

InterDigital, Inc.  
Form 10-Q  
October 27, 2016  
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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 September 30, 2016

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

R

Accelerated filer

Non-accelerated filer

Smaller reporting company

o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 34,283,369

Title of Class Outstanding at October 25, 2016



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

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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)

|   | SEPTEMBER 30,<br>2016 | DECEMBER 31,<br>2015 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| <b>CURRENT ASSETS:</b>  |                       |                      |
| Cash and cash equivalents   | \$ 187,162            | \$ 510,207           |
| Short-term investments  | 594,387               | 423,501              |
| Accounts receivable   | 146,883               | 53,868               |
| Prepaid and other current assets  | 46,306                | 23,391               |
| Total current assets  | 974,738               | 1,010,967            |
| PROPERTY AND EQUIPMENT, NET   | 11,282                | 12,148               |
| PATENTS, NET  | 279,179               | 277,579              |
| DEFERRED TAX ASSETS   | 162,352               | 160,572              |
| OTHER NON-CURRENT ASSETS  | 15,299                | 13,219               |
|   | 468,112               | 463,518              |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,442,850</b>   | <b>\$ 1,474,485</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |
| <b>CURRENT LIABILITIES:</b>   |                       |                      |
| Current portion of long-term debt   | \$ —                  | \$ 227,174           |
| Accounts payable  | 12,488                | 19,002               |
| Accrued compensation and related expenses   | 15,870                | 26,013               |
| Deferred revenue  | 175,673               | 106,229              |
| Taxes payable   | 15,571                | 1,405                |
| Dividends payable   | 10,285                | 7,068                |
| Other accrued expenses  | 8,356                 | 13,082               |
| Total current liabilities   | 238,243               | 399,973              |
| LONG-TERM DEBT  | 268,847               | 259,595              |
| LONG-TERM DEFERRED REVENUE  | 309,513               | 289,039              |
| OTHER LONG-TERM LIABILITIES   | 10,975                | 3,983                |
| <b>TOTAL LIABILITIES</b>  | <b>827,578</b>        | <b>952,590</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                       |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                       |                      |
| Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding  | —                     | —                    |
| Common Stock, \$0.01 par value, 100,000 shares authorized, 70,303 and 70,130 shares issued and 34,282 and 35,414 shares outstanding | 703                   | 701                  |
| Additional paid-in capital  | 675,825               | 663,073              |
| Retained earnings   | 994,967               | 847,033              |
| Accumulated other comprehensive income (loss)   | 24                    | (178)                |
|   | 1,671,519             | 1,510,629            |
| Treasury stock, 36,021 and 34,716 shares of common held at cost   | 1,064,795             | 1,000,110            |
| Total InterDigital, Inc. shareholders' equity   | 606,724               | 510,519              |
| Noncontrolling interest   | 8,548                 | 11,376               |

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|  |              |              |
|--|--------------|--------------|
| Total equity                               | 615,272      | 521,895      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,442,850 | \$ 1,474,485 |

The accompanying notes are an integral part of these statements.

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

|   | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |           | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |           |
|---|--|-----------|---|-----------|
|   | 2016   | 2015      | 2016  | 2015      |
| <b>REVENUES:</b>  |  |           |   |           |
| Patent licensing royalties  | \$205,517                                      | \$98,888  | \$387,371                                     | \$324,483 |
| Technology solutions  | 2,790  | 1,520     | 4,615   | 4,854     |
|   | 208,307  | 100,408   | 391,986                                       | 329,337   |
| <b>OPERATING EXPENSES:</b>  |  |           |   |           |
| Patent administration and licensing                               | 26,149   | 28,363    | 81,601  | 91,200    |
| Development   | 15,560   | 16,618    | 50,438  | 52,935    |
| Selling, general and administrative                               | 9,880  | 10,040    | 31,790  | 29,993    |
|   | 51,589   | 55,021    | 163,829                                       | 174,128   |
| Income from operations  | 156,718  | 45,387    | 228,157                                       | 155,209   |
| OTHER EXPENSE (NET)   | (3,798 )                                       | (8,108 )  | (11,641 )                                     | (21,090 ) |
| Income before income taxes  | 152,920  | 37,279    | 216,516                                       | 134,119   |
| INCOME TAX PROVISION  | (49,397 )                                      | (13,491 ) | (46,813 )                                     | (50,044 ) |
| NET INCOME  | \$103,523                                      | \$23,788  | \$169,703                                     | \$84,075  |
| Net loss attributable to noncontrolling interest                  | (943 )   | (732 )    | (2,828 )                                      | (2,112 )  |
| NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC.                     | \$104,466                                      | \$24,520  | \$172,531                                     | \$86,187  |
| NET INCOME PER COMMON SHARE — BASIC                               | \$3.05   | \$0.68    | \$4.99  | \$2.38    |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES<br>OUTSTANDING — BASIC   | 34,280   | 35,798    | 34,607  | 36,257    |
| NET INCOME PER COMMON SHARE — DILUTED                             | \$2.99   | \$0.68    | \$4.92  | \$2.35    |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES<br>OUTSTANDING — DILUTED | 34,953   | 36,205    | 35,091  | 36,658    |
| CASH DIVIDENDS DECLARED PER COMMON SHARE                          | \$0.30   | \$0.20    | \$0.70  | \$0.60    |

The accompanying notes are an integral part of these statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|   | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |          | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |          |
|---|--|----------|---|----------|
|   | 2016   | 2015     | 2016  | 2015     |
| Net income  | \$103,523                                      | \$23,788 | \$169,703                                     | \$84,075 |
| Unrealized (loss) gain on investments, net of tax             | (186 )   | (132 )   | 202   | (124 )   |
| Comprehensive income  | \$103,337                                      | \$23,656 | \$169,905                                     | \$83,951 |
| Comprehensive loss attributable to noncontrolling interest    | (943 )   | (732 )   | (2,828 )                                      | (2,112 ) |
| Total comprehensive income attributable to InterDigital, Inc. | \$104,280                                      | \$24,388 | \$172,733                                     | \$86,063 |

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 NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |            |
|---|---|------------|
|   | 2016  | 2015       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |   |            |
| Net income  | \$ 169,703                                    | \$ 84,075  |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |            |
| Depreciation and amortization   | 39,150  | 35,314     |
| Amortization of deferred financing costs and accretion of debt discount           | 12,078  | 15,008     |
| Deferred revenue recognized   | (242,104 )                                    | (125,958 ) |
| Increase in deferred revenue  | 324,122                                       | 91,052     |
| Deferred income taxes   | (1,780 )                                      | (8,563 )   |
| Tax benefit from share-based compensation   | (9 )  | —          |
| Share-based compensation  | 15,301  | 9,691      |
| Gain on disposal of assets  | 3,491   | —          |
| Other   | (225 )  | 86         |
| (Increase) decrease in assets:  |   |            |
| Receivables   | (93,015 )                                     | (64,377 )  |
| Deferred charges and other assets   | (22,698 )                                     | (1,289 )   |
| Increase (decrease) in liabilities:   |   |            |
| Accounts payable  | (7,204 )                                      | 9          |
| Accrued compensation and other expenses   | (13,467 )                                     | (21,937 )  |
| Accrued taxes payable and other tax contingencies                                 | 14,153  | 14,611     |
| Net cash provided by operating activities   | 197,496                                       | 27,722     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |   |            |
| Purchases of short-term investments   | (559,160 )                                    | (398,955 ) |
| Sales of short-term investments   | 388,402                                       | 284,333    |
| Purchases of property and equipment   | (3,477 )                                      | (1,835 )   |
| Capitalized patent costs  | (24,274 )                                     | (24,006 )  |
| Acquisition of patents  | (4,800 )                                      | (20,000 )  |
| Purchases of long-term investments  | (2,000 )                                      | (6,594 )   |
| Net cash (used in) investing activities   | (205,309 )                                    | (167,057 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |   |            |
| Proceeds from noncontrolling interests  | —   | 2,550      |
| Net proceeds from exercise of stock options                                       | 302   | 29         |
| Proceeds from other financing activities  | —   | 4,500      |
| Payments on long-term debt  | (230,000 )                                    | —          |
| Proceeds from issuance of senior convertible notes                                | —   | 316,000    |
| Purchase of convertible bond hedge  | —   | (59,376 )  |
| Proceeds from issuance of warrants  | —   | 42,881     |
| Payments of debt issuance costs   | —   | (9,403 )   |
| Dividends paid  | (20,849 )                                     | (21,844 )  |
| Tax benefit from share-based compensation   | —   | 2,126      |
| Repurchase of common stock  | (64,685 )                                     | (89,052 )  |



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|  |            |           |
|--|------------|-----------|
| Net cash (used in) provided by financing activities                                  | (315,232 ) | 188,411   |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                                 | (323,045 ) | 49,076    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                       | 510,207    | 428,567   |
| CASH AND CASH EQUIVALENTS, END OF PERIOD   | \$187,162  | \$477,643 |
| SUPPLEMENTAL CASH FLOW INFORMATION:  |            |           |
| Interest paid  | 7,615      | 7,988     |
| Income taxes paid, including foreign withholding taxes                               | 58,626     | 43,833    |
| Non-cash investing and financing activities:   |            |           |
| Dividend payable   | 10,285     | 7,183     |
| Accrued capitalized patent costs, property and equipment, and acquisition of patents | (690 )     | (19,947 ) |
| Non-cash acquisition of patents  | 7,900      | 20,823    |
| The accompanying notes are an integral part of these statements.                     |            |           |

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INTERDIGITAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(unaudited)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of InterDigital, Inc. (individually and/or collectively with its subsidiaries referred to as "InterDigital," the "Company," "we," "us" or "our," unless otherwise indicated) as of September 30, 2016, and the results of our operations for the three and nine months ended September 30, 2016 and 2015 and our cash flows for the nine months ended September 30, 2016 and 2015. 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 United States 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, 2015 (our "2015 Form 10-K") as filed with the Securities and Exchange Commission ("SEC") on February 18, 2016. 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 to our existing accounting policies from the disclosures included in our 2015 Form 10-K except as set forth below under "New Accounting Guidance."

New Accounting Guidance

Accounting Standards Update: Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016. (Early adoption is permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. If early adoption is elected, all amendments in the ASU that apply must be adopted in the same period. In addition, if early adoption is elected in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period.) We are currently evaluating the effect that adopting this guidance will have on the Company's financial position, results of operations or cash flows.

Accounting Standards Update: Consolidation

In February 2015, the FASB issued ASU No. 2015-2, "Consolidation (Topic 820): Amendments to the Consolidation Analysis." ASU 2015-2 provides a revised consolidation model for all reporting entities to use in evaluating whether they should consolidate certain legal entities. All legal entities will be subject to reevaluation under this revised consolidation model. The revised consolidation model, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are voting interest entities, or VIEs, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. ASU 2015-2 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2015. The

amended standard has not had any effect on the Company's financial position or results of operations.

**Accounting Standards Update: Revenue Recognition**

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. On April 14, 2016, the FASB amended the guidance by issuing ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to

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

### Accounting Standards Update: Leases

In February 2016, the FASB issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of 2020. Early adoption is permitted. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

## 2. SIGNIFICANT AGREEMENT

### Huawei Agreement

During third quarter 2016, we entered into a multi-year, worldwide, non-exclusive, royalty-bearing patent license agreement with Huawei Investment & Holding Co., Ltd. ("Huawei"). The agreement covers sales of 3G and 4G terminal unit products by Huawei and its affiliates and sets forth cash payments to InterDigital and a process for the transfer of patents from Huawei to InterDigital. In addition, the companies have agreed to a framework for discussions regarding joint research and development efforts. As a result of the agreement, the companies have settled all proceedings related to their arbitration initiated in April 2014. Our agreement with Huawei is a multiple-element arrangement for accounting purposes.

We recognized \$138.1 million of revenue under this patent license agreement during third quarter 2016, including \$121.5 million of past sales. We will recognize future revenue under the agreement on a straight-line basis over its term. A portion of the consideration for the agreement was in the form of patents from Huawei. We have received half of the patents as of September 30, 2016, and we will receive the remaining patents by June 30, 2017. Of the \$138.1 million of revenue recognized under the agreement to date, 94% related to cash receipts, and 6% related to the patents transferred to date. We have deferred recognition of revenue related to the patents yet to be transferred, as their value will not be determinable until the completion of the transfer process. At the completion of the transfer process, we expect to recognize additional past sales and current patent royalties associated with these patents. Refer to Note 8, "Concentration of Credit Risk and Fair Value of Financial Assets and Liabilities," for additional information related to the estimates and methods used to determine the fair value of the patents acquired.

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

## 3. SALE-LEASEBACK

During second quarter 2015, we sold our facility in King of Prussia, Pennsylvania, to a third party and entered into a limited leaseback arrangement for a period not to exceed one year, for net consideration of \$4.5 million. The \$3.4 million gain related to the sale was recorded within Other Expense (Net) in our Consolidated Statements of Income, and the assets sold were removed from Property and Equipment, at the completion of the lease term in second quarter 2016.

4. INCOME TAXES

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In first nine months 2016, based on the statutory federal tax rate net of discrete federal and state taxes, our effective tax rate was 21.6%. Our estimated annual effective tax rate as of September 30, 2016 was 32.7%, reflecting the impact of a \$24.0 million discrete net benefit primarily related to domestic production activities refund claims for prior years. This is compared to an effective tax rate of 37.3%, based on the statutory federal tax rate net of discrete federal and state taxes during first nine months 2015 and an estimated annual effective tax rate of 37.4% as of September 30, 2015. Additionally, our first nine months 2016 effective tax rate includes an estimated deduction for domestic production activities, as well as an estimated U.S. federal research and development tax credit, neither of which were included in the prior year. The U.S. federal research and development tax credit received a permanent extension in December 2015. In first quarter 2016, we reversed a portion of our tax reserve upon completion of the Joint Committee on Taxation's review of the U.S. tax audit for the tax years 2010 through 2012.

During first nine months 2016 and 2015, we paid approximately \$50.0 million and \$31.1 million, respectively, of foreign source withholding tax. Additionally, as of September 30, 2016 and December 31, 2015, we have included \$15.6 million and \$1.4 million, respectively, of foreign source withholding tax within our taxes payable and deferred tax asset balances. These amounts are related to receivables from foreign licensees.

**5. NET INCOME PER SHARE**

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

|   | For the Three Months Ended September 30, |            |           |           |
|---|--|------------|-----------|-----------|
|   | 2016                                     |            | 2015      |           |
|   | Basic                                    | Diluted    | Basic     | Diluted   |
| Numerator:  |  |            |           |           |
| Net income applicable to InterDigital, Inc.                                 | \$ 104,466                               | \$ 104,466 | \$ 24,520 | \$ 24,520 |
| Denominator:  |  |            |           |           |
| Weighted-average shares outstanding: Basic                                  | 34,280                                   | 34,280     | 35,798    | 35,798    |
| Dilutive effect of stock options, RSUs, convertible securities and warrants |  | 673        |           | 407       |
| Weighted-average shares outstanding: Diluted                                |  | 34,953     |           | 36,205    |
| Earnings Per Share:   |  |            |           |           |
| Net income: Basic   | \$ 3.05                                  | \$ 3.05    | \$ 0.68   | \$ 0.68   |
| Dilutive effect of stock options, RSUs, convertible securities and warrants |  | (0.06 )    |           | —         |
| Net income: Diluted   |  | \$ 2.99    |           | \$ 0.68   |
|   |  |            |           |           |
|   | For the Nine Months Ended September 30,  |            |           |           |
|   | 2016                                     |            | 2015      |           |
|   | Basic                                    | Diluted    | Basic     | Diluted   |
| Numerator:  |  |            |           |           |
| Net income applicable to InterDigital, Inc.                                 | \$ 172,531                               | \$ 172,531 | \$ 86,187 | \$ 86,187 |
| Denominator:  |  |            |           |           |
| Weighted-average shares outstanding: Basic                                  | 34,607                                   | 34,607     | 36,257    | 36,257    |
| Dilutive effect of stock options, RSUs, convertible securities and warrants |  | 484        |           | 401       |
| Weighted-average shares outstanding: Diluted                                |  | 35,091     |           | 36,658    |
| Earnings Per Share:   |  |            |           |           |
| Net income: Basic   | \$ 4.99                                  | \$ 4.99    | \$ 2.38   | \$ 2.38   |
| Dilutive effect of stock options, RSUs, convertible securities and warrants |  | (0.07 )    |           | (0.03 )   |
| Net income: Diluted   |  | \$ 4.92    |           | \$ 2.35   |



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Certain shares of common stock issuable upon the exercise or conversion of certain securities have been excluded from our computation of earnings per share because the strike price or conversion rate, as applicable, of such securities was less than the average market price of our common stock for third quarter 2016 and third quarter 2015, as applicable, and, as a result, the effect of such exercise or conversion would have been anti-dilutive. Set forth below are the securities and the weighted average number of shares of common stock underlying such securities that were excluded from our computation of earnings per share for the periods presented (in thousands):

|  | For the Three |           | For the Nine  |               |
|--|---------------|-----------|---------------|---------------|
|  | Months        | Months    | Months        | Months        |
|  | Ended         | Ended     | Ended         | Ended         |
|  | September     | September | September 30, | September 30, |
|  | 2016          | 2015      | 2016          | 2015          |
| Restricted stock units and stock options | 13            | 95        | 103           | 69            |
| Convertible securities                   | 4,366         | 8,496     | 4,366         | 7,386         |
| Warrants                                 | 4,366         | 8,496     | 7,261         | 7,389         |
| Total                                    | 8,745         | 17,087    | 11,730        | 14,844        |

**6. LITIGATION AND LEGAL PROCEEDINGS****ARBITRATIONS AND COURT PROCEEDINGS (OTHER THAN DE DISTRICT COURT ACTIONS RELATED TO USITC PROCEEDINGS)****Huawei Arbitration**

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

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

On July 24, 2015, Huawei opposed InterDigital's petition in the New York Proceeding and filed a motion to stay the New York Proceeding pending the Paris Proceeding. On August 14, 2015, InterDigital amended its petition in the New York Proceeding to take into account the issuance of the arbitration panel's final award. A hearing in the New York Proceeding was held on February 16, 2016. On February 17, 2016, the judge notified the parties that he had rendered a decision on Huawei's motion to stay the New York Proceeding, finding that the New York Proceeding should be stayed pending the Paris Proceeding, subject to a requirement that Huawei post suitable security, pursuant to Article VI of the New York Convention, in the amount of the final award, together with interest. The stay is subject to revision should circumstances change, and InterDigital can renew its petition for an order confirming the award following the outcome of the Paris Proceeding. On March 28, 2016, the New York District Court issued an order setting the amount of Huawei's security.

Huawei filed its brief seeking annulment in the Paris Proceeding on July 24, 2015. A hearing in the Paris Proceeding was held on March 8, 2016. On April 12, 2016, the Paris Court of Appeal denied Huawei's request to annul the arbitration award. Shortly thereafter, Huawei indicated to InterDigital that it was considering an appeal of the Paris Court of Appeal decision to the highest court in France. On April 26, 2016, the parties submitted a proposed order to the New York District Court, which was entered by the court that same day, notifying the court of their agreements regarding payments under the partial and final arbitration awards and the status of the New York Proceeding. As it considers and pursues an appeal of the Paris Court of Appeal decision, Huawei agreed to make payments, without prejudice to its right to a further appeal, of amounts then outstanding and amounts that become due under the



arbitration awards (including the resulting license agreement). In addition, InterDigital agreed not to seek to lift the stay in the New York Proceeding pending receipt of all such payments and pending any further appeal that Huawei has the right to pursue to the courts of France, and not to require Huawei to post security.

On May 5, 2016, we received notice from the French Cour de Cassation, the highest court in France, that Huawei had filed on April 27, 2016 an appeal of the April 12, 2016 Paris Court of Appeal decision with the French Cour de Cassation.

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Huawei complied with its obligations under the New York District Court's order, including by making the requisite payments under the arbitration awards. Huawei made the first payments in second quarter 2016.

In August 2016, InterDigital and Huawei signed a multi-year, worldwide, non-exclusive, royalty-bearing patent license agreement (the "2016 Huawei PLA"). The agreement covers sales of 3G and 4G terminal unit products by Huawei and its affiliates and sets forth cash payments to InterDigital and a process for the transfer of patents from Huawei to InterDigital, as well as a framework for discussions regarding joint research and development efforts.

As a result of the 2016 Huawei PLA, the companies have settled all proceedings related to this arbitration.

Accordingly, the parties stipulated to a voluntary dismissal of the New York Proceedings, which were closed on September 8, 2016. In accordance with the agreement, Huawei also petitioned the French Cour de Cassation to dismiss the Paris Proceedings, and these proceedings were dismissed on October 13, 2016.

The parties agreed in the 2016 Huawei PLA that the Chinese Supreme People's Court proceeding regarding the royalty rate for the license to InterDigital's Chinese standards-essential patents (discussed below) would survive execution of the agreement and is excluded from the dismissal provisions of the agreement, but that the royalty terms of the 2016 Huawei PLA establish the worldwide royalties to be paid by Huawei to InterDigital under the agreement notwithstanding any further decisions arising from the Chinese Supreme People's Court proceeding.

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 named as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.), and alleged that InterDigital had abused its dominant market position in the market for the licensing of essential patents owned by InterDigital by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. The second complaint named 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. and alleged that InterDigital had failed to negotiate on FRAND terms with Huawei. Huawei asked the court to determine the FRAND rate for licensing essential Chinese patents to Huawei and also sought compensation for its costs associated with this matter.

On February 4, 2013, the Shenzhen Intermediate People's Court issued rulings in the two proceedings. With respect to the first complaint, the court decided that InterDigital had violated the Chinese Anti-Monopoly Law by (i) making proposals for royalties from Huawei that the court believed were excessive, (ii) tying the licensing of essential patents to the licensing of non-essential patents, (iii) requesting as part of its licensing proposals that Huawei provide a grant-back of certain patent rights to InterDigital and (iv) commencing a USITC action against Huawei while still in discussions with Huawei for a license. Based on these findings, the court ordered InterDigital to cease the alleged excessive pricing and alleged improper bundling of InterDigital's Chinese essential and non-essential patents, and to pay Huawei 20.0 million RMB (approximately \$3.2 million) in damages related to attorneys' fees and other charges, without disclosing a factual basis for its determination of damages. The court dismissed Huawei's remaining allegations, including Huawei's claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies. With respect to the second complaint, the court determined that, despite the fact that the FRAND requirement originates from ETSI's Intellectual Property Rights policy, which refers to French law, InterDigital's license offers to Huawei should be evaluated under Chinese law. Under Chinese law, the court concluded that the offers did not comply with FRAND. The court further ruled that the royalties to be paid by Huawei for InterDigital's 2G, 3G and 4G essential Chinese patents under Chinese law should not exceed 0.019% of the actual sales price of each Huawei product.

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 October 16, 2013, the Guangdong Province High Court issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the second proceeding, and on October 21, 2013, issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the first proceeding. InterDigital believes that the decisions are seriously flawed both legally and factually. For instance, in determining a purported FRAND rate, the Chinese courts applied an incorrect economic analysis by evaluating InterDigital's

lump-sum patent license agreement with Apple in hindsight to posit a running royalty rate. Indeed, the ALJ in USITC Inv. No. 337-TA-800 rejected that type of improper analysis. Moreover, the Chinese courts had an incomplete record and applied incorrect facts, including with respect to InterDigital's now-expired license agreement with Apple, which had been found in an arbitration between InterDigital and Apple to be limited in scope.

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

The SPC held a hearing on October 31, 2014, regarding whether to grant a retrial and requested that both parties provide additional information regarding the facts and legal theories underlying the case. The SPC convened a second hearing on April 1, 2015 regarding whether to grant a retrial. If the retrial is granted, the SPC will likely schedule one or more additional hearings before it issues a decision on the merits of the case. The SPC retrial proceeding was excluded from the dismissal provisions of the 2016 Huawei PLA, and a decision in this proceeding is still pending.

### ZTE China Proceedings

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China on April 3, 2014. The first complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to comply with its FRAND obligations for the licensing of its Chinese standards-essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital's standards-essential Chinese patents to ZTE and also seeks compensation for its litigation costs associated with this matter. The second complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, Inc. This complaint alleges that InterDigital has a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its dominant market position in violation of the Chinese Anti-Monopoly Law by engaging in allegedly unlawful practices, including excessively high pricing, tying, discriminatory treatment, and imposing unreasonable trading conditions. ZTE seeks relief in the amount of 20.0 million RMB (approximately \$3.0 million based on the exchange rate as of September 30, 2016), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

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

The Shenzhen Court held hearings on the anti-monopoly law case on May 11, 13, 15 and 18, 2015. At the May hearings, ZTE withdrew its claims alleging discriminatory treatment and the imposition of unfair trading conditions and increased its damages claim to 99.8 million RMB (approximately \$15.0 million based on the exchange rate as of September 30, 2016). The Shenzhen Court held hearings in the FRAND case on July 29-31, 2015 and held a second hearing on the anti-monopoly law case on October 12, 2015. It is possible that the court may schedule further hearings in these cases before issuing its decisions.

The Company has not recorded any accrual at September 30, 2016 for contingent losses associated with these matters based on its belief that losses, while reasonably possible, are not probable in accordance with accounting guidance.

**Pegatron Actions**

In first quarter 2015, we learned that on or about February 3, 2015, Pegatron Corporation (“Pegatron”) filed a civil suit in Taiwan Intellectual Property Court against InterDigital, Inc. and certain of its subsidiaries alleging breach of the Taiwan

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Fair Trade Act (the “Pegatron Taiwan Action”). Pegatron and InterDigital entered into a patent license agreement in April 2008 (the “Pegatron PLA”). Pegatron was a subsidiary of Asustek Computer Incorporated until the completion of its spin-off from Asustek in June 2010. On May 26, 2015, InterDigital, Inc. received a copy of the civil complaint filed by Pegatron in the Taiwan Intellectual Property Court. The complaint named as defendants InterDigital, Inc. as well as InterDigital’s wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. (together, for purposes of this discussion, “InterDigital”). The complaint alleged that InterDigital abused its market power by improperly setting, maintaining or changing the royalties Pegatron is required to pay under the Pegatron PLA, and engaging in unreasonable discriminatory treatment and other unfair competition activities in violation of the Taiwan Fair Trade Act. The complaint sought minimum damages in the amount of approximately \$52 million, which amount could be expanded during the litigation, and that the court order multiple damages based on its claim that the alleged conduct was intentional. The complaint also sought an order requiring InterDigital to cease enforcing the royalty provisions of the Pegatron PLA, as well as all other conduct that allegedly violates the Fair Trade Act. On June 5, 2015 InterDigital filed an Arbitration Demand with the American Arbitration Association’s International Centre for Dispute Resolution (“ICDR”) seeking declaratory relief denying all of the claims in Pegatron’s Taiwan Action and for breach of contract. On or about June 10, 2015, InterDigital filed a complaint in the United States District Court for the Northern District of California, San Jose Division (the “CA Northern District Court”) seeking a Temporary Restraining Order, Preliminary Injunction, and Permanent Anti-suit Injunction against Pegatron prohibiting Pegatron from prosecuting the Pegatron Taiwan Action. The complaint also seeks specific performance by Pegatron of the dispute resolution procedures set forth in the Pegatron PLA and compelling arbitration of the disputes in the Pegatron Taiwan Action. On June 29, 2015, the court granted InterDigital’s motion for a temporary restraining order and preliminary injunction requiring Pegatron take immediate steps to dismiss the Taiwan Action without prejudice. On July 1, 2015, InterDigital was informed that Pegatron had withdrawn its complaint in the Taiwan Intellectual Property Court and that the case had been dismissed without prejudice.

On August 3, 2015, Pegatron filed an answer and counterclaims to InterDigital’s CA Northern District Court complaint. Pegatron accused InterDigital of violating multiple sections of the Taiwan Fair Trade Act, violating Section Two of the Sherman Act, breaching ETSI, IEEE, and ITU contracts, promissory estoppel (pled in the alternative), violating Section 17200 of the California Business & Professions Code, and violating the Delaware Consumer Fraud Act. These counterclaims stem from Pegatron’s accusation that InterDigital violated FRAND obligations. As relief, Pegatron seeks a declaration regarding the appropriate FRAND terms and conditions for InterDigital’s “declared essential patents,” a declaration that InterDigital’s standard essential patents are unenforceable due to patent misuse, an order requiring InterDigital to grant Pegatron a license on FRAND terms, an order enjoining InterDigital’s alleged ongoing breaches of its FRAND commitments, and damages in the amount of allegedly excess non-FRAND royalties Pegatron has paid to InterDigital, plus interest and treble damages. On August 7, 2015, Pegatron responded to InterDigital’s arbitration demand, disputing the arbitrability of Pegatron’s claims. On September 24, 2015, InterDigital moved to compel arbitration and dismiss Pegatron’s counterclaims or, in the alternative, stay the counterclaims pending the parties’ arbitration. Pegatron’s opposition to this motion was filed on October 22, 2015, and InterDigital’s reply was filed on November 12, 2015. On January 20, 2016, the court granted InterDigital’s motion to compel arbitration of Pegatron’s counterclaims and to stay the counterclaims pending the arbitrators’ determination of their arbitrability. On January 27, 2016, the parties stipulated to stay all remaining aspects of the CA Northern District case pending such an arbitrability determination. On the same day, the court granted the stay and administratively closed the case. The arbitration remains pending.

**Asustek Actions**

On April 15, 2015, Asustek Computer Incorporated (“Asus”) filed a complaint in the CA Northern District Court against InterDigital, Inc., and its subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Patent Holdings, Inc. The complaint asserted the following causes of action: violation of Section Two of the Sherman Act, violation of Section 17200 of the California Business and Professions Code, breach of contract resulting from ongoing negotiations, breach of contract leading to and resulting in the parties’ April 2008 patent license agreement (the “2008 Asus PLA”), promissory estoppel, waiver, and fraudulent inducement to contract. Among other allegations, Asus alleged that InterDigital breached its FRAND commitment. As relief, Asus

sought a judgment that the 2008 Asus PLA is void or unenforceable, damages in the amount of excess royalties Asus paid under the 2008 Asus PLA plus interest, a judgment setting the proper FRAND terms and conditions for InterDigital's patent portfolio, an order requiring InterDigital to grant Asus a license on FRAND terms and conditions, and punitive damages and other relief.

In response, on May 30, 2015, InterDigital filed an Arbitration Demand with the ICDR. InterDigital claimed that Asus breached the 2008 Asus PLA's dispute resolution provision by filing its CA Northern District Court lawsuit and sought declaratory relief that it is not liable for any of the claims in Asus's complaint. On June 2, 2015, InterDigital filed in the CA Northern District Court a motion to compel arbitration on each of Asus's claims. On August 25, 2015, the court granted

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InterDigital's motion for all of Asus's claims except its claim for breach of contract resulting from ongoing negotiations. Aside from this claim, the court ruled that the issue of arbitrability should be decided by an arbitrator, and stayed the proceedings pending that determination.

Asus asserted counterclaims in the arbitration that mirrored its CA Northern District Court claims, except that it did not assert the breach of contract claim that the court determined was not arbitrable and it added a claim of violation of the Delaware Consumer Fraud Act. Asus also contended that its counterclaims were not arbitrable. InterDigital added a claim for breach of the 2008 Asus PLA's confidentiality claim. The arbitration is scheduled for an evidentiary hearing in January 2017.

On July 14, 2016, Asus filed a motion to lift the stay in the CA Northern District Court proceeding along with a notice of the arbitral tribunal's decision on arbitrability, informing the court of the arbitrators' decision that, other than InterDigital's breach of contract claims and Asus's fraudulent inducement claim, no other claim or counterclaim is arbitrable. Asus then filed in the CA Northern District Court an amended complaint on August 18, 2016. This amended complaint includes all of the claims in Asus's first CA Northern District Court complaint except fraudulent inducement and adds a claim of violation of the Delaware Consumer Fraud Act. It seeks the same relief as its first CA Northern District Court complaint, but also seeks a ruling that each of InterDigital's patents "declared [to standards-setting organizations] to be essential or potentially essential" is unenforceable and any contracts InterDigital entered into in furtherance of its unlawful conduct are void. On September 8, 2016, InterDigital filed its answer and counterclaims to Asus' amended complaint. It denied Asus's claims and filed a counterclaim for declaratory judgment that Asus's tort claims are invalid or preempted as applied under the First Amendment to the U.S. Constitution, the Patent Clause of the U.S. Constitution, and Title 35 of the U.S. Code.

The company has not recorded any accrual at September 30, 2016 for contingent losses associated with these matters, nor can it estimate potential ranges of loss, as these matters are not at a sufficiently advanced stage to allow for such estimates.

## Microsoft Sherman Act Delaware Proceedings

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

On November 4, 2015, InterDigital filed a motion to dismiss and to strike Microsoft's complaint. A hearing on this motion was held on March 1, 2016, and on April 13, 2016, the Delaware District Court denied InterDigital's motion. On April 27, 2016, InterDigital filed a motion with the Delaware District Court to certify questions addressed in the court's April 13, 2016 decision for interlocutory appeal. The court denied InterDigital's motion for certification of interlocutory appeal on June 13, 2016.

On May 27, 2016, InterDigital filed its answer and counterclaims. InterDigital denied Microsoft's claim that InterDigital violated Section 2 of the Sherman Act and asserted several defenses. InterDigital also filed two counterclaims for declaratory judgment: (i) that Microsoft's Sherman Act claim is invalid and preempted as applied



under the First Amendment of the U.S. Constitution, the Patent Clause of the U.S. Constitution, and Title 35 of the U.S. Code; and (ii) that Microsoft waived entitlement to benefit from FRAND commitments by InterDigital due to Microsoft's reverse hold-up behavior. Microsoft filed an answer to InterDigital's counterclaims on June 20, 2016. Trial is scheduled to begin in September 2018.

#### Sharp Arbitration

On December 19, 2014, Sharp Corporation ("Sharp") filed a demand for arbitration against the Company's wholly owned subsidiary InterDigital Technology Corporation ("ITC") with the American Arbitration Association's International Center for Dispute Resolution. Sharp's demand for arbitration was based on ITC's alleged breach of the August 10, 2001 patent license agreement (as amended) (the "2001 PLA") between Sharp and ITC. Sharp claimed that ITC breached its FRAND commitments under the ETSI IPR policy, Section 6.1, by enforcing the 2001 PLA, thereby requiring Sharp to pay

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what it alleged to be excessive and discriminatory royalties. Sharp also claimed that ITC breached the implied covenant of good faith and fair dealing in the 2001 PLA by charging what Sharp alleged are excessive and discriminatory royalties. Sharp further alleged that ITC should be promissorily estopped from charging allegedly excessive and discriminatory royalties, and that ITC should provide an accounting of overpayments resulting from ITC's alleged failure to observe its FRAND commitments. Sharp was seeking (a) a declaration that ITC breached its FRAND commitments and breached the implied covenant of good faith and fair dealing, (b) calculation of new FRAND rates for the 2001 PLA, and (c) an order that ITC must return an amount to be determined for Sharp's alleged overpayment under the 2001 PLA.

On August 12, 2016, the parties entered into a confidential settlement agreement that resolves their outstanding disputes. As a result, Sharp withdrew its demand for arbitration, and on September 29, 2016, the arbitration administrator confirmed that the matter has been closed. The parties have also agreed to expand the scope of Sharp's license agreement to add coverage for 4G technologies.

REGULATORY PROCEEDINGS

Investigation by Taiwan Fair Trade Commission

On December 6, 2013, InterDigital received notice from the Taiwan Fair Trade Commission ("TFTC") that the TFTC had initiated an investigation to examine alleged anti-competitive behavior under Taiwan's Fair Trade Act (FTA). Companies found to violate the FTA may be ordered to cease and rectify the unlawful conduct, take other necessary corrective action, and/or pay an administrative fine. During second quarter 2016, InterDigital was informed by its local counsel that the staff of the TFTC has completed its investigation and has forwarded its recommendations to the Commission. InterDigital is fully cooperating with the TFTC's investigation.

Investigation by National Development and Reform Commission of China

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

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

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

USITC PROCEEDINGS AND RELATED DELAWARE DISTRICT COURT PROCEEDINGS  
Nokia and ZTE 2013 USITC Proceeding (337-TA-868) and Related Delaware District Court Proceedings  
USITC Proceeding (337-TA-868)

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

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing disputes (see "Huawei Arbitration" above). Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties except the action filed by Huawei in China to set a fair, reasonable and non-discriminatory ("FRAND") rate for the licensing of InterDigital's Chinese standards-essential patents (discussed above under "Huawei China Proceedings"), the decision in which InterDigital is permitted to further appeal. As a result, effective February 12, 2014, the Huawei Respondents were terminated from the 337-TA-868 investigation.

From February 10 to February 20, 2014, ALJ Essex presided over the evidentiary hearing in this investigation. The patents in issue in this investigation as of the hearing were U.S. Patent Nos. 7,190,966 (the "'966 patent") and 7,286,847 (the "'847 patent") asserted against ZTE and Samsung, and U.S. Patent No. 7,941,151 (the "'151 patent") asserted against ZTE, Samsung and Nokia.

On June 3, 2014, InterDigital and Samsung filed a joint motion to terminate the investigation as to Samsung on the basis of settlement. The ALJ granted the joint motion by initial determination issued on June 9, 2014, and the USITC determined not to review the initial determination on June 30, 2014.

On June 13, 2014, the ALJ issued an Initial Determination ("ID") in the 337-TA-868 investigation. In the ID, the ALJ found that no violation of Section 337 had occurred in connection with the importation of 3G/4G devices by ZTE or Nokia, on the basis that the accused devices do not infringe asserted claims 1-6, 8-9, 16-21 or 23-24 of the '151 patent, claims 1, 3, 6, 8, 9, or 11 of the '966 patent, or claims 3 or 5 of the '847 patent. The ALJ also found that claim 16 of the '151 patent was invalid as indefinite. Among other determinations, the ALJ further determined that InterDigital did not violate any FRAND obligations, a conclusion also reached by the ALJ in the 337-TA-800 investigation, and that Respondents have engaged in patent "hold out."

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of certain of the ALJ's conclusions in the ID. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID's finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues.

In June 2014, Microsoft Mobile Oy ("MMO") was added as a respondent in the investigation.

On August 14, 2014, the Commission determined to review in part the June 13, 2014 ID but terminated the investigation with a finding of no violation.

On October 10, 2014, InterDigital filed a petition for review with the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit"), appealing certain of the adverse determinations in the Commission's August 8, 2014 final

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

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Related Delaware District Court Proceedings

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the 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 28, 2013, Nokia filed its answer and counterclaims to InterDigital's Delaware District Court complaint, and then amended its answer and counterclaims on March 5, 2013. Nokia asserted counterclaims for breach of contract, breach of implied contract, unfair competition under Cal. Bus. & Prof. Code § 17200, equitable estoppel, a declaration setting FRAND terms and conditions, a declaration that InterDigital is estopped from seeking an exclusion order based on its U.S. declared-essential patents, a declaration of patent misuse, a declaration that InterDigital has failed to offer FRAND terms, a declaration that Nokia has an implied license to the asserted patents, and declarations of non-infringement, invalidity and unenforceability. In addition to the declaratory relief specified in its counterclaims, Nokia seeks an order that InterDigital specifically perform its purported contracts by not seeking a USITC exclusion order for its essential patents and by granting Nokia a license on FRAND terms and conditions, an injunction preventing InterDigital from participating in a USITC investigation based on essential patents, appropriate damages in an amount to be determined, including all attorney's fees and costs spent in participating in all three USITC Investigations (337-TA-868, 337-TA-800 and 337-TA-613), and any other relief as the court may deem just and proper.

On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of the recently issued '244 patent. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint.

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

On August 6, 2013, Huawei, Nokia, and ZTE filed answers and amended counterclaims for breach of contract and for declaratory judgments seeking determination of FRAND terms. The counterclaims also continue to seek declarations of noninfringement, invalidity, and unenforceability. Nokia also continued to assert a counterclaim for a declaration of patent misuse. On August 30, 2013, InterDigital filed a motion to dismiss the declaratory judgment counterclaims relating to the request for determination of FRAND terms. On May 28, 2014, the court granted InterDigital's motion and dismissed

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defendants' FRAND-related declaratory judgment counterclaims, ruling that such declaratory judgments would serve no useful purpose.

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

On February 11, 2014, the Delaware District Court judge entered an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims.

On August 28, 2014, the court granted in part a motion by InterDigital for summary judgment that the asserted '151 patent is not unenforceable by reason of inequitable conduct, holding that only one of the references forming the basis of defendants' allegations would remain in issue, and granted a motion by InterDigital for summary judgment that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement.

On August 5, 2014, InterDigital and Samsung filed a stipulation of dismissal in light of the parties' settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice. By order dated August 28, 2014, MMO was joined in the case as a defendant.

The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent was required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The court issued formal judgment to this effect on October 29, 2014.

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

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

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

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

On May 5, 2015, the court scheduled the Nokia Inc./MMO jury trial addressing infringement of the '244 patent for November 16, 2015. On May 29, 2015, the court entered a new scheduling order for damages and FRAND-related issues due to changes in the schedule of the liability portion of the MMO proceedings, scheduling trials related to damages and FRAND-related issues for October 2016 with ZTE and November 2016 with MMO.

On September 14, 2015, a panel of Administrative Law Judges of the United States Patent and Trademark Office Patent Trial and Appeal Board (the "PTAB") issued a final written decision in two Inter Partes Review ("IPR") cases concerning the '244 patent. These IPR proceedings were commenced on petitions filed by ZTE Corporation and ZTE (USA) Inc. and by Microsoft Corporation, respectively. Specifically, the panel determined that a number of claims of the '244 patent are unpatentable as obvious. IPR Licensing, Inc. appealed to the Federal Circuit seeking review of the PTAB's decision. The appeals are pending. On October 13, 2015, by stipulation of the parties, the Delaware District Court stayed the action involving MMO and Nokia Inc., including the November 2015 and November 2016 trials concerning infringement of the '244 patent and damages and FRAND-related issues, respectively, pending completion of the IPR proceedings, including all appeals and subsequent proceedings before the PTAB. This stay is with respect to MMO and Nokia Inc. only, and does not apply to the Delaware action pending against ZTE.

On May 12, 2015, Nokia/MMO moved for summary judgment of non-infringement of the '244 patent, alleging that the accused devices do not practice a particular claim element of the '244 patent. On June 2, 2015, InterDigital opposed





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Nokia/MMO's motion, and filed a cross-motion for partial summary judgment that the accused devices infringe the claim element at issue in Nokia/MMO's motion for summary judgment. On October 13, 2015, the Delaware District Court denied the pending summary judgment cross-motions without prejudice in light of the stay discussed above, indicating that the motions could be considered refiled if and when the stay is lifted if either party requests it.

On December 21, 2015, the court entered another scheduling order that vacated the October 2016 date for the ZTE trial related to damages and FRAND-related issues as set forth in the May 2015 scheduling order.

On March 18, 2016, the court denied ZTE's motion for judgment as a matter of law, or in the alternative for a new trial, with respect to the '966 and '847 patents. The court postponed its ruling on ZTE's motion as to the '244 patent pending the Federal Circuit's decision on InterDigital's appeal of the September 14, 2015 PTAB ruling and administratively closed that portion of the motion. On April 8, 2016, the court set a new schedule for the FRAND/damages portion of the ZTE case with a target trial date in February 2018.

On April 18, 2016, ZTE filed a stipulated request for dismissal with prejudice of its counterclaims for breach of contract and patent unenforceability based on FRAND and withdrew its corresponding FRAND-related affirmative defenses. The court granted this request the same day. Also on April 18, 2016, ZTE filed a motion under Federal Rule of Civil Procedure 54(b) seeking certification of partial final judgment on the claims for infringement of the '966 and '847 patents to allow ZTE to file an immediate appeal as to those patents. The motion was granted on June 7, 2016, and a partial final judgment was entered on June 20, 2016. On July 18, 2016, ZTE filed its notice of appeal with the Federal Circuit. As a result, InterDigital's damages claims are currently effectively stayed pending the appeal.

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

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

The ALJ held an evidentiary hearing from February 12-21, 2013. The patents in issue as of the hearing were U.S. Patent Nos. 8,009,636 (the "'636 patent"), 7,706, 830 (the "'830 patent"), 7,502,406 (the "'406 patent"), 7,616,970 (the "'970 patent"), 7,706,332 (the "'332 patent"), 7,536,013 (the "'013 patent") and 7,970,127 (the "'127 patent"). The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Among other determinations, 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.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety.

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

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. On February 18, 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337. On April 6, 2015, InterDigital filed a combined petition for

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panel rehearing and rehearing en banc as to the '830 and '636 patents. The petition was denied on May 12, 2015, and the court's mandate issued on May 19, 2015.

Related Delaware District Court Proceeding

On July 26, 2011, the same date that InterDigital filed USITC Proceeding (337-TA-800), it filed a parallel action in the United States District Court for the District of Delaware against the 337-TA-800 Respondents alleging infringement of the same asserted patents identified in USITC Proceeding (337-TA-800). The Delaware District Court complaint seeks a permanent injunction and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement, and recovery of reasonable attorneys' fees and costs. On September 23, 2011, the defendants in the Delaware District Court complaint filed a motion to stay the Delaware District Court action pending the parallel proceedings in the USITC. Because the USITC has instituted USITC Proceeding (337-TA-800), the defendants have a statutory right to a mandatory stay of the Delaware District Court proceeding pending a final determination in the USITC. On October 3, 2011, InterDigital amended the Delaware District Court complaint, adding LG as a defendant and adding the same additional patent that InterDigital requested be added to USITC Proceeding (337-TA-800). On October 11, 2011, the Delaware District Court granted the defendants' motion to stay. The case is currently stayed through December 13, 2016.

On January 14, 2014, InterDigital and Huawei filed a stipulation of dismissal of their disputes in this action on account of the confidential settlement agreement mentioned above. On the same day, the Delaware District Court granted the stipulation of dismissal.

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

USITC Proceeding (337-TA-613)

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, respectively, a third patent and a fourth patent were added to the Company's complaint against Nokia. The complaint sought an exclusion order barring from entry into the United States infringing 3G mobile handsets and components that are imported by or on behalf of Nokia. InterDigital's complaint also sought a cease-and-desist order to bar further sales of infringing Nokia products that have already been imported into the United States.

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 its appeal, InterDigital sought reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in the '966 and '847 patents, vacatur of the Commission's determination of no Section 337 violation and a remand for further proceedings before the Commission. 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

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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 12, 2014, the Commission issued a notice, order and opinion remanding

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the investigation to an ALJ. In doing so, the Commission determined certain issues and identified others that would be subject to further proceedings by the ALJ. The Commission assigned the investigation to an ALJ for limited remand proceedings consistent with its February 12, 2014 opinion.

In June 2014, MMO was added as a respondent in the investigation.

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

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

**Related Delaware District Court Proceeding**

In addition, in August 2007, 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. 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. This case remains stayed.

**OTHER**

We are party to certain other disputes and legal actions in the ordinary course of business, including arbitrations and legal proceedings with licensees regarding the terms of their agreements and the negotiation thereof. We do not currently believe that these matters, even if adversely adjudicated or settled, would have a material adverse effect on our financial condition, results of operations or cash flows. None of the above matters have met the requirements for accrual or disclosure of a potential range as of September 30, 2016.

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## 7. EQUITY TRANSACTIONS

Changes in shareholders' equity for the nine months ended September 30, 2016 and September 30, 2015 were as follows (in thousands):

|  | For the Nine Months<br>Ended September 30, |           |
|--|--|-----------|
|  | 2016                                       | 2015      |
| Balance beginning of period, December 31                         | \$510,519                                  | \$468,328 |
| Net income attributable to InterDigital, Inc.                    | 172,531                                    | 86,187    |
| Unrealized gain (loss) on investments, net                       | 202  | (124 )    |
| Cash dividends declared  | (24,069 )                                  | (21,658 ) |
| Repurchase of common stock                                       | (64,685 )                                  | (89,052 ) |
| Convertible note hedge transactions, net of tax                  | —  | (38,594 ) |
| Warrant transactions   | —  | 42,881    |
| Equity component of the 2020 Notes, net of tax                   | —  | 38,567    |
| Deferred financing costs allocated to equity                     | —  | (2,430 )  |
| Exercise of common stock options                                 | 302  | 29        |
| Taxes withheld upon restricted stock unit vestings               | (3,368 )                                   | (9,628 )  |
| Tax benefit from share-based compensation                        | (9 )                                       | 2,126     |
| Share-based compensation   | 15,301                                     | 9,691     |
| Total InterDigital, Inc. shareholders' equity end of period      | \$606,724                                  | \$486,323 |
| Noncontrolling Interest Balance beginning of period, December 31 | 11,376                                     | 7,349     |
| Proceeds from noncontrolling interests                           | —  | 2,550     |
| Distribution preference  | —  | (2,500 )  |
| Net loss attributable to noncontrolling interest                 | (2,828 )                                   | (2,112 )  |
| Noncontrolling interest  | 8,548                                      | 5,287     |
| Total Equity end of period                                       | \$615,272                                  | \$491,610 |

## Repurchase of Common Stock

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

The table below sets forth the number of shares repurchased and the dollar value of shares repurchased under the 2014 Repurchase Program during 2016, 2015 and 2014, in thousands.

|                    | 2014   |           |
|--------------------|--------|-----------|
|                    | # of   | Value     |
|                    | Shares |           |
| Repurchase Program |        |           |
| 2016               | 1,304  | \$64,685  |
| 2015               | 1,836  | 96,410    |
| 2014               | 3,554  | 152,625   |
| Total              | 6,694  | \$313,720 |

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## Dividends

Cash dividends on outstanding common stock declared in 2016 and 2015 were as follows (in thousands, except per share data):

| 2016           | Per Share | Total     | Cumulative by Fiscal Year |
|----------------|-----------|-----------|---------------------------|
| First quarter  | \$ 0.20   | \$ 6,923  | \$ 6,923                  |
| Second quarter | 0.20      | 6,861     | 13,784                    |
| Third quarter  | 0.30      | 10,285    | 24,069                    |
|                | \$ 0.70   | \$ 24,069 |                           |

| 2015           | Per Share | Total     | Cumulative by Fiscal Year |
|----------------|-----------|-----------|---------------------------|
| First quarter  | \$ 0.20   | \$ 7,232  | \$ 7,232                  |
| Second quarter | 0.20      | 7,243     | 14,475                    |
| Third quarter  | 0.20      | 7,183     | 21,658                    |
| Fourth quarter | 0.20      | 7,068     | 28,726                    |
|                | \$ 0.80   | \$ 28,726 |                           |

In September 2016, we announced that our Board of Directors had approved an increase in the Company's quarterly cash dividend, to \$0.30 per share. We currently expect to continue to pay dividends comparable to our quarterly \$0.30 per share cash dividend in the future; however, continued payment of cash dividends and changes in the Company's dividend policy will depend on the Company's earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

## Common Stock Warrants

On March 29, 2011 and March 30, 2011, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively. In consideration for the warrants issued on such dates, we received \$27.6 million and \$4.1 million, respectively, on April 4, 2011. The warrants became exercisable and expired in daily tranches from June 15, 2016 through August 10, 2016, and had an adjusted strike price of \$62.95 per share. The market price of our common stock did not exceed the strike price of the warrants on any warrant expiration date in second quarter 2016; during third quarter 2016, we issued 23,667 shares of common stock pursuant to these warrants.

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

## 8. CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### Concentration of Credit Risk and Fair Value of Financial Instruments

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

Our accounts receivable are derived principally from patent license and technology solutions agreements. At September 30, 2016 and December 31, 2015, five and four licensees comprised 96% and 97% of our net accounts receivable balance, respectively. 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

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We use various valuation techniques and assumptions when measuring fair value of our assets and liabilities. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. This guidance established a hierarchy that prioritizes fair value measurements based on the types of input used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

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

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

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of September 30, 2016 and December 31, 2015 (in thousands):

|  | Fair Value as of September 30, 2016 |           |         |            |
|--|-------------------------------------|-----------|---------|------------|
|  | Level 1                             | Level 2   | Level 3 | Total      |
| Assets:  |                                     |           |         |            |
| Money market and demand accounts (a)               | \$126,619                           | \$—       | \$      | —\$126,619 |
| Commercial paper (b)                               | —                                   | 154,809   | —       | 154,809    |
| U.S. government securities                         | —                                   | 280,246   | —       | 280,246    |
| Corporate bonds, asset backed and other securities | —                                   | 219,875   | —       | 219,875    |
|  | \$126,619                           | \$654,930 | \$      | —\$781,549 |

(a) Included within cash and cash equivalents.

(b) Includes \$60.5 million of commercial paper that is included within cash and cash equivalents.

|  | Fair Value as of December 31, 2015 |           |         |            |
|--|------------------------------------|-----------|---------|------------|
|  | Level 1                            | Level 2   | Level 3 | Total      |
| Assets:  |                                    |           |         |            |
| Money market and demand accounts (a)               | \$333,671                          | \$—       | \$      | —\$333,671 |
| Commercial paper (b)                               | —                                  | 377,347   | —       | 377,347    |
| U.S. government securities                         | —                                  | 183,950   | —       | 183,950    |
| Corporate bonds, asset backed and other securities | 183                                | 38,557    | —       | 38,740     |
|  | \$333,854                          | \$599,854 | \$      | —\$933,708 |

(a) Included within cash and cash equivalents.

(b) Includes \$176.5 million of commercial paper that is included within cash and cash equivalents.

The principal amount, carrying value and related estimated fair value of the Company's senior convertible debt reported in the Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

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|                      | September 30, 2016 |                |            | December 31, 2015 |                |            |
|----------------------|--------------------|----------------|------------|-------------------|----------------|------------|
|                      | Principal Amount   | Carrying Value | Fair Value | Principal Amount  | Carrying Value | Fair Value |
| Total Long-Term Debt | \$316,000          | \$268,847      | \$385,520  | \$546,000         | \$486,769      | \$533,203  |

The aggregate fair value of the principal amount of the long-term debt (Level 2 Notes as defined in Note 9 “Long-Term Debt”) was calculated using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources.

As discussed in Note 2, "Significant Agreements," we acquired patents associated with a patent license agreement signed during third quarter 2016. We have recorded these patents based on their total estimated fair value of \$7.9 million and will amortize them over their estimated useful lives. We estimated the fair value of the patents in this transaction through a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others. For the market approach, judgment was applied as to which market transactions were most comparable to the transaction.

**9. LONG-TERM DEBT****2016 Senior Convertible Notes, and related Note Hedge and Warrant Transactions**

In April 2011, we issued \$230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the “2016 Notes”), which matured and were repaid in full on March 15, 2016.

In connection with the offering of the 2016 Notes, on March 29 and March 30, 2011, we entered into convertible note hedge transactions that covered, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively, at an initial strike price that corresponded to the initial conversion price of the 2016 Notes and were exercisable upon conversion of the 2016 Notes. In addition, on the same dates, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million shares and approximately 0.5 million shares, respectively, of common stock. The warrants had a final strike price of \$62.95 per share, as adjusted in August 2016. The warrants became exercisable and expired in daily tranches from June 15, 2016 through August 10, 2016. The market price of our common stock did not exceed the strike price of the warrants on any warrant expiration date in second quarter 2016; during third quarter 2016, we issued 23,667 shares of common stock pursuant to these warrants.

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

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

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

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

Under current accounting guidance, the Company bifurcated the proceeds from the offering of the 2016 Notes between the liability and equity components of the debt. On the date of issuance, the liability and equity components were calculated to be approximately \$187.0 million and \$43.0 million, respectively. The initial \$187.0 million liability component was determined based on the fair value of similar debt instruments excluding the conversion feature. The

initial \$43.0 million (\$28.0 million net of tax) equity component represents the difference between the fair value of the initial \$187.0 million in debt and the \$230.0 million of gross proceeds. The related initial debt discount of \$43.0 million was being amortized using the effective interest method over the life of the 2016 Notes. An effective interest rate of 7% was used to calculate the debt discount on the 2016 Notes.

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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 were amortized to interest expense over the term of the debt using the effective interest method. The remaining \$1.5 million of costs allocated to the equity component of the debt were recorded as a reduction of the equity component of the debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company bifurcated the proceeds from the offering of the 2020 Notes between liability and equity components. On the date of issuance, the liability and equity components were calculated to be approximately \$256.7 million and \$59.3 million, respectively. The initial \$256.7 million liability component was determined based on the fair value of

similar debt instruments excluding the conversion feature. The initial \$59.3 million (\$38.6 million net of tax) equity component represents the difference between the fair value of the initial \$256.7 million in debt and the \$316.0 million of gross proceeds. The related initial debt discount of \$59.3 million is being amortized using the effective interest method over the life of the 2020 Notes. An effective interest rate of 5.89% was used to calculate the debt discount on the 2020 Notes.

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

The following table reflects the carrying value of the Company's convertible debt as of September 30, 2016 and December 31, 2015 (in thousands):

|                               | September 30, 2016 |            | December 31, 2015 |           |
|-------------------------------|--------------------|------------|-------------------|-----------|
|                               | 2020 Notes         | 2016 Notes | 2020 Notes        | Total     |
| Principal                     | \$316,000          | \$230,000  | \$316,000         | \$546,000 |
| Less:                         |                    |            |                   |           |
| Unamortized interest discount | (42,404 )          | (2,500 )   | (50,614 )         | (53,114 ) |
| Deferred financing costs      | (4,749 )           | (326 )     | (5,791 )          | (6,117 )  |
| Net carrying amount of Notes  | \$268,847          | \$227,174  | \$259,595         | \$486,769 |

The following table presents the amount of interest cost recognized for the three and nine months ended September 30, 2016 and September 30, 2015 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

|  | For the Three Months Ended              |            |            |            |            |          |
|--|---|------------|------------|------------|------------|----------|
|  | September 30, 2016                      |            | 2015       |            | Total      |          |
|  | 2016 Notes                              | 2015 Notes | 2020 Notes | 2016 Notes | 2015 Notes | Total    |
| Contractual coupon interest              | \$1,185                                 | \$1,438    | \$1,185    | \$1,185    | \$1,438    | \$2,623  |
| Accretion of debt discount               | 2,772                                   | 2,416      | 2,618      | 2,772      | 2,416      | 5,034    |
| Amortization of deferred financing costs | 347                                     | 326        | 349        | 347        | 326        | 675      |
| Total                                    | \$4,304                                 | \$4,180    | \$4,152    | \$4,304    | \$4,180    | \$8,332  |
|  | For the Nine Months Ended September 30, |            |            |            |            |          |
|  | 2016                                    |            | 2015       |            | Total      |          |
|  | 2016 Notes                              | 2020 Notes | Total      | 2016 Notes | 2020 Notes | Total    |
| Contractual coupon interest              | \$1,437                                 | \$3,555    | \$4,992    | \$4,313    | \$2,633    | \$6,946  |
| Accretion of debt discount               | 2,500                                   | 8,210      | 10,710     | 2,500      | 6,053      | 13,218   |
| Amortization of deferred financing costs | 326                                     | 1,042      | 1,368      | 326        | 813        | 1,790    |
| Total                                    | \$4,263                                 | \$12,807   | \$17,070   | \$4,263    | \$9,499    | \$21,954 |

## 10. VARIABLE INTEREST ENTITIES

As further discussed below, we are the primary beneficiary of two variable interest entities. As of September 30, 2016, the combined book values of the assets and liabilities associated with these variable interest entities included in our Condensed Consolidated Balance Sheet were \$17.8 million and \$1.0 million, respectively. Assets included \$10.3 million of cash and cash equivalents and \$7.5 million of patents, net. As of December 31, 2015, the combined book values of the assets and liabilities associated with these variable interest entities included in our Condensed Consolidated Balance Sheet were \$24.2 million and \$0.8 million, respectively. Assets included \$19.0 million of cash and cash equivalents and \$5.2 million of patents, net. The impact of consolidating these variable interest entities on our Condensed Consolidated Statements of Income was not significant.





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Convida Wireless

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

Convida Wireless is a variable interest entity. Based on our provision of research and platform development services to Convida Wireless, we have determined that we remain the primary beneficiary for accounting purposes and will continue to consolidate Convida Wireless. For the three months ended September 30, 2016 and 2015, we have allocated approximately \$0.9 million and \$0.7 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties. For the nine months ended September 30, 2016 and 2015, we have allocated approximately \$2.8 million and \$2.1 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties.

Signal Trust for Wireless Innovation

On October 17, 2013, we announced the establishment of the Signal Trust for Wireless Innovation (the “Signal Trust”), the goal of which is to monetize a large InterDigital patent portfolio related to cellular infrastructure.

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

InterDigital is the primary beneficiary of the Signal Trust. The distributions from the Signal Trust will support continued research related to cellular wireless technologies. A small portion of the proceeds from the Signal Trust will be used to fund, through the Signal Foundation for Wireless Innovation, scholarly analysis of intellectual property rights and the technological, commercial and creative innovations they facilitate.

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

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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 2015 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.

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

Huawei PLA

In August 2016, InterDigital and Huawei signed a multi-year, worldwide, non-exclusive, royalty-bearing patent license agreement (the "2016 Huawei PLA"). The agreement covers sales of 3G and 4G terminal unit products by Huawei and its affiliates and sets forth cash payments to InterDigital and a process for the transfer of patents from Huawei to InterDigital, as well as a framework for discussions regarding joint research and development efforts. As a result of the 2016 Huawei PLA, the companies have settled all proceedings related to their arbitration initiated in April 2014. Accordingly, the parties stipulated to a voluntary dismissal of the New York District Court proceedings, which were closed on September 8, 2016. In accordance with the agreement, Huawei also petitioned the French Cour de Cassation to dismiss the proceedings relating to Huawei's appeal of the April 2016 Paris Court of Appeal decision, and these proceedings were dismissed on October 13, 2016.

In second quarter 2016, Huawei made its first payments under the 2015 arbitration awards and related patent license agreement. In third quarter 2016, we recognized past sales of \$121.5 million and current patent royalties of \$16.6 million under the 2016 Huawei PLA. A portion of the consideration for the agreement was in the form of patents. Refer to Note 8, "Concentration of Credit Risk and Fair Value of Financial Assets and Financial Liabilities," for additional information related to the estimates and methods used to determine the fair value of the patents acquired from Huawei.

Please see Note 6, "Litigation and Legal Proceedings," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of the Huawei arbitration proceedings.

Recurring Revenue

Recurring revenue of \$84.3 million in third quarter 2016 increased \$9.7 million from \$74.6 million in second quarter 2016 due to the contribution from the 2016 Huawei PLA, which was partially offset by a decrease in per-unit royalties primarily attributable to a decrease in shipments from first quarter 2016 to second quarter 2016 by Pegatron Corporation ("Pegatron") and our other Taiwan-based licensees.

Refer to "Results of Operations -- First Nine Months 2016 Compared to First Nine Months 2015" and "Results of Operations -- Third Quarter 2016 Compared to Third Quarter 2015" for further discussion of our 2016 revenue.

Stock Repurchase

During third quarter 2016, we repurchased 0.1 million shares of common stock for \$5.7 million, bringing the total number of shares repurchased under the company's current \$400 million stock repurchase program to 6.7 million shares at a cost of \$313.7 million.

Comparability of Financial Results

When comparing third quarter 2016 financial results against other periods, the following items should be taken into consideration:

\$124.0 million of past sales primarily attributable to the 2016 Huawei PLA; and

• \$0.5 million charge to increase accrual rates for performance-based incentive compensation.

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

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2015 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 2015 Form 10-K. There have been no material changes to our existing critical accounting policies from the disclosures included in our 2015 Form 10-K. Refer to Note 1, "Basis of Presentation," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements. See below for critical accounting estimates from the current year period.

**Third Quarter 2016 Agreement**

A portion of the consideration for the 2016 Huawei PLA, discussed above, was in the form of a patent transfer from Huawei to the company. We have received half of the patents as of September 30, 2016, and we will receive the remaining patents by June 30, 2017. Of the \$138.1 million of revenue recognized under the agreement to date, 94% related to cash receipts, and 6% related to the patents transferred to date. We have deferred recognition of revenue related to the patents yet to be transferred, as their value will not be determinable until the completion of the transfer process. At the completion of the transfer process, we expect to recognize additional past sales and current patent royalties associated with these patents.

We have recorded the patents received to date based on their total estimated fair value of \$7.9 million and will amortize them over their estimated useful lives. We estimated the fair value of the patents in this transaction through a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among other factors. For the market approach, judgment was applied as to which market transactions were most comparable to the transaction.

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

The impact that a five percent change in each of the following key estimates would have had on third quarter 2016 revenue and pretax income is summarized in the following table (in millions):

|  | Change in<br>estimate |          |
|--|-----------------------|----------|
|  | +5%                   | -5%      |
| Value of patents acquired                    | \$0.2                 | \$(0.2)  |
| Allocation between past and future royalties | \$13.0                | \$(13.0) |

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

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

Cash, cash equivalents and short-term investments

At September 30, 2016, and December 31, 2015, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

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|  | September 30,<br>2016 | December 31,<br>2015 | Increase /<br>(Decrease) |
|--|-----------------------|----------------------|--------------------------|
| Cash and cash equivalents                                  | \$ 187,162            | \$ 510,207           | \$(323,045)              |
| Short-term investments                                     | 594,387               | 423,501              | 170,886                  |
| Total cash and cash equivalents and short-term investments | \$ 781,549            | \$ 933,708           | \$(152,159)              |

The net decrease in cash, cash equivalents and short-term investments was primarily attributable to the repayment of the \$230.0 million aggregate principal amount of our 2.50% senior convertible notes (the “2016 Notes”) that became due in March 2016, capitalized patent costs and patent acquisitions of \$29.1 million, share repurchases of \$64.7 million and dividend payments of \$20.8 million. These decreases were partially offset by \$197.5 million of cash provided by operating activities.

## Cash flows from operations

We generated the following cash flows from our operating activities in first nine months 2016 and 2015 (in thousands):

|   | For the Nine<br>Months Ended<br>September 30, |           |                          |
|---|---|-----------|--------------------------|
|   | 2016  | 2015      | Increase /<br>(Decrease) |
| Net cash provided by operating activities | \$ 197,496                                    | \$ 27,722 | \$ 169,774               |

Our cash flows provided by operating activities are principally derived from cash receipts from patent license and technology solutions agreements offset by cash operating expenses and income tax payments. The increase in cash flows provided by operating activities of \$169.8 million was primarily attributable to an increase in cash receipts of \$151.5 million and an increase in other working capital adjustments. The increase in cash receipts was primarily driven by amounts received from Huawei, which are reflected in fixed-fee royalty payments in the table below. This increase was partially offset by reduced current royalties due to lower royalties received from our Taiwan-based licensees. Taxes paid increased by \$14.8 million, which was partially offset by a decrease in cash operating expenses of \$19.7 million. Other working capital adjustments decreased \$13.3 million, primarily due to lower payments of accrued compensation in first nine months 2016 compared to first nine months 2015. The table below sets forth the significant items comprising our cash flows provided by operating activities during the nine months ended September 30, 2016 and 2015 (in thousands).

|   | For the Nine Months<br>Ended September 30, |            |                          |
|---|--|------------|--------------------------|
|   | 2016                                       | 2015       | Increase /<br>(Decrease) |
| <b>Cash Receipts:</b>                   |  |            |                          |
| Current royalties <sup>a</sup>          | \$ 162,415                                 | \$ 179,108 | \$(16,693 )              |
| Fixed-fee royalty payments <sup>b</sup> | 226,237                                    | 44,750     | 181,487                  |
| Prepaid royalties                       | 3,356                                      | 13,460     | (10,104 )                |
| Technology solutions                    | 2,617                                      | 5,785      | (3,168 )                 |
| Total cash receipts                     | \$ 394,625                                 | \$ 243,103 | \$ 151,522               |
| <b>Cash Outflows:</b>                   |  |            |                          |
| Cash operating expenses <sup>c</sup>    | 109,378                                    | 129,123    | (19,745 )                |
| Income taxes paid <sup>d</sup>          | 58,626                                     | 43,833     | 14,793                   |
| Total cash outflows                     | 168,004                                    | 172,956    | (4,952 )                 |
| Other working capital adjustments       | (29,125 )                                  | (42,425 )  | 13,300                   |

Cash flows provided by operating activities \$ 197,496 \$ 27,722 \$ 169,774

(a) Current royalties included past sales recognized of \$5.8 million and \$15.6 million for the nine months ended September 30, 2016 and 2015, respectively.

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- (b) The increase in fixed-fee royalty payments for the nine months ended September 30, 2016 was driven by cash collected from Huawei, including \$121.5 million recognized as past sales, and was partially offset by reductions in cash receipts from licenses renewed in second half 2015.
- (c) Cash operating expenses include operating expenses less depreciation of fixed assets, amortization of patents, and non-cash compensation.
- (d) Income taxes paid include foreign withholding taxes.

Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and/or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and/or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at September 30, 2016, and December 31, 2015 (in thousands), as follows:

|                           | September 30, December 31, Increase / |              |             |
|---------------------------|---------------------------------------|--------------|-------------|
|                           | 2016                                  | 2015         | (Decrease)  |
| Current assets            | \$ 974,738                            | \$ 1,010,967 | \$(36,229 ) |
| Less: current liabilities | 238,243                               | 399,973      | (161,730 )  |
| Working capital           | 736,495                               | 610,994      | 125,501     |
| Subtract:                 |                                       |              |             |
| Cash and cash equivalents | 187,162                               | 510,207      | (323,045 )  |
| Short-term investments    | 594,387                               | 423,501      | 170,886     |
| Add:                      |                                       |              |             |
| Current deferred revenue  | 175,673                               | 106,229      | 69,444      |
| Adjusted working capital  | \$ 130,619                            | \$(216,485 ) | \$ 347,104  |

The \$347.1 million net increase in adjusted working capital is primarily attributable to the repayment of the 2016 Notes in first quarter 2016, which resulted in a \$227.2 million decrease in current liabilities. Accounts receivable increased \$93.0 million due to the timing of payments related to both existing and new fixed-fee agreements.

Additionally, prepaid and other current assets increased \$22.9 million primarily due to the second quarter 2016 recognition of a \$29.4 million discrete gross benefit within our tax provision related to tax refunds expected on amended returns associated with available deductions for certain domestic production activities.

Cash flows from investing and financing activities

Net cash used in investing activities for first nine months 2016 was \$205.3 million, a \$38.2 million increase from \$167.1 million net cash used in first nine months 2015. We purchased \$170.8 million and \$114.6 million, net of sales, of short-term marketable securities in first nine months 2016 and 2015, respectively. Investment costs associated with capitalized patent costs and acquisition of patents decreased to \$29.1 million in first nine months 2016 from \$44.0 million in first nine months 2015, primarily due to the inclusion in first nine months 2015 of a final payment of \$20.0 million on a \$45.0 million patent acquisition made in 2014.

Net cash used in financing activities for first nine months 2016 was \$315.2 million, a \$503.6 million change from \$188.4 million net cash generated in first nine months 2015. This change was primarily attributable to the \$230.0 million repayment of the 2016 Notes in first quarter 2016 as compared to the \$306.7 million in net proceeds from the issuance and sale of the 1.50% senior convertible notes due 2020 (the "2020 Notes") in first quarter 2015. This change was partially offset by a \$24.4 million decrease in repurchases of common stock in first nine months 2016 and \$16.5 million of net costs for the bond hedge and warrant transactions entered into in first quarter 2015 in connection with the offering of the 2020 Notes.

Other



Our combined short-term and long-term deferred revenue balance at September 30, 2016, was approximately \$485.2 million, an increase of \$89.9 million from December 31, 2015. We have no material obligations associated with such deferred revenue. The increase was primarily due to a gross increase in deferred revenue of \$324.1 million associated with amounts collected from Huawei in second quarter 2016 as well as fixed-fee agreement payments or payments due within twelve months,

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which were partially offset by \$242.1 million of deferred revenue recognized. The deferred revenue recognized was comprised of \$103.9 million of amortized fixed-fee royalty payments, \$121.5 million of past patent royalties and \$16.7 million in per-unit exhaustion of prepaid royalties.

Based on current license agreements, we expect the amortization of fixed-fee royalty payments to reduce the September 30, 2016, deferred revenue balance of \$485.2 million by \$175.7 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****Third Quarter 2016 Compared to Third Quarter 2015****Revenues**

The following table compares third quarter 2016 revenues to third quarter 2015 revenues (in thousands):

|   | For the Three<br>Months Ended<br>September 30, |           | Increase/(Decrease) |       |
|---|--|-----------|---------------------|-------|
|   | 2016   | 2015      |                     |       |
| Per-unit royalty revenue                          | \$35,804                                       | \$43,698  | \$(7,894)           | (18)% |
| Fixed-fee amortized royalty revenue               | 45,740   | 33,373    | 12,367              | 37%   |
| Current patent royalties <sup>a</sup>             | 81,544   | 77,071    | 4,473               | 6%    |
| Past patent royalties <sup>b</sup>                | 123,973  | 21,817    | 102,156             | 468%  |
| Total patent licensing royalties                  | 205,517  | 98,888    | 106,629             | 108%  |
| Current technology solutions revenue <sup>a</sup> | 2,790  | 1,520     | 1,270               | 84%   |
| Total revenue                                     | \$208,307                                      | \$100,408 | \$107,899           | 107%  |

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

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

The \$107.9 million increase in total revenue was primarily attributable to the signing of our new patent license agreement with Huawei during the quarter, which drove a \$102.2 million increase in past patent royalties and a \$5.7 million increase in recurring revenue. The \$5.7 million increase in recurring revenue was primarily due to a \$12.4 million increase in fixed-fee amortized royalty revenue as a result of the Huawei agreement, which was partially offset by a lower base of fixed-fee amortized royalty revenue. The increase in fixed-fee amortized royalty revenue was also partially offset by a decrease in per-unit royalty revenue resulting from decreased shipments by Pegatron and our other Taiwan-based licensees.

In third quarter 2016 and third quarter 2015, 66% and 72% of our total revenue, respectively, was attributable to companies that individually accounted for 10% or more of our total revenue. In third quarter 2016 and third quarter 2015, the following companies accounted for 10% or more of our total revenue:

|          | For the<br>Three<br>Months<br>Ended<br>September<br>30,<br>2016 | 2015 |
|----------|---|------|
| Huawei   | 66%   | —%   |
| Pegatron | < 10%   | 23%  |
| Samsung  | < 10%   | 17%  |
| Sony     | < 10%   | 32%  |

**Operating Expenses**

The following table summarizes the changes in operating expenses between third quarter 2016 and third quarter 2015 by category (in thousands):



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|                                     | For the Three<br>Months Ended<br>September 30, |          |                     |       |
|-------------------------------------|--|----------|---------------------|-------|
|                                     | 2016   | 2015     | Increase/(Decrease) |       |
| Patent administration and licensing | \$26,149                                       | \$28,363 | \$ (2,214 )         | (8 )% |
| Development                         | 15,560   | 16,618   | (1,058 )            | (6 )% |
| Selling, general and administrative | 9,880  | 10,040   | (160 )              | (2 )% |
| Total operating expenses            | \$51,589                                       | \$55,021 | \$ (3,432 )         | (6 )% |

Operating expenses decreased to \$51.6 million in third quarter 2016 from \$55.0 million in third quarter 2015. The \$3.4 million decrease in total operating expenses was primarily due to changes in the following items (in thousands):

|   | (Decrease)/<br>Increase |
|---|-------------------------|
| Intellectual property enforcement and non-patent litigation | \$ (2,738 )             |
| Commercial initiatives                                      | (1,536 )                |
| Personnel-related costs                                     | (510 )                  |
| Performance-based incentive compensation                    | (319 )                  |
| Depreciation and amortization                               | 1,319                   |
| Other   | 352                     |
| Total decrease in operating expenses                        | \$ (3,432 )             |

The \$2.7 million decrease in intellectual property enforcement and non-patent litigation primarily related to decreased costs associated with USITC and related actions. The \$2.0 million aggregate decrease in commercial initiatives and personnel related costs was primarily attributable to reduced spending on development projects and on-going efforts to optimize our cost structure. Additionally, the \$0.3 million decrease in performance-based incentive compensation was primarily driven by lower accrual rates associated with our short-term performance-based compensation plan as compared to the prior year period. These decreases were partially offset by a \$1.3 million increase in depreciation and amortization primarily related to the growth in our patent portfolio driven by both internal patent generation and patent acquisitions.

**Patent Administration and Licensing Expense:** The decrease in patent administration and licensing expense primarily resulted from the above-noted decrease in intellectual property enforcement and non-patent litigation costs. This decrease was partially offset by the above-noted increase in patent amortization.

**Development Expense:** The decrease in development expense primarily resulted from the above-noted decreases in commercial initiatives expense and personnel-related costs.

**Selling, General and Administrative Expense:** The decrease in selling, general and administrative expense primarily resulted from the above-noted decrease in personnel-related costs.

**Other (Expense) Income**

The following table compares third quarter 2016 other (expense) income to third quarter 2015 other (expense) income (in thousands):

|                                | For the Three<br>Months Ended<br>September 30, |           |         |       |
|--------------------------------|--|-----------|---------|-------|
|                                | 2016   | 2015      | Change  |       |
| Interest expense               | \$(4,305)                                      | \$(8,331) | \$4,026 | (48)% |
| Other                          | (385 )   | (300 )    | (85 )   | 28 %  |
| Interest and investment income | 892  | 523       | 369     | 71 %  |
|                                | \$(3,798)                                      | \$(8,108) | \$4,310 | (53)% |

In third quarter 2016, other expense was \$3.8 million as compared to other expense of \$8.1 million in third quarter 2015. The change between periods was primarily due to lower interest expense as a result of the repayment of the \$230.0 million aggregate principal amount of the 2016 Notes in first quarter 2016.



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## Income tax provision

In third quarter 2016, our effective tax rate was 32.3% as compared to 36.2% during third quarter 2015, based on the statutory federal tax rate net of discrete federal and state taxes. The decrease in our effective tax rate was primarily attributable to the inclusion of an estimated deduction for domestic production activities and an estimated U.S. federal research and development tax credit in our third quarter 2016 effective tax rate, neither of which were included in the prior year. The U.S. federal research and development tax credit received a permanent extension in December 2015. Additionally, our third quarter 2015 effective tax rate included a higher level of certain deductions that were not allowed for tax purposes, contributing to the higher effective tax rate as compared to third quarter 2016.

## First Nine Months 2016 Compared to First Nine Months 2015

## Revenues

The following table compares first nine months 2016 revenues to first nine months 2015 revenues (in thousands):

|   | For the Nine<br>Months Ended<br>September 30, |           | Increase/(Decrease) |        |
|---|---|-----------|---------------------|--------|
|   | 2016  | 2015      |                     |        |
| Per-unit royalty revenue                          | \$154,018                                     | \$175,270 | \$(21,252)          | (12)%  |
| Fixed-fee amortized royalty revenue               | 103,936                                       | 100,119   | 3,817               | 4%     |
| Current patent royalties <sup>a</sup>             | 257,954                                       | 275,389   | (17,435)            | (6)%   |
| Past patent royalties <sup>b</sup>                | 129,417                                       | 49,094    | 80,323              | 164%   |
| Total patent licensing royalties                  | 387,371                                       | 324,483   | 62,888              | 19%    |
| Current technology solutions revenue <sup>a</sup> | 4,615   | 4,770     | (155)               | (3)%   |
| Past technology solutions revenue <sup>b</sup>    | —   | 84        | (84)                | (100)% |
| Total revenue                                     | \$391,986                                     | \$329,337 | \$62,649            | 19%    |

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

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

The \$62.6 million increase in total revenue was primarily attributable to the signing of our new patent license agreement with Huawei during third quarter 2016, which drove a \$62.9 million increase in total patent licensing royalties. The Huawei agreement contributed \$121.5 million to the increase in past patent royalties during first nine months 2016 and \$16.6 million to the increase in fixed-fee amortized royalty revenue for the period. These increases were partially offset by a \$21.3 million decrease in per-unit royalty revenue, which was driven by decreased shipments by Pegatron and our other Taiwan-based licensees.

In first nine months 2016 and first nine months 2015, 72% and 63% of our total revenue, respectively, were attributable to companies that individually accounted for 10% or more of our total revenue. In first nine months 2016 and first nine months 2015, the following companies accounted for 10% or more of our total revenue:

|          | For the Nine<br>Months<br>Ended<br>September<br>30, |      |
|----------|---|------|
|          | 2016  | 2015 |
| Huawei   | 35%   | —%   |
| Pegatron | 24%   | 31%  |
| Samsung  | 13%   | 16%  |
| Sony     | < 10%   | 16%  |

## Operating Expenses

The following table summarizes the changes in operating expenses between first nine months 2016 and first nine months 2015 by category (in thousands):



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|                                     | For the Nine<br>Months Ended<br>September 30, |           |                     |
|-------------------------------------|---|-----------|---------------------|
|                                     | 2016  | 2015      | Increase/(Decrease) |
| Patent administration and licensing | \$81,601                                      | \$91,200  | \$(9,599) (11)%     |
| Development                         | 50,438  | 52,935    | (2,497) (5)%        |
| Selling, general and administrative | 31,790  | 29,993    | 1,797 6%            |
| Total operating expenses            | \$163,829                                     | \$174,128 | \$(10,299) (6)%     |

Operating expenses decreased 6% to \$163.8 million in first nine months 2016 from \$174.1 million in first nine months 2015. The \$10.3 million decrease in total operating expenses was primarily due to (decreases)/increases in the following items (in thousands):

|   | (Decrease)/Increase |
|---|---------------------|
| Intellectual property enforcement and non-patent litigation | \$ (14,658)         |
| Commercial initiatives                                      | (3,937)             |
| Consulting services   | (3,091)             |
| Performance-based incentive compensation                    | 5,878               |
| Depreciation and amortization                               | 3,835               |
| Other   | 1,391               |
| Personnel-related costs                                     | 283                 |
| Total decrease in operating expenses                        | \$ (10,299)         |

The \$10.3 million decrease in operating expenses was primarily due to the \$14.7 million decrease in intellectual property enforcement and non-patent litigation primarily related to decreased costs associated with the USITC actions and licensee arbitrations. The \$7.0 million aggregate decrease in consulting services and commercial initiatives expenses was primarily attributable to reduced spending on development projects and on-going efforts to optimize our cost structure. Additionally, higher costs in second quarter 2015 related to branding and strategy-related initiatives contributed to the decrease in consulting services. These decreases were partially offset by an increase in performance-based incentive compensation of \$5.9 million due to higher accrual rates associated with our long-term performance-based compensation plans, following developments involving the Huawei arbitration award and related agreement that resulted in the first payments from Huawei in second quarter 2016. Depreciation and amortization increased by \$3.8 million, which was primarily attributable to the growth in our patent portfolio driven by both internal patent generation and patent acquisitions.

**Patent Administration and Licensing Expense:** The decrease in patent administration and licensing expense primarily resulted from the above-noted decrease in intellectual property enforcement and non-patent litigation. This decrease was partially offset by increases in patent amortization expense and performance-based incentive compensation as discussed above.

**Development Expense:** The decrease in development expense primarily resulted from the above-noted decrease in commercial initiatives and consulting services expenses. These decreases were partially offset by increased performance-based incentive compensation as discussed above.

**Selling, General and Administrative Expense:** The increase in selling, general and administrative expense primarily resulted from the above-noted increase in performance-based incentive compensation. This increase was partially offset by decreased spending related to corporate branding and strategy-related initiatives.



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## Other (Expense) Income

The following table compares first nine months 2016 other (expense) income to first nine months 2015 other (expense) income (in thousands):

|                                | For the Nine Months<br>Ended September 30, |            |         |        |
|--------------------------------|--|------------|---------|--------|
|                                | 2016                                       | 2015       | Change  |        |
| Interest expense               | \$(16,768)                                 | \$(21,955) | \$5,187 | (24 )% |
| Other                          | 2,572                                      | (564 )     | 3,136   | (556)% |
| Interest and investment income | 2,555                                      | 1,429      | 1,126   | 79 %   |
|                                | \$(11,641)                                 | \$(21,090) | \$9,449 | (45 )% |

In first nine months 2016, other expense was \$11.6 million as compared to other expense of \$21.1 million in first nine months 2015. The change in total other expense between periods was primarily due to lower Interest expense as a result of the repayment of the \$230.0 million aggregate principal amount of the 2016 Notes in first quarter 2016 and the increase in Other income primarily related to the gain recognized related to the sale of our King of Prussia facility. Income tax provision

In first nine months 2016, based on the statutory federal tax rate net of discrete federal and state taxes, our effective tax rate was 21.6%. Our estimated annual effective tax rate as of September 30, 2016 was 32.7%, reflecting the impact of a \$24.0 million discrete net benefit primarily related to domestic production activities refund claims for prior years. This is compared to an effective tax rate of 37.3%, based on the statutory federal tax rate net of discrete federal and state taxes, during first nine months 2015 and an estimated annual effective tax rate of 37.4% as of September 30, 2015. Additionally, our first nine months 2016 effective tax rate includes an estimated deduction for domestic production activities, as well as an estimated U.S. federal research and development tax credit, neither of which were included in the prior year. The U.S. federal research and development tax credit received a permanent extension in December 2015. In first quarter 2016, we reversed a portion of our tax reserve upon completion of the Joint Committee on Taxation's review of the U.S. tax audit for the tax years 2010 through 2012.

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

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

- The potential effects of new accounting standards on our financial position, results of operations or cash flows;
- Our expectation that the amortization of fixed-fee royalty payments will reduce our September 30, 2016, deferred revenue balance over the next twelve months;
- Our expectation that we will use deferred tax assets to offset future U.S. federal income taxes;
- The timing, outcome and impact of, and plans, expectations and beliefs with respect to, our various litigation, arbitration, regulatory and administrative matters;
- Our belief that we have the ability to obtain additional liquidity through debt and equity financings;
- Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months;
- Our expectation that we will continue to pay dividends comparable to our quarterly \$0.30 per share cash dividend in the future; and
- Our expectation that after receiving the remaining patents to be transferred from Huawei by June 30, 2017, we will recognize additional past sales and current patent royalties associated with such patents.



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

**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 2015 Form 10-K.

**Item 4. CONTROLS AND PROCEDURES.**

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2016 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.

## Huawei Arbitration

Reference is made to the Huawei Arbitration previously disclosed in the 2015 Form 10-K, the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (the "First Quarter 2016 Form 10-Q") and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Second Quarter 2016 Form 10-Q"). In August 2016, InterDigital and Huawei signed a multi-year, worldwide, non-exclusive, royalty-bearing patent license agreement (the "2016 Huawei PLA"). The agreement covers sales of 3G and 4G terminal unit products by Huawei and its affiliates and sets forth cash payments to InterDigital and a process for the transfer of patents from Huawei to InterDigital, as well as a framework for discussions regarding joint research and development efforts. As a result of the 2016 Huawei PLA, the companies have settled all proceedings related to this arbitration. Accordingly, the parties stipulated to a voluntary dismissal of the New York District Court proceedings, which were closed on September 8, 2016. In accordance with the agreement, Huawei also petitioned the French Cour de Cassation to dismiss the proceedings relating to Huawei's appeal of the April 2016 Paris Court of Appeal decision, and these proceedings were dismissed on October 13, 2016. The parties also agreed in the 2016 Huawei PLA that the Chinese Supreme People's Court proceeding regarding the royalty rate for the license to InterDigital's Chinese standards-essential patents (as discussed in Note 6, Litigation and Legal Proceedings) would survive execution of the agreement and is excluded from the dismissal provisions of the agreement, but that the royalty terms of the 2016 Huawei PLA establish the worldwide royalties to be paid by Huawei to InterDigital under the agreement notwithstanding any further decisions arising from the Chinese Supreme People's Court proceeding.

## Asustek Actions

On April 15, 2015, Asustek Computer Incorporated ("Asus") filed a complaint in the CA Northern District Court against InterDigital, Inc., and its subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Patent Holdings, Inc. The complaint asserted the following causes of action: violation of Section Two of the Sherman Act, violation of Section 17200 of the California Business and Professions Code, breach of contract resulting from ongoing negotiations, breach of contract leading to and resulting in the parties' 2008 patent license agreement (the "2008 Asus PLA"), promissory estoppel, waiver, and fraudulent inducement to contract. Among other allegations, Asus alleged that InterDigital breached its FRAND commitment. As relief, Asus sought a judgment that the 2008 Asus PLA is void or unenforceable, damages in the amount of excess royalties Asus paid under the 2008 Asus PLA plus interest, a judgment setting the proper FRAND terms and conditions for InterDigital's patent portfolio, an order requiring InterDigital to grant Asus a license on FRAND terms and conditions, and punitive damages and other relief.

In response, on May 30, 2015, InterDigital filed an Arbitration Demand with the ICDR. InterDigital claimed that Asus breached the 2008 Asus PLA's dispute resolution provision by filing its CA Northern District Court lawsuit and sought declaratory relief that it is not liable for any of the claims in Asus's complaint. On June 2, 2015, InterDigital filed in the CA Northern District Court a motion to compel arbitration on each of Asus's claims. On August 25, 2015, the court granted InterDigital's motion for all of Asus's claims except its claim for breach of contract resulting from ongoing negotiations. Aside from this claim, the court ruled that the issue of arbitrability should be decided by an arbitrator, and stayed the proceedings pending that determination.

Asus asserted counterclaims in the arbitration that mirrored its CA Northern District Court claims, except that it did not assert the breach of contract claim that the court determined was not arbitrable and it added a claim of violation of the Delaware Consumer Fraud Act. Asus also contended that its counterclaims were not arbitrable. InterDigital added a claim for breach of the 2008 Asus PLA's confidentiality claim. The arbitration is scheduled for an evidentiary hearing in January 2017.

On July 14, 2016, Asus filed a motion to lift the stay in the CA Northern District Court proceeding along with a notice of the arbitral tribunal's decision on arbitrability, informing the court of the arbitrators' decision that, other than

InterDigital's breach of contract claims and Asus's fraudulent inducement claim, no other claim or counterclaim is arbitrable. Asus then filed in the CA Northern District Court an amended complaint on August 18, 2016. This amended complaint includes all of the claims in Asus's first CA Northern District Court complaint except fraudulent inducement and adds a claim of violation of the Delaware Consumer Fraud Act. It seeks the same relief as its first CA Northern District Court complaint, but also seeks a ruling that each of InterDigital's patents "declared [to standards-setting organizations] to be essential or potentially essential" is unenforceable and any contracts InterDigital entered into in furtherance of its unlawful conduct are void. On September 8, 2016, InterDigital filed its answer and counterclaims to Asus' amended complaint. It denied Asus's claims and filed a

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counterclaim for declaratory judgment that Asus's tort claims are invalid or preempted as applied under the First Amendment to the U.S. Constitution, the Patent Clause of the U.S. Constitution, and Title 35 of the U.S. Code. Microsoft Sherman Act Delaware Proceedings

Reference is made to the proceedings initiated against InterDigital by Microsoft Mobile, Inc. and Microsoft Mobile Oy (collectively, "Microsoft") in the United States District Court for the District of Delaware (the "Delaware District Court") in August 2015 previously disclosed in the 2015 Form 10-K, the First Quarter 2016 Form 10-Q and the Second Quarter 2016 Form 10-Q. Trial is scheduled to begin in September 2018.  
Sharp Arbitration

Reference is made to the Sharp Arbitration previously disclosed in the First Quarter 2016 Form 10-Q and the Second Quarter 2016 Form 10-Q. On August 12, 2016, the parties entered into a confidential settlement agreement that resolves their outstanding disputes. As a result, Sharp withdrew its demand for arbitration, and on September 29, 2016, the arbitration administrator confirmed that the matter has been closed. The parties have also agreed to expand the scope of Sharp's license agreement to add coverage for 4G technologies.

Nokia 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 involving InterDigital, Nokia and ZTE previously disclosed in the 2015 Form 10-K, the First Quarter 2016 Form 10-Q and the Second Quarter 2016 Form 10-Q. The Delaware District Court proceeding is now stayed through December 13, 2016.

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

Item 1A. RISK FACTORS.

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

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

The following table provides information regarding Company purchases of its common stock during third quarter 2016.

| Period                                 | Total<br>Number of<br>Shares (or<br>Units)<br>Purchased<br>(1) | Average<br>Price<br>Paid Per<br>Share<br>(or<br>Unit) | Total<br>Number of<br>Shares (or<br>Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(2) | Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares (or<br>Units) That<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs (3) |
|--|--|---|---|---|
| July 1, 2016 - July 31, 2016           | 102,568  | \$ 55.46  | 102,568   | \$ 86,280,189   |
| August 1, 2016 - August 31, 2016       | —  | \$ —  | —   | \$ 86,280,189   |
| September 1, 2016 - September 30, 2016 | —  | \$ —  | —   | \$ 86,280,189   |
| Total                                  | 102,568  | \$ 55.46  | 102,568   | \$ 86,280,189   |

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

(2) Shares were purchased pursuant to the Company's \$400 million share repurchase program (the "2014 Repurchase Program"), \$300 million of which was authorized by the Company's Board of Directors on June 11, 2014 and announced on June 12, 2014 and \$100 million of which was authorized by the Company's Board of Directors and announced on June 11, 2015. The 2014 Repurchase Program has no expiration date. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases.

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

## Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

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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   |
|----------------|---|
| 31.1           | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2           | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1           | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**  |
| 32.2           | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**  |

101 The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Securities and Exchange Commission on October 27, 2016, formatted in eXtensible Business Reporting Language:

(i) Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) Notes to Condensed Consolidated Financial Statements.

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\*\* 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: October 27, 2016 /s/ WILLIAM J. MERRITT

William J. Merritt

President and Chief Executive Officer

Date: October 27, 2016 /s/ RICHARD J. BREZSKI

Richard J. Brezski

Chief Financial Officer

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EXHIBIT INDEX

| Exhibit Number | Exhibit Description   |
|----------------|---|
| 31.1           | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.   |
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| 32.1           | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**  |
| 32.2           | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**  |
| 101            | The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Securities and Exchange Commission on October 27, 2016, formatted in eXtensible Business Reporting Language:<br><br>(i) Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) Notes to Condensed Consolidated Financial Statements. |

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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.