

InterDigital, Inc.  
Form 10-Q  
July 26, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the quarterly period ended June 30, 2013

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

Commission File Number 1-33579  
INTERDIGITAL, INC.  
(Exact Name of Registrant as Specified in Its Charter)  
PENNSYLVANIA 23-1882087  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)  
200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727  
(Address of Principal Executive Offices and Zip Code)  
(302) 281-3600  
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Common Stock, par value \$0.01 per share 41,182,879  
Title of Class Outstanding at July 23, 2013



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

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## INTERDIGITAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

|   | JUNE 30,<br>2013   | DECEMBER 31,<br>2012 |
|---|--------------------|----------------------|
| <b>ASSETS</b>   |                    |                      |
| <b>CURRENT ASSETS:</b>  |                    |                      |
| Cash and cash equivalents   | \$459,023          | \$349,843            |
| Short-term investments  | 310,769            | 227,436              |
| Accounts receivable, less allowances of \$1,750   | 60,609             | 169,874              |
| Deferred tax assets   | 42,061             | 36,997               |
| Prepaid and other current assets  | 31,416             | 30,197               |
| Total current assets  | 903,878            | 814,347              |
| PROPERTY AND EQUIPMENT, NET   | 7,195              | 7,824                |
| PATENTS, NET  | 192,498            | 177,557              |
| DEFERRED TAX ASSETS   | 31,245             | 30,687               |
| OTHER NON-CURRENT ASSETS  | 19,087             | 26,194               |
|   | 250,025            | 242,262              |
| <b>TOTAL ASSETS</b>   | <b>\$1,153,903</b> | <b>\$1,056,609</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |                      |
| <b>CURRENT LIABILITIES:</b>   |                    |                      |
| Accounts payable  | 13,112             | 9,600                |
| Accrued compensation and related expenses   | 8,993              | 20,661               |
| Deferred revenue  | 116,858            | 106,305              |
| Taxes payable   | 1,502              | 3,960                |
| Dividends payable   | 4,118              | —                    |
| Other accrued expenses  | 21,464             | 32,387               |
| Total current liabilities   | 166,047            | 172,913              |
| LONG-TERM DEBT  | 204,530            | 200,391              |
| LONG-TERM DEFERRED REVENUE  | 265,098            | 161,820              |
| OTHER LONG-TERM LIABILITIES   | —                  | 2,780                |
| <b>TOTAL LIABILITIES</b>  | <b>635,675</b>     | <b>537,904</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                    |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                    |                      |
| Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding  | —                  | —                    |
| Common Stock, \$0.01 par value, 100,000 shares authorized, 69,590 and 69,459 shares issued and 41,180 and 41,050 shares outstanding | 696                | 695                  |
| Additional paid-in capital  | 586,700            | 579,852              |
| Retained earnings   | 647,826            | 659,235              |
| Accumulated other comprehensive income  | 1,112              | 864                  |
|   | 1,236,334          | 1,240,646            |

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|  |             |             |
|--|-------------|-------------|
| Treasury stock, 28,409 shares of common held at cost | 721,941     | 721,941     |
| Total InterDigital, Inc. shareholders' equity        | 514,393     | 518,705     |
| Noncontrolling interest                              | 3,835       | —           |
| Total equity   | 518,228     | 518,705     |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY           | \$1,153,903 | \$1,056,609 |

The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share data)  
 (unaudited)

|  | FOR THE THREE MONTHS<br>ENDED JUNE 30, |           | FOR THE SIX MONTHS<br>ENDED JUNE 30, |            |
|--|--|-----------|--------------------------------------|------------|
|  | 2013                                   | 2012      | 2013                                 | 2012       |
| <b>REVENUES:</b>   |  |           |                                      |            |
| Patent licensing royalties                                     | \$67,210                               | \$62,344  | \$114,121                            | \$130,926  |
| Patent sales   | —                                      | \$9,000   | —                                    | 9,000      |
| Technology solutions   | 482                                    | 527       | 934                                  | 1,250      |
|  | \$67,692                               | \$71,871  | \$115,055                            | \$141,176  |
| <b>OPERATING EXPENSES:</b>                                     |  |           |                                      |            |
| Patent administration and licensing                            | 33,164                                 | 26,200    | 70,039                               | 49,428     |
| Development  | 13,477                                 | 17,177    | 29,623                               | 34,666     |
| Selling, general and administrative                            | 8,359                                  | 10,920    | 16,201                               | 20,103     |
| Repositioning  | —                                      | —         | 1,544                                | —          |
|  | 55,000                                 | 54,297    | 117,407                              | 104,197    |
| Income (loss) from operations                                  | 12,692                                 | 17,574    | (2,352)                              | ) 36,979   |
| OTHER INCOME (EXPENSE)   | 2,899                                  | (2,484)   | ) (6,581)                            | ) (5,218)  |
| Income (loss) before income taxes                              | 15,591                                 | 15,090    | (8,933)                              | ) 31,761   |
| INCOME TAX (PROVISION) BENEFIT                                 | (6,985)                                | ) (5,417) | ) 4,636                              | (11,158)   |
| NET INCOME (LOSS)  | \$8,606                                | \$9,673   | \$(4,297)                            | ) \$20,603 |
| Net (loss) income attributable to noncontrolling interest      | (632)                                  | ) —       | (1,266)                              | ) —        |
| NET INCOME (LOSS) ATTRIBUTABLE TO INTERDIGITAL, INC.           | \$9,238                                | \$9,673   | \$(3,031)                            | ) \$20,603 |
| NET INCOME (LOSS) PER COMMON SHARE — BASIC                     | \$0.22                                 | \$0.22    | \$(0.07)                             | ) \$0.46   |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC   | 41,161                                 | 43,876    | 41,150                               | 44,639     |
| NET INCOME (LOSS) PER COMMON SHARE — DILUTED                   | \$0.22                                 | \$0.22    | \$(0.07)                             | ) \$0.46   |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED | 41,456                                 | 44,139    | 41,150                               | 44,946     |
| CASH DIVIDENDS DECLARED PER COMMON SHARE                       | \$0.10                                 | \$0.10    | \$0.20                               | \$0.20     |

The accompanying notes are an integral part of these statements.

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

|  | FOR THE THREE<br>MONTHS ENDED<br>JUNE 30, |         | FOR THE SIX<br>MONTHS ENDED<br>JUNE 30, |          |
|--|---|---------|---|----------|
|  | 2013                                      | 2012    | 2013                                    | 2012     |
| Net income (loss)  | \$8,606                                   | \$9,673 | \$(4,297 )                              | \$20,603 |
| Unrealized gain investments, net of tax                              | 93  | —       | 248                                     | 737      |
| Comprehensive income (loss)  | \$8,699                                   | \$9,673 | \$(4,049 )                              | \$21,340 |
| Comprehensive (loss) income attributable to noncontrolling interest  | (632 )                                    | —       | (1,266 )                                | —        |
| Total comprehensive income (loss) attributable to InterDigital, Inc. | \$9,331                                   | \$9,673 | \$(2,783 )                              | \$21,340 |

The accompanying notes are an integral part of these statements.

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

(in thousands)

(unaudited)

|   | FOR THE SIX MONTHS ENDED |                   |
|---|--------------------------|-------------------|
|   | JUNE 30,                 |                   |
|   | 2013                     | 2012              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                          |                   |
| Net (loss) income   | \$ (4,297)               | ) \$ 20,603       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |                   |
| Depreciation and amortization   | 16,212                   | 12,586            |
| Amortization of deferred financing fees and accretion of debt discount                      | 4,790                    | 4,515             |
| Deferred revenue recognized   | (52,523)                 | ) (107,316)       |
| Increase in deferred revenue  | 166,353                  | 24,570            |
| Deferred income taxes   | (5,622)                  | ) 7,313           |
| Share-based compensation  | 7,791                    | 3,135             |
| Impairment of long-term investment  | 6,669                    | —                 |
| Other   | 57                       | 849               |
| (Increase) decrease in assets:  |                          |                   |
| Receivables   | 109,265                  | (10,754)          |
| Deferred charges and other assets   | (619)                    | ) 32              |
| Increase (decrease) in liabilities:   |                          |                   |
| Accounts payable  | 1,915                    | 906               |
| Accrued compensation and other expenses   | (27,783)                 | ) 930             |
| Accrued taxes payable and other tax contingencies   | (2,458)                  | ) 1,301           |
| Net cash provided by (used in) operating activities   | 219,750                  | (41,330)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                          |                   |
| Purchases of short-term investments   | (213,432)                | ) (211,271)       |
| Sales of short-term investments   | 129,925                  | 193,055           |
| Purchases of property and equipment   | (1,180)                  | ) (1,030)         |
| Capitalized patent costs  | (14,735)                 | ) (14,865)        |
| Acquisition of patents  | (13,013)                 | ) (13,000)        |
| Long-term investments   | (445)                    | ) —               |
| Net cash used in investing activities   | (112,880)                | ) (47,111)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                          |                   |
| Proceeds from noncontrolling interests  | 5,101                    | —                 |
| Net proceeds from exercise of stock options   | 641                      | 590               |
| Payments on long-term debt, including capital lease obligations                             | —                        | (180)             |
| Dividends paid  | (4,115)                  | ) (9,040)         |
| Tax benefit from share-based compensation   | 683                      | 1,590             |
| Repurchase of common stock  | —                        | (77,745)          |
| Net cash provided by (used in) financing activities   | 2,310                    | (84,785)          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | <b>109,180</b>           | <b>(173,226)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                       | <b>349,843</b>           | <b>342,211</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 459,023</b>        | <b>\$ 168,985</b> |

The accompanying notes are an integral part of these statements.





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INTERDIGITAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013  
(unaudited)

1. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of InterDigital, Inc. (individually and/or collectively with its subsidiaries referred to as “InterDigital,” the “Company,” “we,” “us” or “our,” unless otherwise indicated) as of June 30, 2013, and the results of our operations for the three and six months ended June 30, 2013 and 2012 and our cash flows for the six months June 30, 2013 and 2012. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to state fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles (“GAAP”). The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for year-end financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (our “2012 Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”) on February 26, 2013. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

Change in Accounting Policies

There have been no material changes or updates in our existing accounting policies from the disclosures included in our 2012 Form 10-K.

New Accounting Guidance

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. We adopted this guidance effective January 1, 2012. We have chosen to present items of net income and other comprehensive income in two separate but consecutive statements.

On December 23, 2011, the FASB issued an amendment to the new standard on comprehensive income to defer the requirement to measure and present reclassification adjustments from accumulated other comprehensive income to net income by income statement line item in net income and also in other comprehensive income. The deferred requirement would have called for the measurement and presentation in net income of items previously recognized in other comprehensive income.

In February 2013, the FASB issued final guidance on the presentation of reclassifications out of other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in a footnote, significant amounts reclassified out of accumulated other comprehensive income by the

respective line items of net income, only if the amount reclassified is required by GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide detail about those amounts. This amendment is effective for interim and fiscal years beginning after December 15, 2012. The amended standard will not impact the Company's financial position or results of operations.

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On October 23, 2012, we announced that, as part of our ongoing expense management effort, we had initiated a voluntary early retirement program ("VERP"). In connection with the VERP, we incurred a related repositioning charge of \$12.5 million in 2012. We recognized an additional charge of \$1.5 million related to the VERP in first quarter 2013. These charges are included within the repositioning line of our Consolidated Statements of Operations. The majority of the charges represent cash obligations associated with severance. During fourth quarter 2012 and first half 2013, cash payments of \$1.4 million and \$12.6 million, respectively, were made for severance and related costs associated with the VERP. As of December 31, 2012 and June 30, 2013, our accrued repositioning charge was \$11.1 million and zero, respectively. We do not expect to incur any additional charges related to the VERP. We did not incur any repositioning charges during first half 2012.

**3. INCOME TAXES:**

In first half 2013, our effective tax rate was approximately 51.9% based on the statutory federal tax rate net of discrete federal and state taxes. During first half 2012, our effective tax rate was approximately 35.1% based on the statutory federal tax rate net of discrete federal and foreign taxes. The increase in the effective tax rate resulted from a discrete first quarter 2013 reversal of a valuation allowance against certain deferred tax assets and the impact of additional forecasted state tax expense on the annualized effective tax rate in 2013.

During first half 2013 and 2012, we paid approximately \$2.6 million and \$1.3 million, respectively, of foreign source withholding tax. We previously accrued approximately \$1.9 million of the first half 2013 foreign source withholding payments and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes.

**4. NET INCOME PER SHARE:**

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

|  | For the three months ended June 30, |         |         |         |
|--|-------------------------------------|---------|---------|---------|
|  | 2013                                |         | 2012    |         |
|  | Basic                               | Diluted | Basic   | Diluted |
| Numerator:   |                                     |         |         |         |
| Net income applicable to common shareholders                                 | \$9,238                             | \$9,238 | \$9,673 | \$9,673 |
| Denominator:   |                                     |         |         |         |
| Weighted-average shares outstanding: Basic                                   | 41,161                              | 41,161  | 43,876  | 43,876  |
| Dilutive effect of stock options, RSUs, convertible securities, and warrants |                                     | 295     |         | 263     |
| Weighted-average shares outstanding: Diluted                                 |                                     | 41,456  |         | 44,139  |
| Earnings Per Share:  |                                     |         |         |         |
| Net income: Basic  | \$0.22                              | \$0.22  | \$0.22  | \$0.22  |
| Dilutive effect of stock options, RSUs, convertible securities, and warrants |                                     | —       |         | —       |
| Net income: Diluted  |                                     | \$0.22  |         | \$0.22  |

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|  | For the Six Months Ended June 30, |             |           |           |
|--|-----------------------------------|-------------|-----------|-----------|
|  | 2013                              |             | 2012      |           |
|  | Basic                             | Diluted     | Basic     | Diluted   |
| Numerator:   |                                   |             |           |           |
| Net (loss) income applicable to common shareholders                          | \$ (3,031 )                       | \$ (3,031 ) | \$ 20,603 | \$ 20,603 |
| Denominator:   |                                   |             |           |           |
| Weighted-average shares outstanding: Basic                                   | 41,150                            | 41,150      | 44,639    | 44,639    |
| Dilutive effect of stock options, RSUs, convertible securities, and warrants |                                   | —           |           | 307       |
| Weighted-average shares outstanding: Diluted                                 |                                   | 41,150      |           | 44,946    |
| Earnings Per Share:  |                                   |             |           |           |
| Net (loss) income: Basic   | \$ (0.07 )                        | \$ (0.07 )  | \$ 0.46   | \$ 0.46   |
| Dilutive effect of stock options, RSUs, convertible securities, and warrants |                                   | —           |           | —         |
| Net (loss) income: Diluted   |                                   | \$ (0.07 )  |           | \$ 0.46   |

For the three months ended June 30, 2013 and June 30, 2012, options to purchase less than 0.1 million and zero shares, respectively, of common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the three months ended June 30, 2013 and June 30, 2012 and the six months ended June 30, 2012, 4.0 million shares of common stock issuable under convertible securities and 4.0 million shares of common stock issuable under warrants were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

For the six months ended June 30, 2012, options to purchase zero shares of common stock were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

For the six months ended June 30, 2013, the effects of all potential dilutive securities were excluded from the computation of diluted EPS as a result of the net loss reported in the period.

## 5. LITIGATION AND LEGAL PROCEEDINGS

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

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the United States International Trade Commission (the "USITC" or "Commission") against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-868 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe one or more of up to seven of InterDigital's U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital's complaint with the USITC seeks an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. Certain of the asserted patents have been asserted against Nokia, Huawei and ZTE in earlier pending USITC proceedings (including the Nokia, Huawei and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. On February 6, 2013, the Administrative Law Judge ("ALJ") overseeing the proceeding issued an order setting a target date of June 4, 2014 for the Commission's final determination in the investigation, with the ALJ's Initial Determination on

alleged violation due on February 4, 2014. On February 21, 2013, each 337-TA-868 Respondent filed their respective responses to the complaint.

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On February 21, 2013, Samsung moved for partial termination of the investigation as to six of the seven patents asserted against Samsung, alleging that Samsung was authorized to import the specific 3G or 4G devices that InterDigital relied on to form the basis of its complaint. InterDigital opposed this motion on March 4, 2013.

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

On March 13, 2013, InterDigital moved to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 by all 337-TA-868 Respondents. On March 25, 2013, the 337-TA-868 Respondents opposed InterDigital's motion. On May 10, 2013, the ALJ denied InterDigital's motion to amend the complaint. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which is scheduled to be completed by October 28, 2013. Responses to Samsung's motion are due on July 29, 2013. Trial before the ALJ is currently scheduled to begin in December 2013.

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

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

On February 11, 2013, Huawei and ZTE filed motions to expedite discovery and trial on their FRAND-related counterclaims. Huawei sought a schedule for discovery and trial on its FRAND-related counterclaims that would afford Huawei the opportunity to accept a FRAND license rate at the earliest opportunity, and in any case before December 28, 2013. ZTE sought a trial on its FRAND-related counterclaims no later than November 2013. On March 14, 2013, those motions were denied.

On February 28, 2013, Nokia filed its answer and counterclaims to InterDigital's Delaware District Court complaint, and then amended its answer and counterclaims on March 5, 2013. Nokia asserted counterclaims for breach of contract, breach of implied contract, unfair competition under Cal. Bus. & Prof. Code § 17200, equitable estoppel, a declaration setting FRAND terms and conditions, a declaration that InterDigital is estopped from seeking an exclusion order based on its U.S. declared-essential patents, a declaration of patent misuse, a declaration that InterDigital has failed to offer FRAND terms, a declaration that Nokia has an implied license to the asserted patents, and declarations

of non-infringement, invalidity and unenforceability. In addition to the declaratory relief specified in its counterclaims, Nokia seeks an order that InterDigital specifically perform its purported contracts by not seeking a USITC exclusion order for its essential patents and by granting Nokia a license on FRAND terms and conditions, an injunction preventing InterDigital from participating in a USITC investigation based on essential patents, appropriate damages in an amount to be determined, and any other relief as the court may deem just and proper.



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On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint. Samsung asserted a counterclaim for breach of contract. Samsung seeks a judgment that InterDigital has breached its purported contractual commitments, a judgment that the asserted patents are not infringed, are invalid, and unenforceable, an order that InterDigital specifically perform its purported contractual commitments, damages in an amount to be determined, attorneys' fees, costs and expenses, and any other relief as the court may deem just and proper.

On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244. On March 22, 2013, Huawei and ZTE filed their respective answers and counterclaims to InterDigital's amended Delaware District Court complaint. On April 9, 2013, InterDigital filed a motion to dismiss Huawei's and ZTE's counterclaims relating to their FRAND allegations. On April 22, 2013, InterDigital filed a motion to dismiss Nokia's counterclaims relating to its FRAND allegations. On July 12, 2013, the Delaware District Court held a hearing on InterDigital's motions to dismiss. By order issued the same day, the Delaware District Court granted InterDigital's motions, dismissing counterclaims for equitable estoppel, implied license, waiver of the right to injunction or exclusionary relief, and violation of California Bus. & Prof. Code § 17200 with prejudice. It further dismissed the counterclaims for breach of contract and declaratory relief related to InterDigital's FRAND commitments with leave to amend. Any amended pleading was ordered to be filed by August 6, 2013.

**Huawei Complaint to European Commission**

On May 23, 2012, Huawei lodged a complaint with the European Commission alleging that InterDigital was acting in breach of Article 102 of the Treaty on the Functioning of the European Union (the "TFEU"). Huawei is claiming that InterDigital has a dominant position with respect to the alleged market for the licensing of its 3G standards-essential patents. Huawei further claims that InterDigital is acting in abuse of its alleged dominant position by allegedly seeking to force Huawei to agree to unfair purchase or selling prices and in applying dissimilar conditions to equivalent transactions contrary to the terms of Article 102 of the TFEU. The European Commission has not yet indicated whether or not it will initiate proceedings against InterDigital as a result of the complaint.

**Huawei China Proceedings**

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

On February 4, 2013, the Shenzhen Intermediate People's Court issued rulings in the two proceedings. With respect to the first complaint, the court decided that InterDigital had violated the Chinese Anti-Monopoly Law by (i) making proposals for royalties from Huawei that the court believed were excessive, (ii) tying the licensing of essential patents to the licensing of non-essential patents, (iii) requesting as part of its licensing proposals that Huawei provide a

grant-back of certain patent rights to InterDigital and (iv) commencing a USITC action against Huawei while still in discussions with Huawei for a license. Based on these findings, the court ordered InterDigital to cease the alleged excessive pricing and alleged improper bundling of InterDigital's Chinese essential and non-essential patents, and to pay Huawei approximately 3.2 million USD in damages related to attorneys fees and other charges, without disclosing a factual basis for its determination of damages. The court dismissed Huawei's remaining allegations, including Huawei's claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies. With respect to the second complaint, the court determined that, despite the fact that the FRAND requirement originates from ETSI's Intellectual Property Rights policy, which refers to French law, InterDigital's license offers to Huawei should be evaluated under Chinese

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law. Under Chinese law, the court concluded that the offers did not comply with FRAND. The court further ruled that the royalties to be paid by Huawei for InterDigital's 2G, 3G and 4G essential Chinese patents under Chinese law should not exceed 0.019% of the actual sales price of each Huawei product, without explanation as to how it arrived at this calculation.

On February 17, 2013, Huawei filed a notice of appeal with respect to the first proceeding, seeking a finding that InterDigital's conduct constitutes refusal to deal and an order that InterDigital cease purportedly tying 3G and 4G essential patents. On March 11, 2013, InterDigital filed notices of appeal with respect to the judgments in both proceedings, seeking reversal of the court's February 4, 2013 rulings. On July 2, 2013, the Guangdong Province High Court heard argument on InterDigital's appeal with respect to the second proceeding. On July 9, 2013, the Guangdong Province High Court heard argument on InterDigital's and Huawei's appeal with respect to the first proceeding. Nokia, Huawei and ZTE 2011 USITC Proceeding (337-TA-800) and Related Delaware District Court Proceeding

On July 26, 2011, InterDigital's wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. filed a complaint with the USITC against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-800 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G wireless devices (including WCDMA- and cdma2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices) that infringe seven of InterDigital's U.S. patents. The action also extends to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital's complaint with the USITC seeks an exclusion order that would bar from entry into the United States any infringing 3G wireless devices (and components) that are imported by or on behalf of the 337-TA-800 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. On October 5, 2011, InterDigital filed a motion requesting that the USITC add LG Electronics, Inc., LG Electronics U.S.A., Inc. and LG Electronics Mobilecomm U.S.A., Inc. as 337-TA-800 Respondents to the complaint and investigation, and that the Commission add an additional patent to the complaint and investigation as well. On December 5, 2011, the ALJ overseeing the proceeding granted this motion and, on December 21, 2011, the Commission determined not to review the ALJ's determination, thus adding the LG entities as 337-TA-800 Respondents and including allegations of infringement of the additional patent.

On January 6, 2012, the ALJ granted the parties' motion to extend the target date for completion of the investigation from February 28, 2013 to June 28, 2013. On March 23, 2012, the ALJ issued a new procedural schedule for the investigation, setting a trial date of October 22, 2012 to November 2, 2012.

On January 20, 2012, LG filed a motion to terminate the investigation as it relates to the LG entities, alleging that there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012. On July 6, 2012, the Commission determined not to review the ALJ's order, and the investigation was terminated as to LG. On August 27, 2012, InterDigital filed a petition for review of the ALJ's order in the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). On September 14, 2012, the Federal Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. The court has not yet requested briefing in response to LG's petition.

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

proceedings in the USITC. Because the USITC has instituted USITC Proceeding (337-TA-800), the defendants have a statutory right to a mandatory stay of the Delaware District Court proceeding pending a final determination in the USITC. On October 3, 2011, InterDigital amended the Delaware District Court complaint, adding LG as a defendant and adding the same additional patent that InterDigital requested be added to USITC Proceeding (337-TA-800). On October 11, 2011, the Delaware District Court granted the defendants' motion to stay.

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

On July 20, 2012, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital voluntarily moved to withdraw certain claims from the investigation, including all of the asserted claims from U.S. Patent No. 7,349,540. By doing so, InterDigital expressly reserved all arguments regarding the infringement, validity and enforceability of those claims. On July 24, 2012, the ALJ granted the motion. On August 8, 2012, the Commission determined not to review the ALJ's Initial Determination granting the motion to terminate the investigation as to the asserted claims of the '540 patent.

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

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

The ALJ held an evidentiary hearing from February 12-21, 2013. The parties submitted initial post-hearing briefs on March 8, 2013 and reply post-hearing briefs on March 22, 2013. The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of U.S. Patent No. 7,616,970 (the "970 patent"), but not as to the other asserted claims of the '970 patent, or any of the other asserted patents. In addition, the ALJ found that the asserted claims of the '970 patent, U.S. Patent No. 7,536,013, and U.S. Patent No. 7,970,127 were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they are licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA-800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that InterDigital's U.S. Patent No. 7,706,830, U.S. Patent No. 8,009,636, U.S. Patent No. 7,502,406 and U.S. Patent No. 7,706,332 were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. The Commission is expected to determine whether to review the ID, in whole or in part, by August 30, 2013. As noted above, the target date for the Commission to issue its Final Determination is October 28, 2013.

LG Arbitration

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

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

On June 25, 2013, the arbitration tribunal granted the parties' joint request to stay the arbitration pending the exhaustion of all appellate rights from the Federal Circuit's decision.

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

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

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

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

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

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

proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On September 17, 2012, Nokia filed a combined petition for rehearing by the panel or en banc with the Federal Circuit. On January 10, 2013, the Federal Circuit denied Nokia's petition.

On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 4, 2013, on remand from the Federal Circuit, the Commission issued an order requiring the parties to submit comments regarding what further proceedings must be conducted to comply with the Federal Circuit's August 1, 2012 judgment, including whether any issues should be remanded to an ALJ to be assigned to this investigation. All parties filed initial responses to the Commission's order by February 14, 2013 and reply responses by



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February 22, 2013. On March 27, 2013, Nokia filed a motion asking the Federal Circuit to recall its mandate, which the Federal Circuit denied on March 28, 2013.

On May 10, 2013, Nokia filed a petition for a writ of certiorari to the United States Supreme Court (No. 12 -1352). Briefs in opposition to Nokia's petition are due August 14, 2013.

**Nokia Delaware Proceeding**

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

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

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

**Nokia Arbitration Concerning Presentations**

In November 2006, InterDigital Communications Corporation (now InterDigital, Inc.) and its wholly owned subsidiary InterDigital Technology Corporation filed a request for arbitration with the International Chamber of Commerce against Nokia (the "Nokia Arbitration Concerning Presentations"), claiming that certain presentations Nokia has attempted to use in support of its claims in the Nokia Delaware Proceeding (described above) are confidential and, as a result, may not be used in the Nokia Delaware Proceeding pursuant to the parties' agreement.

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

**Other**

As of second quarter 2013, InterDigital has accrued a litigation contingency of \$3.2 million related to its Huawei China Proceedings. InterDigital has no further obligations as a result of this or any of the other matters described in this Note 5 to Consolidated Financial Statements, and we have not recorded any additional related liabilities in our financial statements.

We are party to certain other disputes and legal actions in the ordinary course of business. We do not believe that these matters, even if adversely adjudicated or settled, would have a material adverse effect on our financial condition, results of operations or cash flows.

**Contingency related to Technology Solutions Agreement Arbitration**

Our wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.) and InterDigital Technology Corporation are engaged in an arbitration relating to a contractual dispute concerning the scope of royalty obligations and the scope of the licenses granted under one of our technology solutions agreements. The arbitration hearing took place in late June 2012, and a decision is expected in 2013. As of June 30, 2013, we have deferred related revenue of \$52.6 million pending the resolution of this arbitration and recorded such amount within short-term deferred revenue since we expect a decision within the next twelve months.



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## Arbitration Award

On April 18, 2013, our wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. filed an action in the U.S. District Court for the Northern District of California to confirm an arbitration award against Pegatron Corporation (“Pegatron”). The arbitration award issued on April 17, 2013 from a three-member panel constituted by the American Arbitration Association’s International Centre for Dispute Resolution in a proceeding we initiated to resolve a dispute surrounding our 2008 patent license agreement with Pegatron. Under the award, Pegatron is required to pay us approximately \$29.9 million, including \$23.5 million for past royalties through June 30, 2012, \$6.2 million of interest, and additional amounts for certain arbitration costs and expenses. On May 15, 2013, InterDigital received \$29.9 million.

On May 24, 2013, Pegatron responded to InterDigital’s petition to confirm the award, and on June 24, 2013, the U.S. District Court for the Northern District of California entered an Order confirming the award and entered judgment in the matter.

## 6. EQUITY TRANSACTIONS:

Changes in shareholders’ equity for the six months June 30, 2013 were as follows (in thousands):

|   | Total Shareholders' Equity |   |
|---|----------------------------|---|
| Balance as of December 31, 2012                           | \$518,705                  |   |
| Net loss  | (3,031)                    | ) |
| Unrealized gain on investments, net                       | 248                        |   |
| Cash dividends declared                                   | (8,233)                    | ) |
| Net proceeds for exercise of stock options                | 641                        |   |
| Taxes withheld upon restricted stock unit vestings        | (2,411)                    | ) |
| Tax benefit from share-based compensation                 | 683                        |   |
| Share-based compensation                                  | 7,791                      |   |
| Total InterDigital, Inc. shareholders’ equity             | \$514,393                  |   |
| Proceeds from noncontrolling interests                    | 5,101                      |   |
| Net (loss) income attributable to noncontrolling interest | (1,266)                    | ) |
| Noncontrolling interest                                   | 3,835                      |   |
| Total Equity as of June 30, 2013                          | \$518,228                  |   |
| 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 was able to repurchase shares under the 2009 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases. During first half 2012, we repurchased 2.3 million shares under the 2009 Repurchase Program for \$75.0 million. The 2009 Repurchase Program was completed in second quarter 2012, bringing the cumulative repurchase total under the program to 3.3 million shares at a cost of \$100.0 million.

In May 2012, our Board of Directors authorized a new share repurchase program, which was expanded in June 2012 to increase the amount of the program from \$100.0 million to \$200.0 million (the “2012 Repurchase Program”). The Company may repurchase shares under the 2012 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases. During first half 2012, we repurchased 0.1 million shares at a cost of \$2.7 million under the 2012 Repurchase Program. Cumulatively, we repurchased 2.6 million shares under the 2012 Repurchase Program for \$77.7 million during 2012.

During first half 2013, and from July 1, 2013 through July 25, 2013, we did not make any share repurchases under the 2012 Repurchase Program.

## Dividends

Cash dividends on outstanding common stock declared in 2013 and 2012 were as follows (in thousands, except per share data):



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|                | Per Share | Total    | Cumulative by Fiscal Year |
|----------------|-----------|----------|---------------------------|
| 2013           |           |          |                           |
| First quarter  | \$0.10    | \$4,115  | \$4,115                   |
| Second quarter | 0.10      | 4,118    | 8,233                     |
|                | \$0.20    | \$8,233  |                           |
| 2012           |           |          |                           |
| First quarter  | \$0.10    | \$4,469  | \$4,469                   |
| Second quarter | 0.10      | 4,348    | 8,817                     |
| Third quarter  | 0.10      | 4,095    | 12,912                    |
| Fourth quarter | 1.60      | 65,643   | 78,555                    |
|                | \$1.90    | \$78,555 |                           |

In December 2012, we declared and paid a special cash dividend of \$1.50 per share on our outstanding common stock. We currently expect to continue to pay dividends comparable to our quarterly \$0.10 per share cash dividend in the future; however, continued payment of cash dividends and changes in the company's dividend policy will depend on the Company's earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

**Common Stock Warrants**

On March 29, 2011 and March 30, 2011, we entered into privately negotiated warrant transactions with Barclays Bank PLC, through its agent, Barclays Capital Inc., whereby we sold to Barclays Bank PLC warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively, at a strike price of \$64.09 per share, also subject to adjustment. The warrants become exercisable in tranches starting in June 2016. In consideration for the warrants issued on March 29, 2011 and March 30, 2011, the Company received \$27.6 million and \$4.1 million, respectively, on April 4, 2011.

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

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

Our accounts receivable are derived principally from patent license and technology solutions agreements. At June 30, 2013, four licensees comprised 95% of our net accounts receivable balance. At December 31, 2012, four licensees represented 96% of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

**Fair Value Measurements**

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

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

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

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of June 30, 2013 and December 31, 2012 (in thousands):

|   | Fair Value as of June 30, 2013 |           |         | Total     |
|---|--------------------------------|-----------|---------|-----------|
|   | Level 1                        | Level 2   | Level 3 |           |
| Assets:                                     |                                |           |         |           |
| Money market and demand accounts (a)        | \$444,548                      | \$—       | \$—     | \$444,548 |
| Mutual and exchange traded funds            | 100,552                        | —         | —       | 100,552   |
| Commercial paper (b)                        | —                              | 163,277   | —       | 163,277   |
| U.S. government securities                  | —                              | 48,600    | —       | 48,600    |
| Corporate bonds and asset backed securities | —                              | 12,815    | —       | 12,815    |
|   | \$545,100                      | \$224,692 | \$—     | \$769,792 |

(a) Included within cash and cash equivalents.

(b) Includes \$14.5 million of commercial paper that is included within cash and cash equivalents.

|   | Fair Value as of December 31, 2012 |           |         | Total     |
|---|------------------------------------|-----------|---------|-----------|
|   | Level 1                            | Level 2   | Level 3 |           |
| Assets:                                     |                                    |           |         |           |
| Money market and demand accounts (a)        | \$261,899                          | \$—       | \$—     | \$261,899 |
| Mutual and exchange traded funds            | 100,682                            | —         | —       | 100,682   |
| Commercial paper (b)                        | —                                  | 150,868   | —       | 150,868   |
| U.S. government securities                  | —                                  | 50,560    | —       | 50,560    |
| Corporate bonds and asset backed securities | —                                  | 13,270    | —       | 13,270    |
|   | \$362,581                          | \$214,698 | \$—     | \$577,279 |

(a) Included within cash and cash equivalents.

(b) Includes \$87.9 million of commercial paper that is included within cash and cash equivalents.

The carrying amount of long-term debt reported in the condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012 was \$204.5 million and \$200.4 million, respectively. Using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources, we determined the fair value of these level 2 Notes (as defined in Note 8 "Long-Term Debt") to be \$247.0 million as of June 30, 2013 and \$245.2 million as of December 31, 2012.





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During first half 2013, we reassessed an investment accounted for under the cost method and concluded that given the entity's current financial position it was necessary to record an impairment of \$6.7 million during first quarter 2013, which wrote down our carrying amount of our investment to approximately \$15.1 million at June 30, 2013. Given that there are no observable inputs relevant to our investment, we assessed pertinent risk factors, and reviewed a third party valuation that used the discounted cash flow method in order to assign a fair market value to our investment.

**8. LONG-TERM DEBT:****Senior Convertible Note, Note Hedge and Warrant Transactions**

On April 4, 2011, InterDigital issued \$230.0 million in aggregate principal amount of its 2.50% Senior Convertible Notes due 2016 (the "Notes") pursuant to an indenture (the "Indenture"), dated as of April 4, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Notes bear interest at a rate of 2.50% per year, payable in cash on March 15 and September 15 of each year. The Notes will mature on March 15, 2016, unless earlier converted or repurchased. The Notes are the Company's senior unsecured obligations and rank equally in right of payment with any of the Company's future senior unsecured indebtedness, and the Notes are structurally subordinated to the Company's future secured indebtedness to the extent of the value of the related collateral and to the indebtedness and other liabilities, including trade payables, of the Company's subsidiaries, except with respect to any subsidiaries that become guarantors pursuant to the terms of the Indenture.

The Notes will be convertible into cash and, if applicable, shares of the Company's common stock at a conversion rate of 17.958 shares of common stock per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$55.69 per share), as adjusted for the special cash dividend paid by the Company on December 28, 2012. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances, including in connection with conversions made following certain fundamental changes and under other circumstances as set forth in the Indenture.

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

If a fundamental change (as defined in the Indenture) occurs, holders may require the Company to purchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

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

On March 29 and March 30, 2011, in connection with the offering of the Notes, InterDigital entered into convertible note hedge transactions with respect to its common stock with Barclays Bank PLC, through its agent, Barclays Capital Inc. The two convertible note hedge transactions cover, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of common stock, respectively, at a strike price that corresponds to the initial conversion price of the Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. On April 4, 2011, the Company paid \$37.1 million and \$5.6 million for the convertible note hedge transactions entered into on March 29 and March 30, 2011, respectively. The aggregate cost of the convertible note hedge transactions was \$42.7 million. As described in more detail below, this cost was partially offset by the proceeds from the sale of the warrants in separate transactions.

The convertible note hedge transactions are intended generally to reduce the potential dilution to the common stock upon conversion of the Notes in the event that the market price per share of the common stock is greater than the strike price.

The convertible note hedge transactions are separate transactions and are not part of the terms of the Notes. Holders of the Notes have no rights with respect to the convertible note hedge transactions.

On March 29 and March 30, 2011, InterDigital also entered into privately-negotiated warrant transactions with Barclays Bank PLC, through its agent, Barclays Capital Inc., whereby InterDigital sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million shares and approximately 0.5 million shares,

respectively, of common stock at a strike price of \$64.09 per share, as adjusted for the special dividend paid by the Company on December 28, 2012. The warrants become exercisable in tranches starting in June 2016. As consideration for the warrants issued on March 29 and March 30, 2011, the Company received, on April 4, 2011, \$27.6 million and \$4.1 million, respectively.

If the market value per share of the common stock, as measured under the warrants, exceeds the strike price of the warrants at the time the warrants are exercisable, the warrants will have a dilutive effect on the Company's earnings per share.

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## Accounting Treatment of the Senior Convertible Note, Convertible Note Hedge and Warrant Transactions

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

In connection with the offering of the Notes, as discussed above, InterDigital entered into convertible note hedge transactions with respect to its common stock. The \$42.7 million cost of the convertible note hedge transactions was partially offset by the proceeds from the sale of the warrants described above, resulting in a net cost of \$10.9 million. Existing accounting guidance provides that the March 29, 2011 convertible note hedge and warrant contracts be treated as derivative instruments for the period during which the initial purchaser's overallotment option was outstanding. Once the overallotment provision was exercised on March 30, 2011, the March 29 convertible note hedge and warrant contracts were reclassified to equity, as the settlement terms of the Company's note hedge and warrant contracts both provide for net share settlement. There was no material net change in the value of these convertible note hedges and warrants during the one day they were classified as derivatives and the equity components of these instruments will not be adjusted for subsequent changes in fair value.

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

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

The following table reflects the carrying value of the Company's convertible debt as of June 30, 2013 and December 31, 2012 (in thousands):

|  | June 30, 2013 | December 31, 2012 |
|--|---------------|-------------------|
| 2.50% Senior Convertible Notes due 2016                        | \$230,000     | \$230,000         |
| Less: Unamortized interest discount                            | (25,470)      | (29,609)          |
| Net carrying amount of 2.50% Senior Convertible Notes due 2016 | \$204,530     | \$200,391         |

The following table presents the amount of interest cost recognized for the three and six months ended June 30, 2013 and June 30, 2012 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

|                                 | For the three months ended |         | For the six months ended June |         |
|---------------------------------|----------------------------|---------|-------------------------------|---------|
|                                 | June 30, 2013              | 2012    | 30, 2013                      | 2012    |
| Contractual coupon interest     | \$1,438                    | \$1,438 | \$2,876                       | \$2,875 |
| Accretion of debt discount      | 2,105                      | 1,964   | 4,139                         | 3,863   |
| Amortization of financing costs | 326                        | 326     | 652                           | 652     |
| Total                           | \$3,869                    | \$3,728 | \$7,667                       | \$7,390 |



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9. VARIABLE INTEREST ENTITIES:

Convida Wireless

On December 21, 2012, we formed a joint venture with Sony Corporation of America to combine Sony's consumer electronics expertise with our wireless machine-to-machine ("M2M") and bandwidth management research. The joint venture, called Convida Wireless, will focus on driving new research in M2M wireless communications and other connectivity areas. Based on the terms of the agreement, the parties will contribute funding and resources for additional M2M research and platform development, which we will perform. Stephens Capital Partners LLC ("Stephens"), the principal investing affiliate of Stephens Inc., is a minority investor in Convida Wireless.

Our agreement with Sony is a multiple-element arrangement that also includes a three-year license to our patents for Sony's sale of 3G and 4G products, effective January 1, 2013, and an amount for past sales.

Convida Wireless is a variable interest entity. Based on our provision of M2M research and platform development services to Convida Wireless, we have determined that we are the primary beneficiary for accounting purposes and must consolidate Convida Wireless. For the six months ended June 30, 2013, we have allocated approximately \$1.3 million of Convida Wireless's net loss to non-controlling interests held by other parties.

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

OVERVIEW

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, in addition to our 2012 Form 10-K, other reports filed with the SEC and the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 — Forward-Looking Statements below.

Patent Licensing

Patent licensing royalties of \$67.2 million in second quarter 2013 increased \$20.3 million, or 43%, over first quarter 2013. This sequential increase was primarily driven by the Pegatron Corporation ("Pegatron") arbitration award as discussed below.

On April 18, 2013, our wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. filed an action in the U.S. District Court for the Northern District of California to confirm an arbitration award against Pegatron. The arbitration award issued on April 17, 2013 from a three-member panel constituted by the American Arbitration Association's International Centre for Dispute Resolution in a proceeding we initiated to resolve a dispute surrounding our 2008 patent license agreement with Pegatron. Under the award, Pegatron is required to pay us approximately \$29.9 million, including \$23.5 million for past royalties through June 30, 2012, \$6.2 million of interest, and additional amounts for certain arbitration costs and expenses. On May 15, 2013, InterDigital received \$29.9 million.

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. The arbitration hearing took place in late June 2012, and a decision is expected in 2013. As of June 30, 2013, we have deferred related revenue of \$52.6 million pending the resolution of this arbitration and recorded such amount within short-term deferred revenue since we expect a decision within the next twelve months. We have collected \$45.5 million of this amount and the remaining \$7.1 million is recorded in accounts receivable as of the current balance sheet date.

Repositioning

On October 23, 2012, we announced that, as part of our ongoing expense management effort, we had initiated a voluntary early retirement program ("VERP"). In connection with the VERP, we incurred a related repositioning charge of \$12.5 million in 2012. We recognized an additional charge of \$1.5 million related to the VERP in first half 2013. During 2013 and 2012, cash payments of \$12.6 million and \$1.4 million, respectively, were made for severance and related costs associated with the VERP. As of June 30, 2013 and December 31, 2012, our accrued repositioning charge was zero and \$11.1 million, respectively. We did not incur any repositioning charges during second quarter 2013, and we do not expect to incur any additional charges related to the VERP.

Intellectual Property Enforcement

Please see Note 5, "Litigation and Legal Proceedings," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full discussion of the following and other matters:

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

On January 2, 2013, the company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the USITC against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America (collectively, "Samsung"), LLC, Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Samsung, Nokia and Huawei the "337-TA-868 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-,

cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe one or more of up to seven of InterDigital's U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating WiFi

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functionality. InterDigital's complaint with the USITC seeks an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. Certain of the asserted patents have been asserted against Nokia, Huawei and ZTE in earlier pending USITC proceedings (including the Nokia, Huawei and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. On February 6, 2013, the Administrative Law Judge ("ALJ") overseeing the proceeding issued an order setting a target date of June 4, 2014 for the Commission's final determination in the investigation, with the ALJ's Initial Determination on alleged violation due on February 4, 2014. Trial before the ALJ is currently scheduled to begin in December 2013.

On January 2, 2013, the company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the Delaware District Court against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement and recovery of reasonable attorneys' fees and costs. On March 13, 2013, InterDigital filed an amended complaint against Nokia and Samsung, respectively, in Delaware District Court to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244. On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244.

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

The ALJ's Initial Determination issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of U.S. Patent No. 7,616,970 (the "'970 patent'"), but not as to the other asserted claims of the '970 patent, or any of the other asserted patents. In addition, the ALJ found that the asserted claims of the '970 patent, U.S. Patent No. 7,536,013, and U.S. Patent No. 7,970,127 were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they were licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA-800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.



Petitions for review of the Initial Determination to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. Responses to the various petitions were filed on July 23, 2013. The Commission is expected to determine whether to review the ID, in whole or in part, by August 30, 2013. The target date for the Commission to issue its Final Determination is October 28, 2013.

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

On August 1, 2012, the Federal Circuit issued its decision in InterDigital's appeal of the USITC's Final Determination in this proceeding, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and

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remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On May 10, 2013, Nokia filed a petition for a writ of certiorari to the United States Supreme Court (No. 12 -1352). Briefs in opposition to Nokia's petition are due August 14, 2013.

**Comparability of Financial Results**

When comparing second quarter 2013 financial results against other periods, the following items should be taken into consideration:

- Our second quarter 2013 revenue and other income includes:
  - \$24.2 million of past sales primarily related to the Pegatron arbitration award; and
  - \$6.2 million of interest income related to the Pegatron arbitration award.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2012 Form 10-K. A discussion of our critical accounting policies, and the estimates related to them, are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K. There have been no material changes in our existing critical accounting policies from the disclosures included in our 2012 Form 10-K. Refer to Note 1, "Basis of Presentation," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements.

**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 also 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 for the next twelve months.

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

At June 30, 2013 and December 31, 2012, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

|  | June 30, 2013 | December 31, 2012 | Increase / (Decrease) |
|--|---------------|-------------------|-----------------------|
| Cash and cash equivalents                                  | \$459,023     | \$349,843         | \$109,180             |
| Short-term investments                                     | 310,769       | 227,436           | 83,333                |
| Total Cash and cash equivalents and short-term investments | \$769,792     | \$577,279         | \$192,513             |

The increase in cash, cash equivalents and short-term investments was primarily attributable to \$219.8 million of cash provided by operating activities, which was primarily offset by \$28.2 million in capital investments, including patent acquisitions and other long-term investments.

**Cash flows from operations**

We generated or used the following cash flows from our operating activities in first half 2013 and 2012 (in thousands):

|   | For the six months ended June 30, |            |                       |
|---|-----------------------------------|------------|-----------------------|
|   | 2013                              | 2012       | Increase / (Decrease) |
| Net cash provided by (used in) operating activities | \$219,750                         | \$(41,330) | \$261,080             |

The positive operating cash flow during first half 2013 was derived principally from cash receipts of \$343.4 million from patent license and technology solutions agreements. We received \$310.7 million of per-unit royalty payments, including past sales, current royalties and prepayments, from existing customers and \$23.4 million of fixed-fee payments. Included in the



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\$310.7 million of per-unit cash receipts are prepayments totaling \$242.4 million from existing licensees. Cash receipts from our technology solutions agreements totaled \$9.2 million, primarily related to royalties and other license fees associated with our SlimChip modem core. These cash receipts and other changes in working capital were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash cost of patent sales and non-cash compensation) of \$93.4 million, cash payments for short-term and long-term incentive compensation of \$17.3 million, cash payments for foreign source withholding taxes of \$2.6 million and other changes in working capital.

Cash used in operating activities during first half 2012 included cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash cost of patent sales and non-cash compensation) of \$87.8 million, cash payments for short-term and long-term incentive compensation of \$10.3 million, estimated federal tax payments of \$1.5 million and cash payments for foreign source withholding taxes of \$1.3 million. These cash uses were partially offset by \$47.7 million of cash receipts from patent license, patent sale, and technology solutions agreements along with other changes in working capital. We received \$8.0 million of fixed fee payments, \$3.0 million of patent sales payments and \$27.8 million of per-unit royalty payments, including past sales, current royalties and prepayments, from existing customers and a new licensee. Cash receipts from our technology solutions agreements totaled \$8.9 million, primarily related to royalties and other license fees associated with our SlimChip modem core.

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 June 30, 2013 and December 31, 2012 (in thousands) as follows:

|                           | June 30, 2013 | December 31,<br>2012 | Increase /<br>(Decrease) |
|---------------------------|---------------|----------------------|--------------------------|
| Current assets            | \$903,878     | \$814,347            | \$89,531                 |
| Less: current liabilities | 166,047       | 172,913              | (6,866 )                 |
| Working capital           | 737,831       | 641,434              | 96,397                   |
| Subtract:                 |               |                      |                          |
| Cash and cash equivalents | 459,023       | 349,843              | 109,180                  |
| Short-term investments    | 310,769       | 227,436              | 83,333                   |
| Add:                      |               |                      |                          |
| Current deferred revenue  | 116,858       | 106,305              | 10,553                   |
| Adjusted working capital  | \$84,897      | \$170,460            | \$(85,563 )              |

The \$85.6 million net decrease in adjusted working capital is primarily attributable to decreases in accounts receivable of \$109.3 million due to cash receipts from patent license and technology solutions agreements. This decrease was partially offset by net decreases in accrued compensation and other accrued expenses totaling \$22.6 million. The decreases to accrued compensation and other accrued expenses were primarily attributable to the cash payments for short-term and long-term compensation discussed above and accrued repositioning payments related to the VERP.

Cash flows from investing and financing activities

We used net cash in investing activities of \$112.9 million in first half 2013 and \$47.1 million in first half 2012. We purchased \$83.5 million and \$18.2 million of short-term marketable securities, net of sales, in first half 2013 and

2012, respectively. This increase in net purchases in first half 2013 was driven by higher cash receipts in first half 2013. Investment costs associated with capitalized patent costs and acquisition of patents decreased to \$27.7 million in first half 2013 from \$27.9 million in first half 2012, primarily due to timing differences associated with capitalized patent costs.

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Net cash provided by financing activities for first half 2013 was \$2.3 million, an \$87.1 million increase from first half 2012 that was primarily due to our repurchases of common stock of \$77.7 million in second quarter 2012, which did not recur in first half 2013, \$4.9 million due to timing of dividend payments, and \$5.1 million related to proceeds from non-controlling interests.

**Other**

Our combined short-term and long-term deferred revenue balance at June 30, 2013 was approximately \$382.0 million, an increase of \$113.8 million from December 31, 2012. We have no material obligations associated with such deferred revenue. In first half 2013, deferred revenue increased \$113.8 million due to a gross increase in deferred revenue of \$166.4 million, primarily associated with new prepayments, which were partially offset by \$52.5 million of deferred revenue recognized. The deferred revenue recognized was comprised of \$33.8 million of amortized fixed-fee royalty payments and \$18.7 million in per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees).

Based on current license agreements, we expect the amortization of fixed-fee royalty payments and the resolution of the technology solutions agreement arbitration to reduce the June 30, 2013 deferred revenue balance of \$382.0 million by \$116.9 million over the next twelve months. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

**RESULTS OF OPERATIONS****Second Quarter 2013 Compared to Second Quarter 2012****Revenues**

The following table compares second quarter 2013 revenues to second quarter 2012 revenues (in millions):

|                                     | For the three months ended |        |                     |       |    |
|-------------------------------------|----------------------------|--------|---------------------|-------|----|
|                                     | June 30,                   |        |                     |       |    |
|                                     | 2013                       | 2012   | Increase/(Decrease) |       |    |
| Per-unit royalty revenue            | \$26.1                     | \$27.4 | \$(1.3)             | (5)   | )% |
| Fixed-fee amortized royalty revenue | 16.9                       | 33.8   | (16.9)              | (50)  | )% |
| Current patent royalties            | 43.0                       | 61.2   | (18.2)              | (30)  | )% |
| Past sales                          | 24.2                       | 1.2    | 23.0                | 1,917 | %  |
| Total patent licensing royalties    | 67.2                       | 62.4   | 4.8                 | 8     | %  |
| Patent sales revenue                | —                          | 9.0    | (9.0)               | (100) | )% |
| Technology solutions revenue        | 0.5                        | 0.5    | —                   | —     | %  |
| Total revenue                       | \$67.7                     | \$71.9 | \$(4.2)             | (6)   | )% |

The \$4.2 million decrease in total revenue was primarily attributable to the \$16.9 million decrease in fixed-fee amortized royalty revenue, as well as a \$9.0 million decrease in patent sales, partially offset by a \$23.0 million increase in past sales revenue. The majority of the fixed-fee amortized royalty revenue decrease was due to the expiration of the 3G portion of our patent license agreement with Samsung at the end of 2012, which was partially offset by the addition of fixed-fee amortized royalty revenue from the Sony patent license agreement signed in fourth quarter 2012. Per-unit royalty revenue decreased \$1.3 million due to lower shipments from our Japanese per-unit licensees and one of our licensees with concentrations in the smartphone market. Past sales of \$24.2 million in second quarter 2013 related primarily to the previously discussed Pegatron arbitration award.

In both second quarter 2013 and second quarter 2012, 61% of our total revenues were attributable to companies that individually accounted for 10% or more of our total revenues. In second quarter 2013 and second quarter 2012, the following companies accounted for 10% or more of our total revenues:

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|   | For the three months ended<br>June 30, |       |
|---|--|-------|
|   | 2013                                   | 2012  |
| Pegatron Corporation                              | 35%                                    | < 10% |
| Sony Corporation of America                       | 15%                                    | —%    |
| BlackBerry  | 11%                                    | 12%   |
| Nufront Mobile Communications Technology Co. Ltd. | —%                                     | 13%   |
| Samsung Electronics Company, Ltd.                 | —%                                     | 36%   |

## Operating Expenses

The following table summarizes the changes in operating expenses between second quarter 2013 and second quarter 2012 by category (in millions):

|                                     | Three months ended June 30, |        |       | Increase/ (Decrease) |    |
|-------------------------------------|-----------------------------|--------|-------|----------------------|----|
|                                     | 2013                        | 2012   |       |                      |    |
| Patent administration and licensing | \$33.2                      | \$26.2 | \$7.0 | 27                   | %  |
| Development                         | 13.5                        | 17.2   | (3.7) | (22)                 | )% |
| Selling, general and administrative | 8.3                         | 10.9   | (2.6) | (24)                 | )% |
| Total operating expenses            | \$55.0                      | \$54.3 | \$0.7 | 1                    | %  |

Operating expenses increased 1% to \$55.0 million in second quarter 2013 from \$54.3 million in second quarter 2012. The \$0.7 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in millions):

|   | Increase/ (Decrease) |
|---|----------------------|
| Intellectual property enforcement and non-patent litigation | 3.7                  |
| Patent amortization   | 2.1                  |
| Patent maintenance and patent evaluation                    | 0.7                  |
| Other   | 0.4                  |
| Facilities expense  | 0.2                  |
| Cost of patent sale   | (0.7)                |
| Personnel-related costs                                     | (2.2)                |
| Long-term compensation                                      | (3.5)                |
| Total increase in operating expenses                        | \$0.7                |

Intellectual property enforcement and non-patent litigation costs increased \$3.7 million primarily due to costs associated with the USITC actions. This increase in intellectual property enforcement was partially offset by a decrease in non-patent litigation costs due to lower activity in the previously discussed arbitration proceeding related to one of our technology solutions agreements. Patent amortization increased \$2.1 million due to patent acquisitions in recent years. The \$0.7 million increase in patent maintenance and patent evaluation was primarily related to due diligence associated with both patent acquisition and patent sale opportunities. The \$0.2 million increase in facilities expense related to the expansion of our facilities in second half 2012. The \$5.7 million decrease in long-term compensation and personnel-related costs was primarily due to lower accrual rates in 2013 for our performance compensation plans and lower personnel levels as a result of the VERP initiated in third quarter 2012. We recognized \$0.7 million of expense during second quarter 2012 to remove the remaining net book value of patents sold during that quarter.

**Patent Administration and Licensing Expense:** The increase in patent administration and licensing expense primarily resulted from the above-noted increases in intellectual property enforcement, patent maintenance and patent evaluation, and patent amortization. These increases were partially offset by the above-noted decreases in personnel-related and long-term compensation costs.





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Development Expense: The decrease in development expense was primarily attributable to the above-noted decreases in personnel-related and long-term compensation costs.

Selling, General and Administrative Expense: The decrease in selling, general and administrative expense was primarily attributable to the above-noted decreases in non-patent litigation costs, personnel-related costs, and long-term compensation costs. These decreases were partially offset by increased facilities costs.

## Other Income (Expense)

The following table compares second quarter 2013 other (expense) income to second quarter 2012 other (expense) income (in millions):

|                   | Three months ended June |   |          |   |          |         |
|-------------------|-------------------------|---|----------|---|----------|---------|
|                   | 2013                    |   | 2012     |   | Change   |         |
| Interest expense  | \$ (3.9)                | ) | \$ (3.7) | ) | \$ (0.2) | ) 5 %   |
| Other             | (0.6)                   | ) | \$ (0.2) | ) | (0.4)    | ) 200 % |
| Investment income | 7.4                     |   | \$ 1.4   |   | 6.0      | 429 %   |
|                   | \$ 2.9                  |   | \$ (2.5) | ) | \$ 5.4   | (216) % |

The change in other income primarily resulted from the interest income associated with the previously discussed Pegatron arbitration award received in second quarter 2013.

## Income tax provision

In second quarter 2013, our effective tax rate was approximately 44.8% based on the statutory federal tax rate net of discrete federal and foreign taxes. During second quarter 2012, our effective tax rate was approximately 35.9% based on the statutory federal tax rate net of discrete foreign taxes. The increase in the effective tax rate resulted from a discrete first quarter 2013 reversal of a valuation allowance against certain deferred tax assets and the impact of additional forecasted state tax expense on the annualized effective tax rate in 2013.

## First Half 2013 Compared to First Half 2012

## Revenues

The following table compares first half 2013 revenues to first half 2012 revenues (in millions):

|                                     | For the six months ended |  |          |  |                     |           |
|-------------------------------------|--------------------------|--|----------|--|---------------------|-----------|
|                                     | 2013                     |  | 2012     |  | Increase/(Decrease) |           |
| Per-unit royalty revenue            | \$ 55.4                  |  | \$ 61.9  |  | \$ (6.5)            | ) (11) %  |
| Fixed-fee amortized royalty revenue | 33.8                     |  | 67.4     |  | (33.6)              | ) (50) %  |
| Current patent royalties            | 89.2                     |  | 129.3    |  | (40.1)              | ) (31) %  |
| Past sales                          | 24.9                     |  | 1.6      |  | 23.3                | 1,456 %   |
| Total patent licensing royalties    | 114.1                    |  | 130.9    |  | (16.8)              | ) (13) %  |
| Patent sales revenue                | —                        |  | 9.0      |  | (9.0)               | ) (100) % |
| Technology solutions revenue        | 0.9                      |  | 1.3      |  | (0.4)               | ) (31) %  |
| Total revenue                       | \$ 115.0                 |  | \$ 141.2 |  | \$ (26.2)           | ) (19) %  |

The \$26.2 million decrease in total revenue was primarily attributable to the \$33.6 million decrease in fixed-fee amortized royalty revenue, the majority of which was due to the expiration of the 3G portion of our patent license agreement with Samsung at the end of 2012, which was partially offset by the addition of fixed-fee amortized royalty revenue from the Sony patent license agreement signed in fourth quarter 2012 and a \$23.3 million increase in past sales revenue. Per-unit royalty revenue decreased \$6.5 million due to lower shipments from our Japanese per-unit licensees and one of our licensees with concentrations in the smartphone market. Past sales of \$24.9 million in first half 2013 related primarily to the Pegatron

arbitration award. The decrease in technology solutions revenue was due to lower royalties recognized in connection with our SlimChip modem IP business.

In first half 2013 and first half 2012, 63% and 51% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In first half 2013 and first half 2012, the following companies accounted for 10% or more of our total revenues:

|                                   | For the six months ended June 30, |       |
|-----------------------------------|-----------------------------------|-------|
|                                   | 2013                              | 2012  |
| Pegatron Corporation              | 21%                               | < 10% |
| Sony Corporation of America       | 17%                               | —%    |
| HTC Corporation                   | 13%                               | < 10% |
| Blackberry                        | 12%                               | 15%   |
| Samsung Electronics Company, Ltd. | —%                                | 36%   |

#### Operating Expenses

The following table summarizes the changes in operating expenses between first half 2013 and first half 2012 by category (in millions):

|                                     | For the six months ended June 30, |         |                      |      |    |
|-------------------------------------|-----------------------------------|---------|----------------------|------|----|
|                                     | 2013                              | 2012    | Increase/ (Decrease) |      |    |
| Patent administration and licensing | \$70.0                            | \$49.4  | \$20.6               | 42   | %  |
| Development                         | 29.6                              | 34.7    | (5.1)                | (15) | )% |
| Selling, general and administrative | 16.3                              | 20.1    | (3.8)                | (19) | )% |
| Repositioning                       | 1.5                               | \$—     | 1.5                  | —    | %  |
| Total operating expenses            | \$117.4                           | \$104.2 | \$13.2               | 13   | %  |

Operating expenses increased 13% to \$117.4 million in first half 2013 from \$104.2 million in first half 2012. Not including \$1.5 million in repositioning charges in first half 2013, operating expenses would have increased 11%. The \$13.2 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in millions):

|  | Increase/ (Decrease) |
|--|----------------------|
| Intellectual property enforcement and non-patent litigation              | \$12.1               |
| Patent amortization  | 3.7                  |
| Patent maintenance and patent evaluation                                 | 1.8                  |
| Consulting services  | 1.5                  |
| Other  | 0.3                  |
| Cost of patent sales   | (0.7)                |
| Personnel-related costs  | (2.3)                |
| Long-term compensation   | (4.7)                |
| Total increase in operating expenses not including repositioning charges | \$11.7               |
| Repositioning charges  | 1.5                  |
| Total increase in operating expenses                                     | \$13.2               |

Intellectual property enforcement and non-patent litigation costs increased \$12.1 million primarily due to costs associated with the USITC actions and various arbitrations with our existing licensees. This increase in intellectual property enforcement was partially offset by a decrease in non-patent litigation costs due to lower activity in the previously discussed arbitration proceeding related to one of our technology solutions agreements. Patent amortization increased \$3.7 million due to patent acquisitions in recent years. Consulting services increased \$1.5 million primarily to support research and development projects initiated in the last twelve months and a transition from personnel costs to consulting services as a result of the VERP.



The \$1.8 million increase in patent maintenance and patent evaluation was primarily related to due diligence associated with both patent acquisition and patent sale opportunities. The \$7.0 million decrease in long-term compensation and personnel-related costs was primarily due to lower accrual rates in 2013 for our performance compensation plans and lower personnel levels as a result of the VERP initiated in third quarter 2012.

**Patent Administration and Licensing Expense:** The increase in patent administration and licensing expense primarily resulted from the above-noted increases in intellectual property enforcement, patent maintenance and patent evaluation, and patent amortization, partially offset by decreases long-term compensation and personnel-related costs discussed above.

**Development Expense:** The decrease in development expense was primarily attributable to the above-noted decreases in personnel-related and long-term compensation costs. These decreases were partially offset by an increase in consulting services due to higher levels of outsourced resources used for development projects.

**Selling, General and Administrative Expense:** The decrease in selling, general and administrative expense was primarily attributable to decreases in non-patent litigation costs related to an arbitration involving one of our technology solutions agreements as well as decreases in long-term compensation and personnel-related costs discussed above. These decreases were partially offset by an increase in consulting services as a result of the VERP.

**Repositioning:** We recognized an additional charge of \$1.5 million in first half 2013 related to the VERP previously discussed. The majority of the charge represents cash obligations associated with severance.

#### Other (Expense) Income

The following table compares first half 2013 other (expense) income to first half 2012 other (expense) income (in millions):

|                   | For the six months ended |          |          |       |  |   |
|-------------------|--------------------------|----------|----------|-------|--|---|
|                   | June 30,                 |          |          |       |  |   |
|                   | 2013                     | 2012     | Change   |       |  |   |
| Interest expense  | \$(7.7 )                 | \$(7.4 ) | \$(0.3 ) | 4     |  | % |
| Other             | (7.0 )                   | \$(0.2 ) | (6.8 )   | 3,400 |  | % |
| Investment income | 8.1                      | \$2.4    | 5.7      | 238   |  | % |
|                   | \$(6.6 )                 | \$(5.2 ) | \$(1.4 ) | 27    |  | % |

The change in other expense primarily resulted from the recognition of a \$6.7 million investment impairment during first half 2013, partially offset by an increase in investment income that primarily resulted from interest income associated with the Pegatron arbitration award received in second quarter 2013.

#### Income tax provision

In first half 2013, our effective tax rate was approximately 51.9% based on the statutory federal tax rate net of discrete federal and foreign taxes. During first half 2012, our effective tax rate was approximately 35.1% based on the statutory federal tax rate net of discrete foreign taxes. The increase in the effective tax rate resulted from a discrete first half 2013 reversal of a valuation allowance against certain deferred tax assets and the impact of additional forecasted state tax expense on the annualized effective tax rate in 2013.

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

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

• The potential effects of new accounting standards on our financial statements or results of operations;



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- Our expectation that the amortization of fixed fee royalty payments and the resolution of the technology solutions agreement arbitration will reduce our June 30, 2013 deferred revenue balance over the next twelve months;
- Our expectation that we will use deferred tax assets to offset future U.S. federal income taxes;
- The timing, outcome and impact of our various litigation, arbitration and administrative matters;
- Our ability to obtain additional liquidity through debt and equity financings;
- Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months; and
- Our expectation that we will not incur any additional charges related to the VERP.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A. Risk Factors of our 2012 Form 10-K and in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2012 Form 10-K.

**Item 4. CONTROLS AND PROCEDURES.**

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

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

Reference is made to the USITC proceeding and related Delaware District Court proceeding initiated in January 2013 by InterDigital's wholly-owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. (collectively, the "Company," "InterDigital," "we," or "our" for the purposes of the discussion of this matter) against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC (collectively, "Samsung"), Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Samsung, Nokia and Huawei, the "337-TA-868 Respondents") previously disclosed in the 2012 Form 10-K and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (the "First Quarter 2013 10-Q"). On May 10, 2013, the ALJ denied InterDigital's motion to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 by all 337-TA-868 Respondents. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which is scheduled to be completed by October 28, 2013. Responses to Samsung's motion are due on July 29, 2013. Trial before the ALJ is currently scheduled to begin in December 2013.

On July 12, 2013, the Delaware District Court held a hearing on InterDigital's motions to dismiss Huawei's, ZTE's and Nokia's counterclaims relating to their FRAND allegations. By order issued the same day, the Delaware District Court granted InterDigital's motions, dismissing counterclaims for equitable estoppel, implied license, waiver of the right to injunction or exclusionary relief, and violation of California Bus. & Prof. Code § 17200 with prejudice. It further dismissed the counterclaims for breach of contract and declaratory relief related to InterDigital's FRAND commitments with leave to amend. Any amended pleading was ordered to be filed by August 6, 2013.

Huawei China Proceedings

Reference is made to the Huawei China Proceedings in which InterDigital was served in February 2012 with two complaints filed by Huawei Technologies Co., Ltd. ("Huawei Technologies") in the Shenzhen Intermediate People's Court in China previously disclosed in the 2012 Form 10-K and the First Quarter 2013 Form 10-Q. On July 2, 2013, the Guangdong Province High Court heard argument on InterDigital's appeal with respect to the second proceeding, and on July 9, 2013, the Guangdong Province High Court heard argument on InterDigital's and Huawei's appeal with respect to the first proceeding.

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

Reference is made to the USITC proceeding and related Delaware District Court proceeding initiated in July 2011 by InterDigital's wholly-owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. (collectively, the "Company," "InterDigital," "we," or "our" for the purposes of the discussion of this matter) 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") previously disclosed in the 2012 Form 10-K and the First Quarter 2013 Form 10-Q. The ALJ's Initial Determination ("ID") in USITC Proceeding 337-TA-800 issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of U.S. Patent No. 7,616,970 (the "970 patent"), but not as to the other asserted claims of the '970 patent, or any of the other asserted

patents. In addition, the ALJ found that the asserted claims of the '970 patent, U.S. Patent No. 7,536,013, and U.S. Patent No. 7,970,127 were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they were licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA 800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.



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Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that InterDigital's U.S. Patent No. 7,706,830, U.S. Patent No. 8,009,636, U.S. Patent No. 7,502,406 and U.S. Patent No. 7,706,332 were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. The Commission is expected to determine whether to review the ID, in whole or in part, by August 30, 2013. As noted above, the target date for the Commission to issue its Final Determination is October 28, 2013.

On June 7, 2013, the Federal Circuit reversed the termination of the USITC investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. The court has not yet requested briefing in response to LG's petition.

### LG Arbitration

Reference is made to the arbitration initiated by LG Electronics, Inc. in March 2012 against InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Communications, LLC (now InterDigital Communications, Inc.) previously disclosed in the 2012 Form 10-K and the First Quarter 2013 Form 10-Q. The issue of whether LG's claim to arbitrability is wholly groundless was appealed to the Federal Circuit. On June 7, 2013, the Federal Circuit issued an opinion holding that the USITC erred in terminating USITC Proceeding (337-TA-800) as to LG because "there is no plausible argument that the parties' dispute in this case arose under their patent license agreement" and finding that "LG's assertion of arbitrability was 'wholly groundless.'" The Federal Circuit reversed the USITC's order terminating the USITC proceeding as to LG and remanded to the USITC for further proceedings. On June 25, 2013, the arbitration tribunal granted the parties' joint request to stay the arbitration pending the exhaustion of all appellate rights from the Federal Circuit's decision.

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

Reference is made to the USITC proceeding initiated in 2007 and the related Federal Circuit appeal involving InterDigital and Nokia previously disclosed in the 2012 Form 10-K and the First Quarter 2013 Form 10-Q. On May 10, 2013, Nokia filed a petition for a writ of certiorari to the United States Supreme Court (No. 12 -1352). Briefs in opposition to Nokia's petition are due August 14, 2013.

### Pegatron Arbitration Award

On April 18, 2013, our wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. filed an action in the U.S. District Court for the Northern District of California to confirm an arbitration award against Pegatron Corporation ("Pegatron"). The arbitration award issued on April 17, 2013 from a three-member panel constituted by the American Arbitration Association's International Centre for Dispute Resolution in a proceeding we initiated to resolve a dispute surrounding our 2008 patent license agreement with Pegatron. Under the award, Pegatron is required to pay us approximately \$29.9 million, including \$23.5 million for past royalties through June 30, 2012, \$6.2 million of interest, and additional amounts for certain arbitration costs and expenses. On May 15, 2013, InterDigital received \$29.9 million.

On May 24, 2013, Pegatron responded to InterDigital's petition to confirm the award, and on June 24, 2013, the U.S. District Court for the Northern District of California entered an Order confirming the award and entered judgment in the matter.

See Note 5, "Litigation and Legal Proceedings," to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding these proceedings.

Item 1A. RISK FACTORS.

Reference is made to Part I, Item 1A. Risk Factors of the 2012 Form 10-K for information concerning risk factors. We are updating our risk factors to amend the risk factor set forth below. The following risk factor should be read in conjunction with the other risk factors set forth in the 2012 Form 10-K. You should carefully consider such risk factors, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q and in our 2012 Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known

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

Rulings in third party legal proceedings, increased scrutiny by regulatory authorities, 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 and/or lead to monetary fines, penalties or other remedies or sanctions.

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 regulatory 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 has resulted in inquiries that may lead to enforcement actions against the Company and/or impact the availability of injunctive and monetary relief, which may adversely affect our strategies for patent prosecution, licensing and enforcement and increase our costs of operation. Such inquiries and/or enforcement actions could result in monetary fines, penalties or other remedies or sanctions, which could adversely affect our business and financial condition.

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.

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

There were no sales of unregistered shares of our common stock or repurchases of our common stock under our repurchase program during second quarter 2013 or from July 1, 2013 through July 25, 2013.

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Item 6. EXHIBITS.

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

| Exhibit Number | Exhibit Description  |
|----------------|--|
| †Exhibit 10.1  | Amendment to 2009 Stock Incentive Plan.  |
| †*Exhibit 10.2 | InterDigital, Inc. Deferred Compensation Plan (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated June 18, 2013).   |
| †Exhibit 10.3  | 2009 Stock Incentive Plan, Term Sheet for Restricted Stock Units (Nonemployee Directors).  |
| †Exhibit 10.4  | 2009 Stock Incentive Plan, Standard Terms and Conditions for Restricted Stock Units (Nonemployee Directors).   |
| Exhibit 31.1   | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.  |
| Exhibit 31.2   | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.  |
| Exhibit 32.1   | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**   |
| Exhibit 32.2   | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**   |
| Exhibit 101    | The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, filed with the Securities and Exchange Commission on July 26, 2013, formatted in eXtensible Business Reporting Language:<br><br>(i) Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 and (v) Notes to Condensed Consolidated Financial Statements. |

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† Management contract or compensatory plan or arrangement.

\* Incorporated by reference to the previous filing indicated.

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



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SIGNATURES

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

INTERDIGITAL, INC.

Date: July 26, 2013

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

Date: July 26, 2013

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

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EXHIBIT INDEX

| Exhibit Number | Exhibit Description  |
|----------------|--|
| †Exhibit 10.1  | Amendment to 2009 Stock Incentive Plan, effective as of June 12, 2013.   |
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