal bits are transmitted as a sequence of chips. The chip rate is usually several times the information bit rate.

circuit

The connection of channels, conductors and equipment between two given points through which an electric current may be established.

digital

Information transmission where the data is represented in discrete numerical form.

digital cellular

A cellular communications system that uses over-the-air digital transmission.

dongle

A hardware device that plugs into a port on a computer that allows protected software (which may be contained on the dongle or on the computer) to run.

duplex

A characteristic of data transmission; either full duplex or half duplex. Full duplex permits simultaneous transmission in both directions of a communications channel. Half duplex means only one transmission at a time.

EDGE

“Enhanced Data rates for GSM Evolution.” Technology designed to deliver data at rates up to 473.6 Kbps, triple the data rate of GSM wireless services, and built on the existing GSM Standard and core network infrastructure. EDGE systems built in Europe are considered a 2.5G technology.

EPC

“Evolved Packet Core.” A flatter, simplified, packet-switched cellular core network architecture developed as a result of the 3GPP System Architecture Evolution (SAE) study. Designed for the higher data performance and reduced latency of LTE and LTE-Anetworks, it also provides interworking with GSM and HSPA networks, and integration with non-3GPP networks such as WiMAX™ and Wi-Fi®.

ETSI

“European Telecommunications Standards Institute.” The Standards organization that drafts Standards for Europe.

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FDD
"Frequency Division Duplex." A duplex operation using a pair of frequencies, one for transmission and one for reception.
FDMA
"Frequency Division Multiple Access." A technique in which the available transmission bandwidth of a channel is divided into narrower frequency bands over fixed time intervals resulting in more efficient voice or data transmissions over a single channel.
frequency
The rate at which an electrical current or signal alternates, usually measured in Hertz.
GHz
"Gigahertz." One gigahertz is equal to one billion cycles per second.
GPRS
"General Packet Radio Systems." A packet-based wireless communications service that enables high-speed wireless Internet and other data communications via GSM networks.
GSM
"Global System for Mobile Communications." A digital cellular Standard, based on TDMA technology, specifically developed to provide system compatibility across country boundaries.
Hertz
The unit of measuring radio frequency (one cycle per second).
HEVC
"High Efficiency Video Coding." A draft video compression Standard, possibly a successor to H.264/MPEG-4 AVC (Advanced Video Coding), currently under joint development by the ISO/IEC Moving Picture Experts Group (MPEG) and ITU-T Video Coding Experts Group (VCEG).
hotspot
A small area provided with local wireless Internet connectivity that may be stand-alone or may augment wide area (e.g., cellular) coverage due to expected demand for high bandwidth or a large concentration of users. Hotspots may typically be found at coffee shops, fast food stores, shopping malls or sports stadiums. Wireless infrastructure devices such as Wi-Fi® access points, femto-access points, or cellular pico-/micro cells are typically used at wireless hotspots.
HSDPA
"High Speed Downlink Packet Access." An enhancement to WCDMA/UMTS technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology enhancement.
HSUPA
"High Speed Uplink Packet Access." An enhancement to WCDMA technology that improves the performance of the radio uplink to increase capacity and throughput, and to reduce delay. A 3G technology enhancement.
iDEN®
"Integrated Dispatch Enhanced Network." A proprietary TDMA Standards-based technology that allows access to phone calls, paging and data from a single device. iDEN is a registered trademark of Motorola, Inc.

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IEEE
"Institute of Electrical and Electronic Engineers." A membership organization of engineers that among its activities produces data communications Standards.
IEEE 802
A Standards body within the IEEE that specifies communications protocols for both wired and wireless local area and wide area networks (LAN/WAN).
IETF
"Internet Engineering Task Force." A large open international community of networks designers, operators, vendors, and researchers concerned with the evolution of Internet architecture and the smooth operation of the Internet.
ITU
"International Telecommunication Union." An international organization established by the United Nations with membership from virtually every government in the world. Publishes recommendations for engineers, designers, OEMs, and service providers through its three main activities: defining and adoption of telecommunications Standards; regulating the use of the radio frequency spectrum; and furthering telecommunications development globally.
ITU-T
"ITU Telecommunication Standardization Sector." One of the three sectors (divisions or units) of the ITU; it coordinates Standards for telecommunications.
ITC
"InterDigital Technology Corporation." One of our wholly-owned Delaware subsidiaries.
Kbps
"Kilobits per Second." A measure of information-carrying capacity (i.e., the data transfer rate) of a circuit, in thousands of bits per second.
know-how
Technical information, technical data and trade secrets that derive value from the fact that they are not generally known in the industry. Know-how can include, but is not limited to, designs, drawings, prints, specifications, semiconductor masks, technical data, software, net lists, documentation and manufacturing information.
LAN
"Local Area Network." A private data communications network linking a variety of data devices located in the same geographical area and that share files, programs and various devices.
LTE
"Long Term Evolution." Generic name for the 3GPP project addressing future improvements to the 3G Universal Terrestrial Radio Access Network (UTRAN).
LTE-A
"LTE-Advanced." A follow-on to LTE and the 3GPP entry into the worldwide ITU "IMT-Advanced" project.
M2M
"Machine-to-machine." Direct wired or wireless communications between machines without human intervention (e.g., between a sensor or meter and a data collection center).
MAC
"Media Access Control." Part of the 802.3 (Ethernet LAN) Standard that contains specifications and rules for accessing

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the physical portions of the network.

MAN

"Metropolitan Area Network." A communication network which covers a geographic area such as a city or suburb.

Mbps

"Megabits per Second." A measure of information-carrying capacity of a circuit; millions of bits per second.

MIMO

"Multiple Input Multiple Output." A method of digital wireless transmission where the transmitter and/or receiver uses multiple antennas to increase the achievable data rate or improve the reliability of a communication link.

modem

A combination of the words modulator and demodulator, referring to a device that modifies a signal (such as sound or digital data) to allow it to be carried over a medium such as wire or radio.

multiple access

A methodology (e.g., FDMA, TDMA, CDMA) by which multiple users share access to a transmission channel. Most modern systems accomplish this through "demand assignment" where the specific parameter (frequency, time slot or code) is automatically assigned when a subscriber requires it.

ODM

"Original Design Manufacturer." Independent contractors that develop and manufacture equipment on behalf of another company using another company's brand name on the product.

OEM

"Original Equipment Manufacturer." A manufacturer of equipment (e.g., base stations, terminals) that sells to operators.

OFDM

"Orthogonal Frequency Division Multiplexing." A method of digital wireless transmission that distributes a signal across a large number of closely spaced carrier frequencies.

OFDMA

"Orthogonal Frequency Division Multiple Access." A method of digital wireless transmission that allows a multiplicity of users to share access by assigning sets of narrowband carrier frequencies to each user. It is an extension of OFDM to multiple users.

PCMCIA

"Personal Computer Memory Card International Association." An international industry group that promotes standards for credit card-sized memory card hardware that fits into computing devices such as laptops.

PDC

"Personal Digital Cellular." The Standard developed in Japan for TDMA digital cellular mobile radio communications systems.

PHS

"Personal Handyphone System." A digital cordless telephone system and digital network based on TDMA. This low-mobility microcell Standard was developed in Japan. Commonly known as PAS in China.

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PHY
"Physical Layer." The wires, cables, and interface hardware that connect devices on a wired or wireless network. It is the lowest layer of network processing that connects a device to a transmission medium.

platform
A combination of hardware and software blocks implementing a complete set of functionalities that can be optimized to create an end product.
protocol
A formal set of conventions governing the format and control of interaction among communicating functional units.
reference platform
A reference platform consists of the baseband integrated circuit, related software and reference design.
SAE
"System Architecture Evolution." A 3GPP study effort that led to the specification of a simplified, flatter, packet-switched core network architecture, the Evolved Packet Core (EPC). The EPC is designed to support the higher data rates and lower latency of LTE and LTE-A, while optimally interworking with legacy GSM and HSPA networks, and integrating non-3GPP networks such as WiMAX™ and Wi-Fi®.
smartphone
A wireless handset with an advanced operating system.
Standards
Specifications that reflect agreements on products, practices or operations by nationally or internationally accredited industrial and professional associations or governmental bodies in order to allow for interoperability.
TDD
"Time Division Duplexing." A duplex operation using a single frequency, divided by time, for transmission and reception.
TD/FDMA
"Time Division/Frequency Division Multiple Access." A technique that combines TDMA and FDMA.
TDMA
"Time Division Multiple Access." A method of digital wireless transmission that allows a multiplicity of users to share access (in a time ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.
TD-SCDMA
"Time Division Synchronous CDMA." A form of TDD utilizing a low chip rate.
terminal/terminal unit
Equipment at the end of a wireless voice and/or data communications path. Often referred to as an end-user device or handset. Terminal units include mobile phone handsets, PCMCIA and other form factors of data cards, personal digital assistants, computer laptops and modules with embedded wireless communications capability and telephones.
TIA/EIA-54
The original TDMA digital cellular Standard in the United States. Implemented in 1992 and then upgraded to the TIA/EIA-136 digital Standard in 1996.

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TIA/EIA-95
A 2G CDMA Standard.
TIA/EIA-136
A United States Standard for digital TDMA technology.
TIA (USA)
The Telecommunications Industry Association.
UMB
"UltraMobile Broadband." A generic term used to describe the next evolution of the 3GPP2 cdma2000 air interface standard. It is based on OFDMA technology.
WAN
"Wide Area Network." A data network that extends a LAN outside of its coverage area, via telephone common carrier lines, to link to other LANs.
WCDMA
"Wideband Code Division Multiple Access" or "Wideband CDMA." The next generation of CDMA technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology.
Wi-Fi®
A registered trademark of the Wi-Fi Alliance® used to designate products that conform to various IEEE 802.11 Standards.
Wi-Fi Alliance®
A global non-profit industry association that supports IEEE 802.11 technology and market development, regulatory programs, and certifies devices as being 802.11 compliant and interoperable. Only products that pass Wi-Fi Alliance® certification testing are allowed to carry the "Wi-Fi" trademark and logo.
WiMAX™
A commercial brand associated with products and services using IEEE 802.16 Standard technologies for wide area networks broadband wireless.
wireless
Radio-based systems that allow transmission of information without a physical connection, such as copper wire or optical fiber.
wireless LAN (WLAN)
"Wireless Local Area Network." A collection of devices (computers, networks, portables, mobile equipment, etc.) linked wirelessly over a limited local area.

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.

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PART I

Item 1. BUSINESS

Overview

InterDigital designs and develops advanced technologies that enable and enhance wireless communications and monetizes such technologies through licensing and other revenue opportunities. Since our founding in 1972, we 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 and as of December 31, 2011 held, through wholly owned subsidiaries, a portfolio of over 19,500 patents and patent applications related to the fundamental technologies that enable wireless communications. Included in our 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. We believe that companies making, importing, using or selling products compliant with these Standards, which include all manufacturers of mobile handsets, require a license under our patents and will require licenses under patents that may issue from our pending patent applications. 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. In 2011, we believe we recognized revenue from over half of all 3G mobile devices sold worldwide, including those sold by leading mobile communications companies such as Apple Inc. ("Apple"), HTC Corporation ("HTC"), Research in Motion Limited ("RIM") and Samsung Electronics Co., Ltd. ("Samsung").

We develop advanced technologies that we expect will improve the wireless user’s experience and enable the delivery of a broad array of information and services. This includes next-generation wireless air interfaces and technologies to enhance connectivity and mobility across networks and devices and technologies that support more efficient transportation of information. We actively participate in, and contribute our technology solutions to, worldwide organizations responsible for the development and approval of Standards with which digital cellular and IEEE 802-compliant products and services are designed to operate in accordance. We offer licenses to our patents to equipment producers that manufacture, use or sell digital cellular and IEEE 802-related products. In addition, we offer for license or sale our mobile broadband modem solutions (modem IP, know-how, and reference platforms) to mobile device manufacturers, semiconductor companies, and other equipment producers that manufacture, use or sell digital cellular products.

We built our suite of technology and patent offerings primarily through internal development, but also through participation in joint development projects with other companies, as well as select acquisitions. We have formed strategic relationships with a number of leading technology companies that share our vision and complement our internal research and development efforts. Currently, we generate revenues primarily from royalties received under our patent license agreements. We also generate revenues by licensing our technology solutions and providing related development support. In 2011, we generated revenues of $301.7 million, representing a decrease of $92.8 million, or 24%, from 2010, and net income of $89.5 million, representing a decrease of $64.1 million, or 42%, from 2010. Additional information about our revenues, profits and assets, as well as additional financial data, is provided in the financial statements and accompanying notes in Part II, Item 8 of this Form 10-K.

On July 19, 2011, we announced that our Board of Directors had initiated a process to explore and evaluate potential strategic alternatives for the Company, including a sale or other transaction. On January 23, 2012, we announced that our Board of Directors had concluded its review of strategic alternatives for the Company and determined that it was in the best interests of the Company and its shareholders to execute on the company's business plan and to expand the plan to include patent sales and licensing partnerships. For additional information regarding the company's business strategy, see "Item 1. Business -- InterDigital's Strategy."

Patent Licensing

We generate the majority of our revenues through the licensing of patents in our portfolio. We approach companies engaged in the supply of wireless communications equipment and seek to enter into license agreements. We offer non-exclusive, royalty-bearing patent licenses to companies that manufacture, import, use or sell, or intend to manufacture, import, use or sell, equipment that implements inventions covered by our portfolio of patents. We have entered into numerous such agreements with companies around the world.

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 sales) 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

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model. Most of our patent license agreements are structured on a royalty-bearing basis, while others are structured on a paid-up basis or combination thereof. The patent license agreements cover the sale of terminal devices or infrastructure equipment. Terminal devices can include all or some of the following products, among others: handsets, computers, tablets, wireless modules, USB modems, PC Cards, and consumer electronic devices. 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 sales, 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, 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.

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 sales, 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.

Development of Our Patent Portfolio

As an early participant in the digital wireless market, we developed pioneering solutions for the primary cellular air interface technologies in use today, TDMA and CDMA. That early involvement, as well as our continued development of those advanced digital wireless technologies, as well as innovations in OFDM/OFDMA and MIMO technologies, has enabled us to create our significant worldwide portfolio of patents and patent applications. 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, and that we agree to make our essential patents available for use and license on fair, reasonable, and non-discriminatory terms or similar terms consistent with the requirements of the respective Standards organizations.

As of December 31, 2011, our patent portfolio consisted of approximately 1,500 U.S. patents (approximately 170 of which were issued in 2011) and approximately 8,500 non-U.S. patents (approximately 1,000 of which were issued in 2011). As of the same date, we also had numerous patent applications pending worldwide, with approximately 1,200 pending applications in the United States and approximately 8,400 pending non-U.S. patent 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 2012 through 2030. Our development areas include adjacent wireless technologies within the wireless ecosystems and across the broad array of converged devices, networks, and services. In addition to conforming to applicable Standards, our solutions also include proprietary implementations for which we seek patent protection.

Our investments in the development of advanced digital wireless technologies and related products and solutions include sustaining a highly specialized engineering team and providing that team with the equipment and advanced software platforms necessary to support the development of technologies. As of December 31, 2011, we employed approximately 200 engineers, 79% of whom hold advanced degrees and 51 of whom hold doctorate degrees. Over the

last three years, investment in development has ranged between $64.0 million and $71.5 million, and the largest portion of this expense has been personnel costs.

Wireless Communications Industry Overview

Over the course of the last ten years, the cellular communications industry has experienced rapid growth worldwide. Total worldwide cellular wireless communications subscriptions rose from approximately 941 million at the end of 2001 to approximately 5.8 billion at the end of 2011, according to IHS iSuppli. Market analysts at IHS iSuppli expect that the aggregate number of global wireless subscriptions could exceed 7.2 billion by 2015. In fourth quarter 2011, IHS iSuppli

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forecasted worldwide handset shipments to grow approximately 6% in 2012. The following table presents 2010 worldwide mobile handset shipments and IHS iSuppli's estimates for worldwide mobile handset shipments by air interface technology in 2011 and the related forecast for 2012 through 2015.

Global Mobile Handset Shipments By Technology (1)

(1) Source: IHS iSuppli. Mobile Handset Q4 2011 Market Tracker.
(2) Includes: LTE and WiMax.
(3) Includes: WCDMA (UMTS)/HSPA, TD-SCDMA and mixed 3G.
(4) Includes: CDMA2000 and its evolutions.
(5) Includes: GSM/GPRS/EDGE and iDEN.

The growth in new cellular subscribers, combined with existing customers choosing to replace their mobile phones, helped fuel the growth of mobile phone shipments, which, according to IHS iSuppli, grew from approximately 393 million units in 2001 to approximately 1.5 billion units in 2011. We believe the combination of a broad subscriber base, continued technological change and the growing dependence on the Internet, e-mail and other digital media sets the stage for continued growth in the sales of advanced wireless products and services over the next five years. Shipments of 3G and 4G phones, which represented approximately 48% of the market in 2011, are predicted to increase to approximately 73% of the market by 2015 according to IHS iSuppli. Moreover, recent advances in 3G and 4G technologies that support devices offering higher data rates have met with rapid consumer demand. Similarly, shipments of smartphones have grown rapidly, increasing from less than 1% of handset shipments in 2001 to 33% in 2011 according to IHS iSuppli. In addition, the on-going convergence of computing and wireless technologies, accelerated by increased blurring of the line between consumer and enterprise, has fundamentally redefined the wireless market opportunity, expanding it from mobile handsets to also include notebooks, tablets, peripherals and other devices. According to Gartner, an independent research firm, worldwide sales of media tablets with

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wireless connectivity are expected to exceed 294 million units by 2015.

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 Standards. These Standards have evolved in response to consumer demand for services and expanded capabilities of mobile devices. Although the cellular market initially delivered voice-oriented and basic data services (commonly referred to as Second Generation, or 2G), over the past ten years the industry transitioned to providing voice and multimedia services that take advantage of the higher speeds offered by the newer technologies (commonly referred to as Third Generation, or 3G). LTE, or "Long Term Evolution," represents the next generation of technology that has been commonly accepted by industry participants as the industry transitions to Fourth Generation, or 4G.

In addition to the advances in digital cellular technologies, 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. Semiconductor shipments of products built to the IEEE 802.11 Standard have grown from 20 million units shipped in 2002 to over 1.2 billion units shipped in 2011, according to IHS iSuppli. Analysts at IHS iSuppli forecast that IEEE 802.11 semiconductor shipments will grow to over 2.4 billion units by 2015. In addition, the IEEE wireless Standards bodies are creating sets of Standards to enable higher data rates, provide coverage over longer distances, and enable roaming. These Standards are establishing technical specifications for high data rates at long distances, such as IEEE 802.16 (WiMAX), as well as technology specifications to enable seamless handoff between different air interfaces (IEEE 802.21).

Industry participants anticipate a continued proliferation of converged devices that incorporate multiple air interface technologies and functionalities and provide seamless operation in order to support the evolving "network of networks." For example, many devices incorporate multiple air interface technologies and such converged devices may provide seamless operation among a variety of networks.

InterDigital's Strategy

Our objective is to continue to be a leading designer and developer of technology solutions and intellectual property for the wireless industry and to monetize our extensive patent portfolio.

To execute our strategy, we intend to:

- Develop innovative wireless technologies. We intend to maintain a leading position in providing advanced wireless technologies to the industry by continuing to invest significantly in internal technology development and by leveraging our extensive research and development capabilities, our expertise in digital cellular and wireless products, including 2G, 3G, 4G and IEEE 802-related products, and our portfolio of over 19,500 patents and patent applications. In addition, we intend to continue to expand our portfolio of technology solutions to address not only the evolution of wireless communications as it evolves to a network of networks, but also to further improve the functionality of wireless networks through improved connectivity, enhanced mobility, and advanced intelligent data delivery techniques, including technologies to improve video delivery.
- Expand our licensing revenue base. We intend to expand our licensing revenue base by aggressively pursuing the remaining mobile device manufacturers that are not covered by our patent license agreements and by pursuing licensing revenue in adjacent markets, such as wireless consumer electronics, mobile infrastructure, over-the-top services and operator services. We plan to pursue these licensing revenue opportunities both through our own licensing programs and through other companies with whom we will seek to establish licensing partnerships enabled by our patents.
- Sell select patent assets. We were issued close to 1,200 patents worldwide in 2011. We believe the rate at which we grow and replenish our patent portfolio allows us to complement our licensing programs with sales and strategic partnerships. Such transactions could occur in the form of an outright sale of a number of patents or within the context of a strategic alignment with another party. For example, we intend to seek opportunities to sell portions of our portfolio that are not essential to our core terminal unit licensing business. In addition, we intend to seek opportunities to sell patents that may be related to our core licensing business but that add minimal incremental value to the licensing program or that could generate more value through their sale than they are expected to generate

through the licensing program. In addition, we may offer to exchange patents with other parties in order to increase the breadth of our own portfolio.

- Defend vigorously our intellectual property. We believe our willingness to engage in litigation when necessary

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facilitates the establishment of licensing agreements for our patents with new and existing licensees and prevents the infringement of our patents.

- Pursue complementary acquisitions and strategic relationships. We intend to continue to explore opportunities to acquire or form strategic relationships to build complementary technologies and capabilities in order to expand our intellectual property portfolio and technology capabilities and grow our addressable market. For example, we intend to expand into adjacent markets such as wireless consumer electronics, data services and wireless infrastructure. In addition, we will seek opportunities to acquire technologies that are employed or will be used by wireless devices that address other functionality on the mobile device beyond the core wireless aspects. We intend to leverage our scale, liquidity, licensing expertise and our unique business model in order to compete successfully in the market for intellectual property.
- Maintain substantial involvement in key worldwide Standards bodies. We intend to continue contributing to the ongoing process of defining of wireless Standards and incorporating our inventions into those Standards. We also intend to further explore and participate in Standards setting arenas related to the development of technologies that may become important in the wireless devices of the future, such as video compression. We believe this involvement provides us with significant visibility into, and enables us to be at the forefront of, technology development. In addition, involvement in key worldwide Standards facilitates the industry's adoption of our technologies and accelerates the time to market of products developed through the use of our intellectual property.

Evolution of Wireless 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 built to a common Standard. A large number of international and regional wireless Standards Development Organizations (“SDOs”), including the ITU, ETSI, TIA (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.

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.

Digital Cellular Standards

The defined capabilities of the various air interface technologies continue to evolve within the SDOs. Deployment of 3G services allows operators to take advantage of additional radio spectrum allocations and, through the use of data speeds higher than 2.5G, deliver additional applications to their customers. Operators began to deploy 3G services in 2000. The five specifications under the 3G standard (generally regarded as being the ITU “IMT-2000” Recommendation) include the following forms of CDMA technology: FDD and TDD (collectively referred to in the industry as WCDMA) and Multichannel CDMA (cdma2000-based technologies such as EV-DO). In addition, TD-SCDMA, a Chinese variant of TDD technology, has been included in the Standard’s specifications.

The principal Standardized digital cellular wireless products in use today are based on TDMA and CDMA technologies, with 3G capable-products gradually replacing 2G-only products. The Standardized 2G TDMA-based technologies include GSM, TIA/EIA-54/136 (commonly known as AMPS-D, United States-based TDMA, which has been phased out in conjunction with the U.S. FCC-mandated conversion from analog-based cellular service), PDC, PHS, DECT and TETRA. Of the TDMA technologies, GSM is the most prevalent, having been deployed in Europe, Asia, Africa, the Middle East, the Americas, and other regions. In 2011, approximately 52% of total worldwide

mobile device shipments conform to the 2G and 2.5G TDMA-based Standards. WCDMA-enabled devices accounted for an additional 31% of total worldwide shipments. Thus, the combined shipments of GSM-enabled devices and devices with 3G WCDMA technology accounted for approximately 83% of worldwide handset shipments. Narrowband 2G CDMA-based technologies include TIA/EIA-95 (more commonly known as cdmaOne) and cdma2000 technologies and serve parts of the United States, Japan, South Korea, and several other countries. Similar to the TDMA-based technologies, the CDMA-based technologies have migrated to 3G. In 2011, about 16% of total worldwide handset shipments

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were based on these 2G/2.5G CDMA technologies plus its 3G evolution.

The Standards groups continue to advance the performance and capabilities of their respective air interfaces. Chief among the enhancements are High Speed Downlink Packet Access and High Speed Uplink Packet Access (HSDPA/HSUPA, often collectively referred to as HSPA), an evolution of WCDMA, and 1xEV-DO. At year end 2011, approximately 450 operators had launched HSPA networks.

Further advances to the WCDMA cellular air interface Standards are being made under 3GPP's LTE program. This evolution program is based on OFDM/OFDMA technology, similar to that used in the IEEE 802.16 Standard. LTE Standards were completed in late 2009, and system deployments are currently underway. Virtually all incumbent mobile operators have indicated their intention to upgrade their networks to LTE as it becomes commercially available. This selection has had substantial negative impact on the proposed 3GPP2 UMB "3G" standard, which no current mobile operators have indicated an intention to use. This has resulted in 3GPP2 stopping all work on the proposed UMB specification, thus facilitating a broader market for LTE. 3GPP has also completed its initial work on a follow-on to LTE (referred to as Release 10), called LTE-Advanced ("LTE-A"), which was the 3GPP entry into the worldwide ITU-R "IMT-Advanced" project, a follow-on to the earlier IMT-2000 Recommendation mentioned above. As noted in the section on IEEE 802 Standards, the ITU-R IMT-Advanced project is complete, and LTE-A was one of the two technologies selected by the ITU-R as meeting IMT-Advanced requirements (the other being IEEE 802.16m).

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. For example, in the past the ITU-R has taken differing positions on what constitutes 4G. As stated above, the Standards known as LTE-A and 802.16m are currently considered by the ITU to be 4G Standards.

Below is graphic depiction of the evolution of air interface technology.

Air Interface Technology Evolution

IEEE 802-Based Standards

The wireless Standard IEEE 802.11 was first ratified in 1997. Since that time, the IEEE 802.11 Working Group has continued to update and expand the basic IEEE 802.11 Standard to achieve higher data rates, accommodate additional operating frequencies and provide additional capabilities and features. Equipment conforming to these Standards (i.e., IEEE 802.11a/b/g) is in the marketplace today. Intended primarily for short-range applications, operating in unlicensed frequency bands, and requiring minimal infrastructure, IEEE 802.11 Standards-based equipment has seen substantial market growth, especially in enterprise and consumer home networking applications. Similar to 3G, this Standard also continues to evolve toward higher data rates and improved service capabilities, most recently with the approval and publication of the final IEEE 802.11n and other related Standards.

The wide area network community has also established the IEEE 802.16 Working Group to define air interface Standards for longer distance (2 to 50 kilometers) Metropolitan Area and Wide Area Networks ("MAN/WAN"). The first 802.16 Standard was published in 2002. Specifying operating frequencies from 10 to 66 GHz, it was primarily aimed toward very high-speed wide area point to multipoint fixed applications (LMDS/MMDS) for large data usage customers, such as businesses and industrial parks. In 2003, an amendment to the 802.16 Standard (802.16a) was published that added operation in the 2 to 11 GHz frequency bands. This addition made the Standard much more suitable for providing wireless broadband high-speed Internet access for residential and small office applications. In 2004, 802.16a and several other amendments to the base 802.16 Standard were combined into a single document that was published as 802.16-2004 and that was ultimately adopted by the WiMAX Business Forum for fixed use deployments. Equipment conforming to the 802.16-2004 fixed Standard was initially

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introduced in 2006. Concurrent with this revision of the fixed Standard, the 802.16 Working Group embarked on defining a mobile version of the Standard (referred to as 802.16e). The mobile version of the Standard was completed and published in February 2006, and initial equipment certification by the WiMAX Forum commenced in late 2007. There are a number of 802.16e deployments throughout the world, primarily in Asia. Since that time, the 802.16 Standard has continued to evolve and be improved, with a significant update, IEEE 802.16-2009, having been approved and published in 2009. More recently, the 802.16 Working Group has initiated new projects on machine-to-machine (M2M) applications and robust, survivable networks.

The WiMAX Forum adopted a specific variant of the 802.16e Standard for development and deployment as "mobile WiMAX." In conjunction with the WiMAX Forum, the 802.16e mobile Standard has been further improved upon, as 802.16m, to increase its performance and capabilities. IEEE 802.16m is specifically targeted to meet the ITU-R requirements for "IMT-Advanced," the follow-on to the earlier ITU-R IMT-2000 Recommendation mentioned above, and was submitted to the ITU "IMT-Advanced" evaluation process, which concluded in late 2010. As a result of this process, IEEE 802.16m was accepted by the ITU-R as one of the two air interfaces meeting IMT-Advanced requirements (the other being 3GPP LTE-Advanced). The WiMAX Forum has also adopted IEEE 802.16m, which was ratified and published by the IEEE in May of 2011.

More recently, the IEEE 802 community has begun to address questions related to networking and interoperability between the different IEEE 802 technologies, both wireline and wireless, as well as handover to external non-802 networks, such as cellular. The primary group addressing these issues, IEEE 802.21, entitled Media Independent Handover Services, has completed their initial Standard, and it was approved by the IEEE in 2008. The IEEE 802.21 technology is specifically oriented toward the future all-IP Next Generation Network that merges existing fixed and mobile networks into a single, homogeneous integrated network capable of supporting all envisioned advanced fixed and mobile services, including voice, data, and video. Aspects of 802.21 are now being incorporated into other network Standards, such as the IETF and 3GPP. As with most Standards, IEEE 802.21 is also undergoing additional changes to increase its capabilities and ease of use.

InterDigital's Technology Position

Cellular Technologies

We have a long history of developing cellular technologies including those related to CDMA and TDMA technologies, and more recently, OFDM/OFDMA and MIMO technologies. 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 digital wireless U.S. 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 also have 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;

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- 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 ("GERAN"). 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 technologies. Some of our LTE inventions include or relate to:

- Multi-Input Multi-Output (MIMO) technologies for reducing interference and increasing data rates;
- OFDM/OFDMA/SC-FDMA;
- Power control;
- Hybrid-ARQ for fast error correction;
- 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 (CoMP) for LTE-Advanced; and
- Machine Type Communications ("MTC").

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 WLAN, Wi-Fi, WMAN 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., IEEE 802.11n, 802.11ac, 802.11ad and future variants), 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), wireless network security, and broadband wireless (IEEE 802.16, including WiMAX wireless technology). We are actively developing technology for newer Wi-Fi and WLAN Standards focused on fast initial link setup (802.11ai), hotspot operation (WFA HOTSPOT 2.0) and the use of additional spectrum bands, such as TV-Whitespace (802.11af) and sub 1 GHz (802.11ah). We also are expanding our portfolio of technologies in areas such as Machine-to-Machine ("M2M") or Machine Type Communications, mobility, spectrum management, and session continuity within the 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.

Business Activities

2011 Patent License Activity

In first quarter 2011, we entered into a worldwide, non-transferable, non-exclusive, royalty-bearing patent license agreement with Acer, Inc., a multinational corporation headquartered in Taiwan. The products designated as licensed under the agreement are designed to operate in accordance with 2G, 3G and 4G wireless technologies, including LTE, LTE-Advanced, and WiMax Standards.

Licensees Generating Revenues Exceeding 10% of Total 2011 Revenues

Samsung, RIM and HTC comprised approximately 34%, 14%, and 11% of our total 2011 revenues, respectively.

In 2009, we entered into a patent license agreement with Samsung (the "2009 Samsung PLA") covering Samsung's

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affiliates, including Samsung Electronics America, Inc. Under the terms of the 2009 Samsung PLA, we granted Samsung a non-exclusive, worldwide, fixed fee royalty-bearing license covering the sale of single mode terminal units and infrastructure designed to operate in accordance with TDMA-based 2G Standards that became paid-up in 2010 and a non-exclusive, worldwide, fixed fee royalty-bearing license covering the sale of terminal units and infrastructure designed to operate in accordance with 3G Standards through 2012. The 2009 Samsung PLA superseded a binding term sheet signed in November 2008 by such parties and terminated a patent license agreement entered into between us and Samsung in 1996. The 2009 Samsung PLA also ended all litigation and arbitration proceedings then ongoing between the parties. Pursuant to the 2009 Samsung PLA, Samsung paid InterDigital $400.0 million in four equal installments over an 18-month period. Samsung paid the first two of four $100.0 million installments in 2009. We received the third and fourth $100.0 million installments in January 2010 and July 2010. We are recognizing revenue associated with the 2009 Samsung PLA on a straight-line basis over the life of the agreement. During 2011, we recognized $102.7 million of revenue associated with the 2009 Samsung PLA.

In 2003, we entered into a non-exclusive, worldwide, convenience-based, royalty-bearing license agreement with RIM for terminal units designed to operate in accordance with GSM/GPRS/EDGE Standards. We amended this agreement in 2007 to additionally include terminal units designed to operate in accordance with TIA/EIA-95 and 3G Standards. Under the terms of the agreement, RIM is obligated to pay a royalty on each licensed product sold by RIM or its affiliates. The RIM agreement expires on December 31, 2012. We recognize revenue associated with this agreement as sales of licensed products are reported. During 2011, we recognized $42.9 million of revenue associated with the RIM patent license agreement.

In 2003, we entered into a non-exclusive, worldwide, convenience-based, royalty-bearing license agreement with HTC covering the sale of terminal units and infrastructure designed to operate in accordance with 2G and 3G Standards. Under the terms of the agreement, HTC is obligated to pay a royalty on each licensed product sold by HTC or its affiliates. The HTC agreement expires when the last patent licensed under the agreement expires. We recognize the revenue associated with this agreement as sales of licensed products are reported. During 2011, we recognized $33.8 million of revenue associated with the HTC patent license agreement.

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 typically takes the form of a patent infringement lawsuit or an administrative proceeding such as a Section 337 proceeding before the U.S. International Trade Commission (“USITC”). 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. The response from the subject party can come in the form of challenges to the validity, enforceability, essentiality and/or applicability of our patents to their products. 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 product, 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 sales, 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 licensees, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable license 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.

Technology Research and Development

We have designed, developed, and placed into operation a variety of advanced digital wireless technologies, systems, and products since our inception in the early 1970's. Over the course of our history, our strength has been our ability to explore emerging technologies, identify needs created by the development of advanced wireless systems, and build technologies for those new requirements.

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Today, our technology solutions development efforts support the development of advanced cellular technologies. This includes 3GPP LTE/LTE-Advanced technology and further development of WCDMA technologies, including HSPA+. Our development efforts also include adjacent wireless technologies within the wireless ecosystems and across the broad array of converged devices, networks, and services. Many of our technologies conform to applicable Standards and may also include proprietary implementations for which we seek patent protection.

We also develop advanced IEEE 802 wireless technologies, in particular technology related to WLAN and digital cellular applications that include data rate and latency improvements to IEEE 802.11, handover among different radio access technologies (IEEE 802.21) and wireless network management and security. For example, we have developed a mobility solution based on 802.21 that greatly improves handover performance between WiBro (a Korean version of mobile WiMAX) and UMTS networks.

We recorded expenses of $63.8 million, $71.5 million, and $64.0 million million during 2011, 2010, and 2009, respectively, related to our research and development efforts. These efforts foster inventions that are the basis for many of our patents. As a result of such patents and related patent license agreements, in 2011, 2010, and 2009, we recognized $295.3 million, $370.2 million, and $287.6 million of patent licensing revenue, respectively. In addition, we offer technology solutions for inclusion into other products and services to support such technologies. In 2011, 2010, and 2009, we recognized technology solutions revenues totaling $6.4 million, $24.3 million, and $9.8 million, respectively.

Continuing Technology and Standards Development

Recognizing the need to continually improve data rates, coverage and capacity, work is currently underway within 3GPP on further evolution of the WCDMA Standards, including evolution of HSPA+ (evolved HSDPA/HSUPA) to downlink peak data rates of 336+ Mbps and uplink peak data rates of 46+ Mbps.

In addition, work continues on a longer-term initiative, Evolved UTRA/UTRAN (UMTS Terrestrial Radio Access/ UMTS Terrestrial Radio Access Network), also known as LTE (R8 and R9) and LTE-Advanced (R10 and beyond). The objectives of this initiative are more ambitious, targeting peak data rates of 1 Gbps in the downlink and 500 Mbps in the uplink, improved spectrum efficiency, significantly reduced data latency, and scalable bandwidths from as low as 1.4 MHz to as high as 100 MHz.

We are actively participating in the HSPA+ (evolved HSDPA/HSUPA) LTE and SAE Standards activities and are continuing our internal projects that develop the technology necessary to support their continuously evolving performance and service requirements. Some of our key areas of contributions for the evolution of HSPA+, LTE Advanced and SAE in 3GPP include: multi-point techniques, multi-carrier technology, enhanced transmission schemes, heterogeneous deployments, interference management, femto-cell support, relays, M2M communications and security.

We are also currently developing technology solutions to solve the industry’s challenge of providing enough bandwidth for smartphones, connected consumer devices, tablets, netbooks and laptops. 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 an air interface perspective, 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 use the current network resources optimally 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 technology will enable aggregation, segregation and offload of traffic.

For M2M applications, 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. These technologies are being standardized in the IETF, ETSI, and 3GPP.

Wireless LAN, Mobility, and Security

As part of our broader technology development activities, we are developing solutions addressing WLAN technology and mobility between WLAN and cellular networks. These projects support activities within the IEEE 802, ITU, IETF, ETSI, WiFi Alliance and 3GPP. Technology development areas include improvements to the 802.11 PHY and MAC to boost data rates (e.g., IEEE 802.11 ac and its evolution), to accelerate initial link setup to enable WLAN operation in additional frequency bands to improve the WiFi/Cellular roaming and authentication experience and to enable offload from cellular to 802.11. We are also developing technology to improve wireless network and device security for both WLAN and cellular standards.

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Technology Solutions Collaborations

Intel Mobile Communications Gmbh (formerly Infineon Technologies AG)

Between 2001 and 2006, we jointly developed and enhanced a 3G protocol stack with both HSDPA and HSUPA functionality for use in terminal units under a series of cooperative development, sales and alliance agreements with Infineon Technologies AG ("Infineon") (now Intel Mobile Communications Gmbh). This 3G protocol stack has been commercially deployed and continues to be offered to mobile phone and semiconductor producers. The technology is operating on commercial networks around the world. We completed our development efforts under these agreements in 2008. We began to receive royalties from Infineon under these agreements in 2007.

ST Ericsson (formerly ST-NXP Ericsson)

In August 2005, we entered into an agreement with Philips Semiconductors (now ST Ericsson) to deliver our physical layer HSDPA technology solution to ST Ericsson for integration into its family of Nexperia™ cellular system chipsets. Under the agreement, we agreed to assist ST Ericsson with chip design and development, software modification, and system integration and testing to implement our HSDPA technology solution into the ST Ericsson chipset. Subsequent to our delivery of portions of our HSDPA technology solution, we agreed to provide ST Ericsson support and maintenance over an aggregate estimated period of approximately two years. We completed our development efforts under these agreements in 2008. ST Ericsson first reported royalties to us under this agreement in late 2009.

SK Telecom

As part of our technology development efforts, from time to time we develop technology solutions for customers that are complementary to our existing development programs. For example, in December 2006 we announced that SK Telecom, a leading Korean mobile communications company, had chosen InterDigital to develop an advanced mobility solution for nationwide session continuity. The mobility solution, based on IEEE 802.21 Standards, supports nationwide handover for SK Telecom's customers when moving between WiBro (a Korean version of mobile WiMAX) and UMTS networks throughout the country. Our solution, based on the IEEE 802.21 Standard for Media Independent Handoff ("MIH"), includes both the system design and the software solution for dual-mode WiBro/UMTS terminal units.

In January 2008, the Company and SK Telecom extended the collaboration to develop additional mobile wireless handover capability, adding features to enhance a seamless mobility between different radio technologies, including WiBro, UMTS, and cmda2000.

Modem IP

In 2010, we entered into several strategic relationships under which we delivered our SlimChip modem core for integration into our partners' chips for 3G and multimode mobile devices. In connection with these relationships, we also provided engineering support for the efficient integration of the SlimChip modem core into our partners' cellular products. During 2011 and 2010, we recognized $0.7 million and $14.7 million, respectively, of technology transfer and engineering services revenue in connection with these agreements.

All of the above programs have provided validation of the technology and access to third party facilities and resources, and helped to broaden the awareness of the Company as a developer of advanced wireless inventions.

Future Technology Relationships and Acquisitions

As part of our internal research and development programs, we pursue a number of channels to investigate, develop, and acquire new architectures and technologies to support the Company's strategy. These efforts include advanced air interface technologies and new technologies that may support new network architectures and interoperability techniques such as collaborative communications, cognitive radio, and seamless connectivity. For example, national and international university relationships have provided us with additional opportunities to explore new technologies and license intellectual property advancements that we sponsor. Other development areas include efforts to develop solutions that support more efficient wireless networks, a richer multimedia experience, and new mobile broadband capabilities. Focused on supporting the evolving network of networks, we demonstrated innovations in policy-driven broadband traffic management, M2M communications and video-over-wireless at the Consumer Electronics Show in Las Vegas in January 2012. To complement our internal research and development, we also have formed a number of relationships with technology leaders within the wireless ecosystem and across the broadening domain of converged devices, networks, and services worldwide, and several of the companies with which we have strategic relationships

participated in the technology demonstrations during the aforementioned trade show.

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We maintain an active corporate development program that seeks further investment opportunities in technologies that can enhance the attractiveness and profitability of our technology solutions. We have also engaged in selective acquisitions to enhance our intellectual property portfolio and/or accelerate our time to market and expect to continue to do so.

Competition

Because of the exclusionary nature of patent rights, we do not compete in a traditional sense for customer relationships with other patent holders. 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 a license from multiple holders of intellectual property. In licensing our patent portfolio, we compete with other patent holders for a share of the royalties that 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 essential 2G, 3G and 4G patents. 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.

In the last several years intellectual property has emerged as a strategically important asset class and a number of large patent acquisition transactions have taken place. As new participants, such as Apple, Google Inc. and HTC, have entered the mobile wireless industry, the market for intellectual property has become increasingly competitive, with many large, well capitalized companies pursuing wireless patent portfolios. We believe that our business model and our established licensing program provide us with an advantage in the evaluation and monetization of wireless-related intellectual property assets. Our expertise in licensing and our strategy of licensing patents to multiple participants in the mobile communications market enables us to compete effectively with larger, more traditional wireless companies looking to acquire patents for defensive reasons.

We also face competition from the in-house development teams at wireless device and semiconductor manufacturing companies and operators that could be developing technology that is competitive with solutions that we may set forth into the Standards setting arena. In addition, new competitors may enter the market. Finally, as a greater proportion of wireless cellular devices incorporate traditional computing applications and IEEE wireless technologies (e.g., 802.11, 802.15, and 802.16), semiconductor companies that have traditionally focused on those technologies could enter the cellular market with competitive solutions.

Employees

As of December 31, 2011, we had approximately 330 employees. None of our employees are represented by a collective bargaining unit.

Geographic Concentrations

We have one reportable segment. As of December 31, 2011, substantially all 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 the total revenue derived from each country for the periods indicated (in thousands):

	For the Year Ended December 31,		
	2011	2010	2009
Korea	$118,078	$175,614	$160,470
Japan	61,594	121,113	73,253
Canada	54,728	38,820	27,371
Taiwan	43,993	21,559	15,336
United States	13,719	18,953	9,361
Germany	5,439	10,292	10,394
China	688	6,305	—
Other Europe	3,461	1,877	1,196

Other Asia	42	12	23
Total	$301,742	$394,545	$297,404

At December 31, 2011, 2010, and 2009, we held $146.0 million, or nearly 100%, $138.4 million, or 99%, and $128.8 million, or 99%, respectively, of our property and equipment and patents in the United States net of accumulated depreciation

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and amortization. At December 31, 2011, 2010, and 2009, we also held $0.1 million, $0.2 million, and $0.8 million, respectively, of property and equipment, net of accumulated depreciation, in Canada.

Corporate Information

InterDigital's predecessor company was incorporated in 1972 under the laws of the Commonwealth of Pennsylvania and conducted its initial public offering in November 1981. Following an internal corporate reorganization in July 2007, InterDigital Communications Corporation converted into a limited liability company and became the wholly owned operating subsidiary of InterDigital, Inc., a Pennsylvania corporation. InterDigital, Inc. is a holding company, and its various subsidiaries engage in technology research and development activities or in the prosecution, maintenance, enforcement, and licensing of patents. Our corporate headquarters and administrative offices are located in King of Prussia, Pennsylvania, USA. Our research and technology development teams are located in the following locations: King of Prussia, Pennsylvania, USA; Melville, New York, USA; San Diego, California, USA; and Montreal, Quebec, Canada.

Our Internet address is www.interdigital.com, where, in the "Investor Relations" 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 ("SEC"). 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

Our recently announced plans to pursue licensing partnerships and patent sales may not be successful and could cause our revenue and cash flow to decline.

On January 23, 2012, in connection with our announcement that our Board of Directors had completed its review of strategic alternatives for the Company, we announced that we had expanded our business plan to include patent sales and licensing partnerships. There is no guarantee that we will succeed in our pursuit of select patent sales and licensing partnerships, and, if we are successful, there is no guarantee that we will generate increased revenue or cash flow as a result. For example, we may not be successful in identifying groups of patents that third parties are interested in buying or entering licensing partnerships in relation to, or, if we are, there can be no assurance that any agreement for such a sale or partnership transaction will be entered into or consummated. Moreover, even if we do consummate a patent sale or enter into a licensing partnership, there can be no assurance that the revenue and cash flow generated through the sale of such patents or the related licensing partnership will be greater than the revenue and cash flow we would have generated if we had retained and licensed the patents ourselves. In addition, as a result of our announcement that we intend to pursue patent sales, 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 the patents we are asking them to license, which could ultimately cause our revenue and cash flow to decline.

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

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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.

Our revenue may be impacted by the deployment of 4G or other technologies in place of 2G and 3G 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 4G and non-cellular technologies, our patent portfolio licensing program in these areas is less established and may not be as successful in generating licensing income as our 2G and 3G licensing programs. Many wireless operators have selected LTE (or, to a lesser extent, WiMAX) as next-generation technologies for deployment in existing or future spectrum bands as complementary to their existing 2G or 3G networks. Although we believe that certain of our technology is, may be or may become essential to LTE and WiMAX Standards, we may not be as successful in licensing 4G products as we have been in licensing 2G and 3G products or we may not achieve a level of royalty revenues on such 4G products that is comparable to that we have historically received on 2G and 3G products.

The licenses that we grant under our patent license agreements typically only cover products designated to operate in accordance with specified cellular technologies and that were manufactured or deployed or soon to be manufactured or deployed at the time of entry into the agreement. As a result, most of our current patent license agreements cover products designed to operate in accordance with 2G and/or 3G Standards but do not cover products designed to operate in accordance with 4G Standards. 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.

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 currently 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 or a decline in the financial condition of any licensee or (ii) 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 and amount of licensing revenue associated with past infringement and new licenses and the timing, nature or amount of revenues associated with strategic relationships. 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.

Royalty rates could decrease for future license agreements.

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 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 increasing 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.

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

The mobile device market is very concentrated. As a result, we earn a significant amount of our revenues from a limited number of licensees, and we expect that a significant portion of our revenues will continue to come from a limited number of licensees for the foreseeable future. For example, in 2011, Samsung, RIM and HTC comprised approximately 34%, 14% and 11% of our total revenues, respectively. In the event that one or more of our significant licensees fail to meet their payment or reporting obligations under their respective license agreements, we are unable to renew one or more of such license agreements upon expiration or our revenues from these licensees significantly decline, our future revenue and cash flow could be materially adversely affected.

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

Our future success depends largely upon the continued service of our directors, 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 geographical 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 agreements and undertake additional technology and product development efforts, as well as our ability to meet our strategic objectives.

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. We endeavor to renew license agreements with fixed terms prior to the expiration of the license agreements and, based on 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 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. For example, the 3G portion of our patent license agreement with LG expired at the end of 2010 and negotiations have not yet yielded a new agreement. The absence of a patent license agreement with LG in 2011 adversely affected our 2011 revenue. The 3G portion of our patent license agreement with Samsung and our 2G/3G patent license agreement with RIM each expire at the end of 2012. If we are unable to renew either or both of these agreements at all or on acceptable terms, our revenue would be adversely affected.

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, 2011 and 2010, 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.

Our technologies may not be become patented, adopted by the 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 products, 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

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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.

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

We continue to evaluate and may acquire businesses, technology and/or intellectual property, enter into joint ventures or other strategic transactions and purchase equity and debt securities in other entities, including minority equity interests and corporate bonds/notes in publicly-traded and 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 until more than one year from the date of investment, if at all. Acquisitions or strategic investments 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 businesses 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. We may not derive any commercial value from the acquired technology, products and intellectual property or from future technologies and 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.

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.

Due to the nature of our business, we could be involved in a number of 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 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 our royalty rates are 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

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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.

Challenges 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.

Rulings in third party legal proceedings, increased scrutiny by antitrust authorities and the outcome of potential patent legislation, USPTO rule changes and international patent rule changes may affect our strategies for patent prosecution, licensing and enforcement and may increase our costs of doing business.

The potential effect of rulings in legal proceedings among third parties may affect our strategies for patent prosecution, licensing, and enforcement. In addition, domestic and foreign antitrust authorities have recently increased their scrutiny of the use of “standard essential patents” in the mobile wireless industry, including the enforcement of such patents against competitors. Such scrutiny may lead to an increase in antitrust inquiries and/or enforcement actions 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. Finally, 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 costs, the scope of future patent coverage we secure and remedies we may be entitled to in patent litigation, and may require us to reevaluate and modify our patent prosecution, licensing and enforcement strategies. 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.

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. 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.

We face risks from doing business in international markets.

A significant portion of our licensees are international, and our licensees 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; 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 do business.

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,

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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 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 set forth into the Standards setting arena. Due to competing solutions, our solutions may not 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.

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 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

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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.

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, the SEC and the company's outside auditors, 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 November 2011, the FASB and International Accounting Standards Board released an updated exposure draft, Revenue from Contracts with Customers, which, if it becomes final, could significantly impact the timing of revenue recognition for new and existing contracts with licensees. 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 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.

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

We enter into contractual relationships governing the protection of our confidential and proprietary information with our employees, consultants and prospective and existing licensees and strategic partners. If we are unable to detect in a timely manner the unauthorized use or disclosure of our proprietary or other confidential information or if we are unable to enforce our rights under such agreements, the misappropriation of such information could harm our business.

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 1, 2009 to February 24, 2012, the trading price of our common stock has ranged from a low of $18.41 per share to a high of $82.50 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:

- market conditions or trends in our industry or the economy as a whole;
- changes in operating performance and stock market valuations of other wireless communications companies generally;

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- the 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;
- 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 spin-offs, joint ventures and acquisitions or divestitures;
- investor perceptions as to the likelihood of achievement of near-term goals;
- changes in market share of significant licensees; and
- announcements of mergers or acquisition transactions.

In addition, the stock markets, and in particular the NASDAQ Global Select Market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. 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.

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, 2011 was approximately $230.0 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 initial dividend policy, adopted and announced in December 2010, contemplates the payment of a regular quarterly cash dividend of $0.10 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 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 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

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cause our stock price to decline.

If securities or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, 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. In addition, it is possible that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could 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 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

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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 become 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.

Item 2. PROPERTIES.

We own, subject to a mortgage, our corporate headquarters, which is located in King of Prussia, Pennsylvania and consists of approximately 52,000 square feet of administrative office and research space. We are also a party to a lease, scheduled to expire in November 2012, for approximately 56,125 square feet of administrative office and research space in Melville, New York. In addition, we are a party to a lease for approximately 17,277 square feet of administrative office and research space in Montreal, Quebec, Canada. This lease, originally for 20,312 square feet, was scheduled to expire in June 2011. In December 2010, we entered into an amendment to such lease, pursuant to which, effective January 31, 2011, we surrendered 3,035 square feet of space and extended the lease term through June 2016. In first quarter 2011, we entered into a lease for approximately 5,100 square feet of research and corporate development space in San Diego, California. In May 2011, we exercised an option to expand this space to a total of approximately 7,630 square feet. This lease expires in May 2014. These four facilities are the principal locations for our technology development activities.

Item 3. LEGAL PROCEEDINGS.

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. (“Huawei Technologies”) 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 (collectively, “InterDigital” for purposes of the discussion of this matter). This first complaint alleges that InterDigital had 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 Technologies seeks relief in the amount of 20.0 million RMB (approximately $3.2 million based on the current exchange rate), 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 InterDigital's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, LLC, InterDigital Patent Holdings, Inc., and IPR Licensing, Inc. (collectively, “InterDigital” for purposes of the discussion of this matter). 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 fair, reasonable, and

non-discriminatory ("FRAND") terms; and that InterDigital has failed to negotiate on FRAND terms with Huawei Technologies. Huawei Technologies is asking the court to determine the FRAND rate for licensing essential Chinese patents to Huawei Technologies and also seeks compensation for its costs associated with this matter.

Huawei Delaware State Court Proceeding
On October 25, 2011, Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies

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(USA) (collectively, “Huawei”) filed a complaint (“Complaint”) with the Court of Chancery of the State of Delaware (“Court of Chancery”) against InterDigital's wholly owned subsidiaries InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Communications, LLC (collectively, “InterDigital”). The Complaint asserts causes of action for breach of contract, equitable estoppel, waiver, and declaratory judgment. The Complaint seeks to enforce alleged contractual commitments made by InterDigital to license on FRAND terms patents Huawei claims InterDigital has declared essential to various 3G wireless standards. The Complaint further requests a declaratory judgment that InterDigital has not offered licenses on FRAND terms to such patents, a declaratory judgment that InterDigital is equitably estopped and has waived its right to seek injunctive or exclusionary relief for Huawei’s alleged infringement of such patents, including but not limited to such relief as sought in InterDigital’s U.S. International Trade Commission (“USITC” or the “Commission”) proceeding against Huawei, and a declaratory judgment determining an appropriate FRAND royalty for InterDigital’s United States patents that Huawei claims have been declared essential to a standard used by Huawei’s accused products. On the same date that the Complaint was filed, Huawei filed a motion seeking expedited proceedings.

On November 14, 2011, InterDigital filed an opposition to Huawei’s motion to expedite proceedings and filed a motion to stay or dismiss the proceedings. On November 16, 2011, the Court of Chancery denied Huawei’s motion to expedite and requested a status update within 30 days. On December 16, 2011, InterDigital and Huawei submitted separate status reports to the Court of Chancery on the parallel proceedings in the USITC and the District of Delaware (discussed below).

Nokia, Huawei, ZTE and LG USITC Proceeding and Related Delaware District Court Proceeding

On July 26, 2011, InterDigital’s wholly owned subsidiaries InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (collectively, the “Company,” “InterDigital,” “we,” or “our” for the purposes of the discussion of this matter) filed a complaint with the USITC against Nokia Corporation and Nokia Inc. (collectively, “Nokia”), Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, “Huawei”) and ZTE Corporation and ZTE (USA) Inc. (collectively, “ZTE” and together with Nokia and Huawei, “Respondents”), alleging that they engaged in unfair trade practices by making for importation into the United States, importing into the United States, and 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 “Asserted 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 U.S. any infringing 3G wireless devices (and components) that are imported by or on behalf of 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 August 31, 2011, the USITC formally instituted an investigation against Respondents. 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. (collectively, “LG”) as respondents to the Company’s USITC complaint, and that the USITC add an additional patent to the USITC complaint as well. On December 5, 2011, the Administrative Law Judge ("ALJ") granted this motion, and on December 21, 2011, the Commission determined not to review the ALJ’s determination, thus adding the LG entities as respondents and including allegations of infringement of the additional patent.

On September 29, 2011, Nokia filed a motion to terminate the USITC investigation, arguing that InterDigital’s alleged commitment to the European Telecommunications Standards Institute (“ETSI”) regarding the licensing of essential patents on FRAND terms allegedly resulted in InterDigital's waiver of the right to seek exclusionary relief at the USITC. On October 19, 2011, InterDigital filed its opposition to the motion to terminate.

On October 6, 2011, Nokia filed a motion to stay the USITC investigation based on its allegations that InterDigital had violated the protective order in the prior USITC investigation between InterDigital and Nokia (described below). On October 21, 2011, InterDigital filed its opposition to Nokia’s motion to stay. On December 22, 2011, the ALJ denied Nokia’s motion to stay.

On December 5, 2011, the ALJ modified the procedural schedule for the USITC investigation, and set a trial date of October 22 to November 2, 2012. The target date for completion of the USITC investigation has been extended from February 28, 2013 to June 28, 2013. The parties have submitted a draft procedural schedule consistent with the ALJ’s

trial date.

On January 20, 2012, LG filed a motion to terminate the USITC investigation alleging there is an arbitrable dispute. InterDigital filed its response opposing LG's motion on February 6, 2012.

On the same date that InterDigital filed the present USITC action (referenced above), we filed a parallel action in the United States District Court for the District of Delaware (the "Delaware District Court") against the Respondents alleging infringement of the same Asserted Patents identified in the USITC complaint. 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

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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 the investigation referenced above, 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 the USITC complaint referenced above. On October 10, 2011, the Company filed a statement of non-opposition to the motion to stay. On October 11, 2011, the Delaware District Court granted defendants' motion to stay.

On November 30, 2011, Huawei filed a motion to partially lift the stay to adjudicate certain proposed counterclaims premised on InterDigital's purported breach of certain FRAND obligations, while the rest of the case remains stayed. On December 16, 2011, ZTE (USA) Inc. ("ZTE USA") filed a pleading joining in Huawei's motion, and seeking to partially lift the stay so that ZTE USA's similar FRAND-based counterclaims can be adjudicated. On December 19, 2011, InterDigital filed a brief responding to Huawei's motion and seeking a discretionary stay with respect to Huawei's and ZTE USA's proposed counterclaims. On December 30, 2011, Huawei filed its reply brief in support of its motion to partially lift the stay. On January 9, 2012, InterDigital filed its reply brief in support of its request for a discretionary stay of Huawei's and ZTE USA's proposed counterclaims.

Prior Nokia USITC Proceeding and Federal Circuit Appeal

In August 2007, InterDigital filed a complaint with the USITC against Nokia Corporation and Nokia, Inc. (collectively, "Nokia") alleging that Nokia engaged in an unfair trade practice by selling for importation into the United States, importing into the United States, and 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 fourth patent, respectively, were added to our 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. Our 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.

Nokia then unsuccessfully sought to terminate or stay the USITC investigation against it on the ground that Nokia and we must first arbitrate an alleged dispute as to whether Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation. After that effort failed, Nokia sought and obtained a preliminary injunction in the U.S. District Court for the Southern District of New York preventing us from proceeding in the USITC against Nokia. Shortly after the issuance of the preliminary injunction, the Nokia USITC investigation was stayed, and the Nokia investigation was de-consolidated from an investigation we had earlier initiated against Samsung in the USITC, which permitted the Samsung USITC investigation to move forward.

In July 2008, the United States Court of Appeals for the Second Circuit reversed the preliminary injunction obtained by Nokia. In September 2008, the Administrative Law Judge lifted the stay in the Nokia USITC investigation. In March 2009, the U.S. District Court for the Southern District of New York dismissed Nokia's claims relating to its alleged license dispute.

The evidentiary hearing in the Nokia USITC investigation was held from May 26, 2009 through June 2, 2009. On August 14, 2009, the Administrative Law Judge issued an Initial Determination finding no violation of Section 337 of the Tariff Act of 1930. The Initial Determination found that our 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 USITC, the Administrative Law Judge 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 August 31, 2009, we filed a petition for review of certain issues raised in the August 14, 2009 Initial Determination. On that same date, Nokia also filed a contingent petition for review of certain issues in the Initial Determination. Responses to both petitions were filed on September 8, 2009.

On October 16, 2009, the USITC issued a notice that it had determined to review in part the Initial Determination, and that it affirmed the Administrative Law Judge's determination of no violation and terminated the investigation.

On November 30, 2009, InterDigital filed with the United States Court of Appeals for the Federal Circuit a petition for review of certain rulings by the USITC. On December 17, 2009, Nokia filed a motion to intervene in the appeal,

which was granted by the Court in January 2010. In our appeal, we seek reversal of the USITC's claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the USITC's determination of no Section 337 violation, and a remand for further proceedings before the USITC. Nokia and the USITC argue in their appeal briefs that the USITC correctly construed the claim terms asserted by us in our appeal and that the USITC properly determined that Nokia did not infringe the patents on appeal. Nokia also argues that the USITC's finding of noninfringement should be affirmed based on an additional claim term. Nokia further argues that the USITC erred in finding that we could satisfy the domestic industry requirement based solely on our patent licensing activities and without proving that an article in the United States practices the claimed inventions, and that the USITC's finding of no Section 337 violation should be affirmed

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on that additional basis. On January 13, 2011, the Court heard oral argument in the appeal. The Court has not yet issued a decision in the appeal. Refer to Note 8 to our Consolidated Financial Statements for further discussion regarding these Nokia proceedings.

Nokia Delaware Proceeding

In January 2005, Nokia filed a complaint in the U.S. District Court for the District of Delaware ("Delaware District Court") against InterDigital Communications Corporation (now IDC) and ITC (for purposes of the Nokia Delaware Proceeding described herein, IDC and ITC are collectively referred to as "InterDigital," "we," or "our"), alleging that we have used false or misleading descriptions or representations regarding our patents' scope, validity, and applicability to products built to comply with 3G wireless phone Standards ("Nokia Delaware Proceeding"). Nokia's amended complaint seeks declaratory relief, injunctive relief and damages, including punitive damages, in an amount to be determined.

We 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. Our 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 InterDigital's USITC investigation against Nokia. Specifically, the full and final resolution of the USITC investigation includes any initial or final determinations of the Administrative Law Judge overseeing the proceeding, the USITC, and any appeals therefrom. 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, including the Nokia USITC Proceeding (described above).

Nokia Arbitration Concerning Presentations

In November 2006, InterDigital Communications Corporation (now IDC) and ITC filed a request for arbitration with the International Chamber of Commerce against Nokia ("Nokia Arbitration Concerning Presentations"), claiming that certain presentations Nokia has attempted to use in support of its claims in the Nokia Delaware Proceeding 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 (described above) also stayed the Nokia Arbitration Concerning Presentations pending the full and final resolution of the USITC investigation against Nokia as described above.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information

The principal market for our common stock is the NASDAQ Stock Market ("NASDAQ"). The following table sets forth the high and low sales prices of our common stock for each quarterly period in 2011 and 2010, as reported by NASDAQ.

	High	Low
2011		
First quarter	$58.64	$40.15
Second quarter	49.57	34.61
Third quarter	82.50	41.20

Fourth quarter	52.60	38.51

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	High	Low
2010		
First quarter	$28.34	$23.37
Second quarter	29.98	22.30
Third quarter	29.66	23.73
Fourth quarter	43.35	28.90

Holders

As of February 23, 2012, there were 977 holders of record of our common stock.

Dividends

Prior to 2010, we had not declared any cash dividends on our shares of common stock. In fourth quarter 2010, our Board of Directors approved the Company's initial dividend policy and declared the first quarterly cash dividend of $0.10 cents per share. Cash dividends on the Company's outstanding common stock declared in 2011 and 2010 were as follows (in thousands, except per share data):

2011	Per Share	Total	Cumulative by Fiscal Year
First quarter	$0.10	$4,535	$4,535
Second quarter	0.10	4,540	9,075
Third quarter	0.10	4,549	13,624
Fourth quarter	0.10	4,570	18,194
	$0.40	$18,194	
2010			
First quarter	$—	$—	$—
Second quarter	—	—	—
Third quarter	—	—	—
Fourth quarter	0.10	4,526	4,526
	$0.10	$4,526	

We currently expect to continue to pay comparable cash dividends 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.

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, 2006 and that all dividends were re-invested.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among InterDigital Inc., the NASDAQ Composite Index
And the NASDAQ Telecommunications Index

	12/06	12/07	12/08	12/09	12/10	12/11
InterDigital, Inc.	100.00	69.54	81.97	79.17	124.11	131.28
NASDAQ Composite	100.00	110.26	65.65	95.19	112.10	110.81
NASDAQ Telecommunications	100.00	113.32	61.52	85.61	94.28	83.51

Issuer Purchases of Equity Securities
Repurchase of Common Stock
There were no repurchases of common stock during 2011.

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Item 6. SELECTED FINANCIAL DATA.

	2011	2010	2009	2008	2007
	(in thousands except per share data)				
Consolidated statements of operations data:					
Revenues	$301,742	$394,545	$297,404	$228,469	$234,232
Income from operations(a)	$134,757	$235,873	$113,889	$36,533	$23,054
Income tax provision(b)	$(35,140)	$(84,831)	$(25,447)	$(13,755)	$(11,999)
Net income applicable to common shareholders	$89,468	$153,616	$87,256	$26,207	$20,004
Net income per common share — basic	$1.97	$3.48	$2.02	$0.58	$0.42
Net income per common share — diluted	$1.94	$3.43	$1.97	$0.57	$0.40
Weighted average number of common shares outstanding — basic	45,411	44,084	43,295	44,928	47,766
Weighted average number of common shares outstanding — diluted	46,014	44,824	44,327	45,964	49,489
Cash dividends declared per common share	$0.40	$0.10	$—	$—	$—
Consolidated balance sheets data:					
Cash and cash equivalents	$342,211	$215,451	$210,863	$100,144	$92,018
Short-term investments	335,783	326,218	198,943	41,516	85,449
Working capital	595,734	440,996	449,762	114,484	214,229
Total assets	996,968	874,643	908,485	405,768	534,885
Total debt	192,709	468	1,052	2,929	3,717
Total shareholders' equity	$471,682	$353,116	$169,537	$87,660	$137,067

(a) In 2009, our income from operations included charges of $38.6 million associated with actions to reposition the Company's operations. In 2008, the Company recognized a $3.9 million non-recurring benefit associated with a reduction in a contingent liability, and, in 2007, the Company recognized non-recurring charges totaling $24.4 million associated with increases to contingent liabilities.

(b) 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. In 2009, our income tax provision included a net benefit of approximately $16.4 million, primarily related to the recognition of foreign tax credits. See Note 10 to the Consolidated Financial Statements for further discussion on these foreign tax credits.

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. Please refer to the Glossary of Terms immediately following the Table of Contents for a listing and detailed description of the various technical, industry, and other defined terms that are used in this Form 10-K.

Business

InterDigital designs and develops advanced technologies that enable and enhance wireless communications and monetizes such technologies through licensing and other revenue opportunities. Since our founding in 1972, we 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 and as of December 31, 2011 held, through wholly owned subsidiaries, a portfolio of over 19,500 patents and patent applications related to the fundamental technologies

that enable wireless communications. Included in our 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. We believe that companies

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making, using or selling products compliant with these Standards, which include all manufacturers of mobile handsets, require a license under our patents and will require licenses under patents that may issue from our pending patent applications. 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. In 2011, we believe we recognized revenue from over half of all 3G mobile devices sold worldwide, including those sold by leading mobile communications companies such as Apple, HTC, RIM and Samsung.

We develop advanced technologies that we expect will improve the wireless user's experience and enable the delivery of a broad array of information and services. This includes next-generation wireless air interfaces and technologies to enhance connectivity and mobility across networks and devices and technologies that support more efficient transportation of information. We actively participate in, and contribute our technology solutions to, worldwide organizations responsible for the development and approval of Standards with which digital cellular and IEEE 802-compliant products and services are designed to operate in accordance. We offer licenses to our patents to equipment producers that manufacture, use or sell digital cellular and IEEE 802-related products. In addition, we offer for license or sale our mobile broadband modem solutions (modem IP, know-how, and reference platforms) to mobile device manufacturers, semiconductor companies, and other equipment producers that manufacture, use or sell digital cellular products.We built our suite of technology and patent offerings primarily through internal development, but also through participation in joint development projects with other companies, as well as select acquisitions. We have formed strategic relationships with a number of leading technology companies that share our vision and complement our internal research and development efforts. Currently, we generate revenues primarily from royalties received under our patent license agreements. We also generate revenues by licensing our technology solutions and providing related development support.

In 2011, 2010, and 2009, our total revenues were $301.7 million, $394.5 million, and $297.4 million, respectively, and our patent licensing revenues were $295.3 million, $370.2 million, and $287.6 million, respectively. Patent licensing revenue made up at least 94% of our total revenues in each period.

In 2011, the amortization of fixed fee royalty payments accounted for approximately 46% of our patent licensing 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 patent licensing revenue is variable in nature due to the per-unit structure of the related license agreements. Approximately 41% of this per-unit variable portion for 2011 related to sales of product by Japanese licensees for whom the majority of the sales are within Japan. As a result, our per-unit variable patent license royalties have been, and will continue to be, largely influenced by sales within the Japanese market.

Strategic Alternatives Review

On July 19, 2011, we announced that our Board of Directors had initiated a process to explore and evaluate potential strategic alternatives for the Company, including a sale or other transaction. On January 23, 2012, we announced that our Board of Directors had concluded its review of strategic alternatives for the Company and determined that it was in the best interests of the Company and its shareholders to execute on the company's business plan and to expand the plan to include patent sales and licensing partnerships. For additional information regarding the company's business strategy, see "Part I. Item 1. Business -- InterDigital's Strategy."

Patent License Agreements

In first quarter 2011, we entered into a worldwide, non-transferable, non-exclusive, royalty-bearing patent license agreement with Acer, Inc., a multinational corporation headquartered in Taiwan. The products designated as licensed under the agreement are designed to operate in accordance with 2G, 3G and 4G wireless technologies, including LTE, LTE-Advanced, and WiMax Standards.

2011 patent license activity was affected by our July 2011 announcement that our Board of Directors had commenced a process to explore and evaluate potential strategic alternatives for the Company.

Expiration of Patent License Agreements

In 2012, we will recognize the remaining $102.7 million of revenue associated with the 2009 Samsung PLA. Samsung contributed approximately $102.7 million, or 34%, of our revenue in 2011. The Samsung PLA covers the

sale of single mode terminal units and infrastructure designed to operate in accordance with TDMA-based 2G Standards, which portion of the license became paid-up in 2010, and the sale of terminal units and infrastructure designed to operate in accordance with 3G Standards through 2012. Pursuant to the 2009 Samsung PLA, Samsung paid InterDigital $400.0 million in four equal installments over an 18-month period. Samsung paid the first two of four $100.0 million installments in 2009. We received the third and fourth $100.0 million installments in January 2010 and July 2010. Upon expiration of the 2009 Samsung PLA at the

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end of 2012, Samsung will retain its paid-up license to sell single mode terminal units and infrastructure designed to operate in accordance with TDMA-based 2G Standards and become unlicensed as to all other products covered under the agreement.

RIM contributed approximately $42.9 million, or 14%, of our revenue in 2011. Our patent license agreement with RIM currently covers the sale of terminal units designed to operate in accordance with GSM/GPRS/EDGE, TIA/EIA-95 and 3G Standards, and expires on December 31, 2012. Under the terms of the agreement, RIM is obligated to pay a royalty on each licensed product sold by RIM or its affiliates and we recognize revenue associated with this agreement as sales of licensed products are reported. Upon expiration of the agreement at the end of 2012, RIM will become unlicensed as to all products covered under the agreement.

In addition, we expect that a patent license agreement with one of our per-unit Japanese licensees will expire in 2012. During 2011, this licensee reported $11.5 million of royalties and, based on those reports, at December 31, 2011 had a remaining prepaid balance of $3.3 million under its agreement. Once this licensee has exhausted its remaining prepaid balance, this patent license agreement will expire.

We continue to place substantial focus on renewing agreements that have expired or will expire and on expanding our patent licensee base, both with the top-tier handset manufacturers and other market participants.

Patent Licensing Royalties

Patent licensing royalties in 2011 of $295.3 million decreased 20% from the prior year and represented the most significant portion of our total revenue of $301.7 million. This $74.9 million year-over-year decrease in patent licensing royalties was primarily driven by a $57.5 million decrease due to the expiration of the 3G portion of our patent license agreement with LG Electronics, Inc. ("LG") at the end of 2010 and a $27.7 million decrease in past sales. These decreases were partially offset by an aggregate increase in per-unit royalties due to strong sales from our existing licensees with concentrations in smartphones. Refer to "Results of Operations -- 2011 Compared with 2010" for further discussion of our 2011 revenue.

Technology Solutions

We are engaged in arbitration to determine whether royalties are owed on specific product classes pursuant to one of our technology solutions agreements. As of December 31, 2011 and December 31, 2010, we have deferred related revenue of $29.7 million and $8.6 million, respectively. These amounts have either been collected or recorded in accounts receivable on their respective balance sheet dates.

United States International Trade Commission Proceedings

Nokia, Huawei, ZTE and LG U.S. International Trade Commission (“USITC”) Proceeding and Related Delaware District Court Proceeding

On July 26, 2011, InterDigital's wholly-owned subsidiaries InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (collectively, the “Company,” “InterDigital,” “we,” or “our” for the purposes of the discussion of this matter) filed a complaint with the USITC against Nokia Corporation and Nokia Inc. (collectively, “Nokia”), Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, “Huawei”) and ZTE Corporation and ZTE (USA) Inc. (collectively, “ZTE” and together with Nokia and Huawei, “Respondents”), alleging that they engaged in unfair trade practices by making for importation into the United States, importing into the United States, and selling after importation into the United States, certain 3G wireless devices that infringe seven of InterDigital’s U.S. patents (the “Asserted Patents”). The action also extends to certain WCDMA and cdma2000® devices incorporating WiFi functionality. On August 31, 2011, the USITC formally instituted an investigation against Respondents. 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. (collectively, “LG”) as respondents to the Company’s USITC complaint, and that the USITC add an additional patent to the USITC complaint as well. On December 5, 2011, the Administrative Law Judge (“ALJ”) granted this motion, and on December 21, 2011 the USITC determined not to review the ALJ’s determination, thus adding the LG entities as respondents and including allegations of infringement of the additional patent. The ALJ has set a trial date of October 22 to November 2, 2012 and has set a target date of June 28, 2013 for completion of the USITC investigation.

On the same date that InterDigital filed the present USITC action (referenced above), we filed a parallel action in the United States District Court for the District of Delaware (the “Delaware District Court”) against the Respondents

alleging infringement of the same Asserted Patents identified in the USITC complaint. 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 the USITC complaint referenced above. The Delaware District Court action has been stayed pending the parallel proceedings in the USITC.

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Prior Nokia USITC Proceeding/Federal Circuit Appeal

The United States Court of Appeals for the Federal Circuit has not yet issued a decision in our appeal of certain rulings by the USITC in connection with the USITC investigation initiated by us against Nokia in 2007.

Please see "Item 3. Legal Proceedings" in Part I of this Annual Report on Form 10-K for further discussion of the USITC proceedings.

Cash and Short-Term Investments

At December 31, 2011, we had $678.0 million of cash and short-term investments. A substantial portion of this balance 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 reduced in future periods. Additionally, on April 4, 2011, we completed an offering of $230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the "Notes"). The net proceeds from the offering were approximately $222.0 million, after deducting the initial purchaser's discount and offering expenses. A portion of the net proceeds of the offering were used to fund the cost of the convertible note hedge transactions entered into in connection with the offering of the Notes. We expect to use the remaining net proceeds from the offering for general corporate purposes, which may include, among other things: acquisitions of intellectual property-related assets or businesses or securities in such businesses; capital expenditures; payment of cash dividends; and working capital. We currently plan to preserve a significant portion of our cash, cash equivalents and short-term investments to finance our business in the near future and will continue to periodically review our cash and short-term investment position and our dividend policy, including upon the receipt of any new prepaid royalty payments or any new patent license agreements we may sign.

During 2011, we recorded $128.3 million of cash receipts related to patent licensing and technology solutions agreements as follows (in thousands):

	Cash In
Fixed royalty payments	$34,000
Current royalties and past sales	52,187
Prepaid royalties	13,162
Technology solutions	28,929
	$128,278

These cash receipts contributed to a $136.3 million increase in our cash and short-term investments and, together with a $17.0 million accrual of accounts receivable related to scheduled fixed fee payments, partially offset the $235.5 million in deferred revenue recognized, resulting in a net $178.9 million decrease in deferred revenue to $288.0 million at December 31, 2011. Our accounts receivable and deferred revenue balances do not include $48.0 million of receivables from existing agreements due to us more than twelve months from our current balance sheet date.

Approximately $170.9 million of our $288.0 million deferred revenue balance relates to fixed royalty payments that are scheduled to amortize as follows (in thousands):

2012	$134,087
2013	14,633
2014	9,997
2015	5,361
2016	5,361
Thereafter	1,459
	$170,898

The remaining $117.1 million of deferred revenue primarily relates to prepaid royalties that will be recorded as revenue as our licensees report their sales of covered products and prepaid royalties that may be recorded as revenue upon the resolution of the arbitration related to one of our technology solutions agreements.

Repurchase of Common Stock

In March 2009, our Board of Directors authorized a $100.0 million share repurchase program (the "2009 Repurchase Program"). The Company may repurchase shares under the 2009 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases. During 2009, we repurchased 1.0 million shares for

$25.0 million

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under the 2009 Repurchase Program. We made no share repurchases during 2010 or 2011. From January 1, 2012 through February 24, 2012, we repurchased 0.6 million shares for $23.6 million, bringing the cumulative repurchase total under the 2009 Repurchase Program to 1.6 million shares at a cost of $48.6 million.

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 2011, our intellectual property enforcement costs increased to $23.7 million from $12.1 million and $16.3 million in 2010 and 2009, respectively. This represented 33% of our 2011 total patent administration and licensing costs of $71.7 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 2011 financial results against other periods, the following items should be taken into consideration:

- Our 2011 revenue included $13.6 million of past sales recognized primarily in connection with the resolution of audits of existing licensees.
- Our 2011 income tax expense included benefits of $6.8 million and $1.5 million related to the favorable resolution of tax contingencies and after tax interest income on tax refunds, respectively.
- Our 2011 other expense included a $1.6 million charge related to impairments on our investments in other entities.
- Our 2011 operating expense included a $5.7 million reduction to long-term compensation expense to decrease the accrual rates for two of our performance cycles from 100% to 50%. This reduction was driven by the impact of our strategic alternatives review process on the timing of license agreements and includes a $1.9 million adjustment to amounts accrued through December 31, 2010.
- Our 2011 operating expense included a $1.3 million charge to adjust the accrual rate under our Long-Term Compensation Program ("LTCP") for the incentive period covering January 1, 2009 through December 31, 2011.

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

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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) collectability 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 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 and the guidance for revenue recognition. 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 Sales: 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 sales 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 collectability 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.

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.

Technology Solutions Revenue

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Technology solutions revenue consists primarily of revenue from software licenses and engineering services. 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.

When technology solutions agreements include royalty payments, we recognize revenue from the royalty payments using the same methods described above under our policy for recognizing revenue from patent license agreements.

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, prior to 2010, restricted stock unit (“RSU”) awards for non-managers and the LTCP for managers, which included both time-based and performance-based RSUs and a performance-based cash incentive component. Prior to 2010, LTCP awards would alternate annually between RSU and cash cycles, each of which generally covered a three-year period and could overlap with another cycle by as many as two years.

In fourth quarter 2010, the LTCP was amended to, among other things, increase the relative proportion of performance-based compensation for executives and managers, extend participation to all employees, and eliminate alternating RSU and cash cycles. Effective with the cycle that began on January 1, 2010, executives and managers receive 25% of their LTCP participation in the form of time-based RSUs that vest in full at the end of the respective three-year cycle and the remaining 75% in the form of performance-based awards granted under the long-term incentive plan (“LTIP”) component of the LTCP. LTIP performance-based awards may be paid out at the end of the three-year cycle in the form of cash, equity or any combination thereof, as determined by the Compensation Committee of the Board of Directors. Where the allocation has not been determined at the beginning of the cycle, as is the case of both Cycle 5 and Cycle 6 (each as defined below), the allocation is assumed to be 100% cash for accounting purposes. All employees below manager level receive 100% of their LTCP participation in the form of time-based RSUs that vest in full at the end of the respective three-year cycle. The following LTCP cycles were active for all or some portion of the three years ended December 31, 2011:

- RSU Cycle 3: Time-based and performance-based RSUs granted on January 1, 2007, with a target vest date of January 1, 2010;
- Cash Cycle 3: A long-term performance-based cash incentive covering the period January 1, 2008 through December 31, 2010;
- RSU Cycle 4: Time-based and performance-based RSUs granted on January 1, 2009, with a target vest date of January 1, 2012;
- Cycle 5: Time-based RSUs granted on November 1, 2010, which vest on January 1, 2013, and a long-term performance-based incentive covering the period from January 1, 2010 through December 31, 2012; and
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Cycle 6: Time-based RSUs granted on January 1, 2011, which vest on January 1, 2014, and a long-term performance-based incentive covering the period from January 1, 2011 through December 31, 2013.

We recognized share-based compensation expense of $8.1 million, $5.8 million, and $9.8 million in 2011, 2010, and 2009, respectively. Included in 2011 is a charge of $1.3 million to increase the accrual rate for the performance-based RSU grant under RSU Cycle 4 from 0% to 31% based on the final payout associated with this grant. The majority of our share-based compensation expense, for all years, is associated with RSU awards granted under our LTCP. We also recognized $1.8 million, $11.2 million, and $(0.1) million of compensation expense in 2011, 2010, and 2009, respectively, related to the performance-based cash incentive under our LTCP.

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In 2011, performance-based cash incentive cost of $1.8 million is net of a reduction of $5.7 million to decrease the accrual rates for Cycle 5 and Cycle 6 from 100% to 50%. This reduction was driven by the impact of our strategic alternatives review process on the timing of license agreements and includes a $1.9 million adjustment to amounts accrued through December 31, 2010.

In 2010, the performance-based cash incentive cost includes a charge of $3.3 million to increase the accrual rate for Cash Cycle 3 from the previously estimated payout of 50% to the actual payout of 86%. The increase in the incentive payout from 50% to 86% was driven by the Company's success in achieving a number of key goals, including the signing of five new or amended 3G patent license agreements, after we had reduced the accrual rate to 50% in third quarter 2009.

In 2009, the performance-based cash incentive cost includes a credit of $2.3 million to reduce the accrual rate for Cash Cycle 3 from 100% to 50% based on revised expectations for a lower payout at that time.

At December 31, 2011, accrued compensation expense associated with the LTCP's performance-based incentives was based on estimated payouts of 50% for both Cycle 5 and Cycle 6. Under both the current and prior versions of the program, 100% achievement of the goals set by the Compensation Committee of the Board of Directors results in a 100% payout of the performance-based incentive target amounts. For each 1% change above or below 100% achievement, the payout is adjusted by 2.5 percentage points with a maximum payout under the current program of 200%, a maximum payout of 225% under the prior program and no payout under either program for performance that falls below 80% achievement. The following table provides examples of the performance-based incentive payout that would be earned based on various levels of goal achievement:

Goal Achievement	Payout	
less than 80%	—	%
80%	50	%
100%	100	%
120%	150	%
140% or greater (current program maximum)	200	%
150% or greater (prior program maximum)	225	%

If we had assumed that goal achievement for Cycle 5 would be either 100% or less than 50%, we would have accrued either $3.7 million more or less, respectively, of related compensation expense through December 31, 2011.

If we had assumed that goal achievement for Cycle 6 would be either 100% or less than 50%, we would have accrued either $2.0 million more or less, respectively, of related compensation expense through December 31, 2011.

For LTCP RSU cycles that began prior to 2010, executives received 50% of their RSU grant as performance-based RSUs and 50% as time-based RSUs, and the Company's managers received 25% of their RSU grant as performance-based RSUs and 75% as time-based RSUs.

Under the prior LTCP program, 100% achievement of the goals set by the Compensation Committee of the Board of Directors resulted in a 100% payout of the performance-based RSU incentive target amounts. For each 1% change above or below 100% achievement, the RSU payout was adjusted by 4 percentage points with a maximum payout of 300%. For performance that fell below 80% achievement, no payout would occur. The following table provides examples of the performance-based RSU payout that would have been earned based on various levels of goal achievement:

Goal Achievement	Payout	
less than 80%	—	%
80%	20	%
100%	100	%
120%	180	%
150% or greater	300	%

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

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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.

During fourth quarter 2009, we completed a study to assess the Company’s ability to utilize foreign tax credit carryovers into the tax year 2006. As a result of the study, we amended our United States federal income tax returns for the periods 1999 — 2005 to reclassify $29.3 million of foreign tax payments we made during those periods from deductions to foreign tax credits. We also amended our federal tax returns for the periods 2006 - 2008 to utilize the resulting tax credits. When we completed the study, we established a basis to support amending the returns and estimated that the maximum incremental benefit would be $19.1 million. We recognized a net benefit of $16.4 million after establishing a

$2.7 million reserve for related tax contingencies. In 2011, we recorded an additional tax benefit of $8.3 million to eliminate this and other tax contingencies and recognize interest income on the associated refund.

Between 2006 and 2011, we paid approximately $142.2 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 interest expense and/or foreign currency gain or loss.

New Accounting Guidance

Accounting Standards Updates: Revenue Arrangements with Multiple Deliverables

In September 2009, the FASB finalized revenue recognition guidance for Revenue Arrangements with Multiple Deliverables. By providing another alternative for determining the selling price of deliverables, the Accounting Standard Update related to revenue arrangements with multiple deliverables allows companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction’s economics. In addition, the residual method of allocating arrangement consideration is no longer permitted under this new guidance. This guidance is effective for fiscal years beginning on or after June 15, 2010. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We adopted this guidance effective January 1, 2011, and have been applying this guidance on a prospective basis for all new or materially modified revenue arrangements with multiple deliverables entered into on or after January 1, 2011. As a result of this new guidance, we will recognize revenue from new or materially modified agreements with multiple elements and fixed payments earlier than we would have under our old policy. During 2011, we entered into one new agreement with multiple elements and fixed payments. The application of this guidance to the new agreement did not have a material impact on the timing or pattern of revenue recognition.

Accounting Standards Updates: Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued authoritative guidance that is more closely aligned with the fair value measurement and disclosure guidance issued by the International Accounting Standards Board ("IASB"). The issuance of this standard results in global fair value measurement and disclosure guidance that minimizes the differences between U.S.

GAAP and International Financial Reporting Standards. Many of the changes in the final standard represent clarifications to existing guidance, while some changes related to the valuation premise and the application of premiums and discounts and new required disclosures are more significant. This guidance is effective for interim and annual periods beginning after December 15, 2011. Based upon our preliminary assessment, we do not believe the adoption of this guidance will have a significant impact on the Company's financial statements or related disclosures.

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Accounting Standards Updates: Presentation of Comprehensive Income

In June 2011, the FASB issued authoritative guidance requiring most entities to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity was eliminated. This guidance is effective for interim and annual periods beginning after December 15, 2011. Based upon our assessment of the impact of this guidance, the manner in which we present other comprehensive income in our financial statements will be modified upon adoption.

Legal Proceedings

We are routinely involved in disputes associated with enforcement and licensing activities regarding our intellectual property, including litigations and other proceedings. These litigations 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 Item 3 of Part I of this Form 10-K for a description of our material legal proceedings.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

Our primary sources of liquidity are cash, cash equivalents and short-term investments, as well as cash generated from operations. We have the ability to obtain additional liquidity through debt and equity financings. Based on our past performance and current expectations, we believe our available sources of funds, including cash, cash equivalents and short-term investments and cash generated from our operations, will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program in the next twelve months.

On April 4, 2011, we completed an offering of $230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the "Notes"). The net proceeds from the offering were approximately $222.0 million, after deducting the initial purchaser's discount and offering expenses. A portion of the net proceeds of the offering were used to fund the cost of the convertible note hedge transactions entered into in connection with the offering of the Notes. We expect to use the remaining net proceeds from the offering for general corporate purposes, which may include, among other things: acquisitions of intellectual property-related assets or businesses or securities in such businesses; capital expenditures; payment of cash dividends; and working capital.

Cash, cash equivalents and short-term investments

At December 31, 2011 and December 31, 2010, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

	December 31, 2011	December 31, 2010	Increase / (Decrease)
Cash and cash equivalents	$342,211	$215,451	$126,760
Short-term investments	335,783	326,218	9,565
Total Cash and cash equivalents and short-term investments	$677,994	$541,669	$136,325

The increase in cash, cash equivalents and short-term investments was primarily due to the net proceeds of $222.0 million from the Notes discussed above and was partially offset by $34.3 million used in operating activities, $31.0 million in capital investments, and $18.2 million of dividend payments.

Cash flows from operations

We used or generated the following cash flows from our operating activities in 2011 and 2010 (in thousands):

	For the Year Ended December 31,		
	2011	2010	(Decrease)
Cash flows (used in) provided by operating activities	$(34,338)	$133,923	$(168,261)

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Cash used in operating activities during 2011 included cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash compensation, accretion of debt discount, impairment of long-term investments, and amortization of financing costs) of $126.9 million, cash payments for short-term and long-term incentive compensation accrued in prior periods of $20.1 million, and tax payments of $36.6 million. These items were partially offset by $128.3 million of cash receipts from patent license and technology solutions agreements, tax refunds, and other changes in working capital. We received $34.0 million of fixed fee payments and $65.4 million of per-unit royalty payments, including past sales and prepayments, from existing licensees and a new licensee. Cash receipts from our technology solutions agreements totaled $28.9 million, primarily related to royalties and other license fees associated with our SlimChip modem core. In addition, we received $19.5 million in tax refunds, including interest income, as a result of amendments of previously filed tax returns.

The positive operating cash flow in 2010 arose principally from receipts of approximately $372.3 million related to patent license and technology solutions agreements. These receipts included the third and fourth of four $100.0 million installments from Samsung under our January 2009 license agreement. We also received $6.7 million of fixed fee payments and $137.4 million of per-unit royalty payments, including past sales and prepayments, from other existing and new licensees. Cash receipts from our technology solutions agreements totaled $28.2 million, primarily related to royalties and other license fees associated with our SlimChip modem core. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets, and non-cash compensation) of $130.7 million, cash payments for foreign source withholding taxes of $35.8 million primarily related to the Samsung installments, and estimated federal tax payments of $78.0 million.

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, 2011 and December 31, 2010 (in thousands) as follows:

	December 31, 2011	December 31, 2010	Increase / (Decrease)
Current assets	$768,887	$619,556	$149,331
Less: current liabilities	173,153	178,560	(5,407)
Working capital	595,734	440,996	154,738
Subtract:			
Cash and cash equivalents	342,211	215,451	126,760
Short-term investments	335,783	326,218	9,565
Add:			
Current deferred revenue	134,087	134,804	(717)
Adjusted working capital	$51,827	$34,131	$17,696

The $17.7 million increase in adjusted working capital in 2011 compared to 2010 is primarily attributable to an $8.8 million net decrease in accrued compensation resulting from first quarter 2011 payments against our short-term and long-term cash incentive obligations. Additionally, the expected utilization of our deferred tax assets resulted in an increase to our short-term deferred tax assets and contributed to the increase in adjusted working capital. These increases in adjusted working capital were partially offset by an increase in accrued legal fees, primarily associated with our recently filed USITC action.

Cash used in or provided by investing and financing activities

We used net cash in investing activities of $41.2 million and $157.9 million in 2011 and 2010, respectively. We purchased $10.1 million and $127.6 million of short-term marketable securities, net of sales, in 2011 and 2010, respectively. This decrease in net purchases was driven by lower cash receipts from patent license agreements as

discussed above. Purchases of property and equipment increased to $3.8 million in 2011 from $2.5 million in 2010 primarily due to our investments in new and existing facilities. Investment costs associated with patents decreased to $27.2 million in 2011 from $27.8 million in 2010.

Net cash provided by financing activities increased by $173.7 million primarily due to our issuance of the Notes and

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related transactions in second quarter 2011 as discussed above. This increase was partially offset by $18.2 million of dividend payments in 2011 that did not occur in 2010 and lower levels of proceeds from stock option exercises.

Other

Our combined short-term and long-term deferred revenue balance at December 31, 2011 was approximately $288.0 million, a decrease of $178.9 million from December 31, 2010. We have no material obligations associated with such deferred revenue. In 2011, deferred revenue decreased $235.5 million due to the deferred revenue recognition of $135.2 million related to the amortization of fixed fee royalty payments and $97.2 million related to per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees). These decreases in deferred revenue were partially offset by gross increases in deferred revenue of $56.6 million, primarily related to cash received or due from patent licensees and technology solutions customers. Of the $56.6 million, $21.1 million relates to the technolo