InterDigital, Inc.
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2014
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission File Number 1-33579
INTERDIGITAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA	23-1882087
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 þ No o

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

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

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

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	39,825,464
Title of Class	Outstanding at August 5, 2014

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

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PART I — FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
INTERDIGITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	JUNE 30, 2014	DECEMBER 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$383,046	$497,714
Short-term investments	289,856	200,737
Accounts receivable, less allowances of $1,750	346,335	92,830
Deferred tax assets	54,677	26,197
Prepaid and other current assets	43,177	40,036
Total current assets	1,117,091	857,514
PROPERTY AND EQUIPMENT, NET	9,369	9,535
PATENTS, NET	271,657	206,371
DEFERRED TAX ASSETS	23,045	36,626
OTHER NON-CURRENT ASSETS	2,167	3,137
	306,238	255,669
TOTAL ASSETS	$1,423,329	$1,113,183
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$32,452	$24,504
Accrued compensation and related expenses	18,797	15,403
Deferred revenue	127,466	60,176
Taxes payable	44,546	7,056
Dividends payable	8,033	4,031
Other accrued expenses	14,129	15,268
Total current liabilities	245,423	126,438
LONG-TERM DEBT	213,247	208,813
LONG-TERM DEFERRED REVENUE	363,347	243,864
OTHER LONG-TERM LIABILITIES	988	248
TOTAL LIABILITIES	823,005	579,363
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS’ EQUITY:		
Preferred Stock, $0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding	—	—
Common Stock, $0.01 par value, 100,000 shares authorized, 69,793 and 69,614 shares issued and 40,287 and 40,228 shares outstanding	698	696
Additional paid-in capital	607,231	598,325
Retained earnings	745,320	680,718
Accumulated other comprehensive income	368	(14)
	1,353,617	1,279,725
Treasury stock, 29,506 and 29,326 shares of common held at cost	759,530	751,075
Total InterDigital, Inc. shareholders’ equity	594,087	528,650
Noncontrolling interest	6,237	5,170

Total equity	600,324	533,820
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,423,329	$1,113,183

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2014	2013	2014	2013
REVENUES:				
Patent licensing royalties	$192,088	$67,210	$246,362	$114,121
Technology solutions	2,146	482	5,716	934
	$194,234	$67,692	$252,078	$115,055
OPERATING EXPENSES:				
Patent administration and licensing	30,869	33,164	64,167	70,039
Development	22,908	13,477	38,343	29,623
Selling, general and administrative	12,085	8,359	21,237	16,201
Repositioning	—	—	—	1,544
	65,862	55,000	123,747	117,407
Income (loss) from operations	128,372	12,692	128,331	(2,352)
OTHER (EXPENSE) INCOME	(3,602)	2,899	(7,566)	(6,581)
Income (loss) before income taxes	124,770	15,591	120,765	(8,933)
INCOME TAX (PROVISION) BENEFIT	(46,658)	(6,985)	(45,208)	4,636
NET INCOME (LOSS)	$78,112	$8,606	$75,557	$(4,297)
Net (loss) income attributable to noncontrolling interest	(789)	(632)	(1,483)	(1,266)
NET INCOME (LOSS) ATTRIBUTABLE TO INTERDIGITAL, INC.	$78,901	$9,238	$77,040	$(3,031)
NET INCOME (LOSS) PER COMMON SHARE — BASIC	$1.95	$0.22	$1.90	$(0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	40,443	41,161	40,444	41,150
NET INCOME (LOSS) PER COMMON SHARE — DILUTED	$1.93	$0.22	$1.90	$(0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	40,822	41,456	40,643	41,150
CASH DIVIDENDS DECLARED PER COMMON SHARE	$0.20	$0.10	$0.30	$0.20

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2014	2013	2014	2013
Net income (loss)	$78,112	$8,606	$75,557	$(4,297)
Unrealized gain investments, net of tax	770	93	382	248
Comprehensive income (loss)	$78,882	$8,699	$75,939	$(4,049)
Comprehensive loss attributable to noncontrolling interest	(789)	(632)	(1,483)	(1,266)
Total comprehensive income (loss) attributable to InterDigital, Inc.	$79,671	$9,331	$77,422	$(2,783)

The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$75,557	$(4,297)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,372	16,212
Amortization of deferred financing fees and accretion of debt discount	5,085	4,790
Deferred revenue recognized	(74,336)	(52,523)
Increase in deferred revenue	256,859	166,353
Deferred income taxes	(14,899)	(5,622)
Share-based compensation	9,721	7,791
Impairment of long-term investment	—	6,669
Other	288	57
Decrease (increase) in assets:		
Receivables	(268,505)	109,265
Deferred charges and other assets	(3,191)	(619)
(Decrease) increase in liabilities:		
Accounts payable	(12,443)	1,915
Accrued compensation and other expenses	283	(27,783)
Accrued taxes payable and other tax contingencies	37,490	(2,458)
Net cash provided by operating activities	30,281	219,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(263,395)	(213,432)
Sales of short-term investments	174,742	129,925
Purchases of property and equipment	(1,466)	(1,180)
Capitalized patent costs	(17,112)	(14,735)
Acquisition of patents	(25,275)	(13,013)
Purchases of long-term investments	—	(445)
Net cash used in investing activities	(132,506)	(112,880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from noncontrolling interests	2,550	5,101
Net proceeds from exercise of stock options	353	641
Dividends paid	(8,088)	(4,115)
Tax benefit from share-based compensation	1,196	683
Repurchase of common stock	(8,454)	—
Net cash (used in) provided by financing activities	(12,443)	2,310
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(114,668)	109,180
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	497,714	349,843
CASH AND CASH EQUIVALENTS, END OF PERIOD	$383,046	$459,023
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest Paid	2,875	2,875
Income taxes paid, including foreign withholding taxes	22,823	3,084
Non-cash investing and financing activities:		

Dividend payable	8,033	4,118
Accrued capitalized patent costs and acquisition of patents	21,034	1,600
Non-cash acquisition of patents	19,250	—

The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(unaudited)

1. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of InterDigital, Inc. (individually and/or collectively with its subsidiaries referred to as “InterDigital,” the “Company,” “we,” “us” or “our,” unless otherwise indicated) as of June 30, 2014, and the results of our operations for the three and six months ended June 30, 2014 and 2013 and our cash flows for the six months June 30, 2014 and 2013. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to state fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles (“GAAP”). The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for year-end financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (our “2013 Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”) on February 24, 2014. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

Change in Accounting Policies

There have been no material changes or updates in our existing accounting policies from the disclosures included in our 2013 Form 10-K.

New Accounting Guidance

Accounting Standards Update: Discontinued Operations

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

Accounting Standards Update: Revenue Recognition

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December

15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

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2. REPOSITIONING:

On October 23, 2012, we announced that, as part of our ongoing expense management effort, we had initiated a voluntary early retirement program ("VERP"). In connection with the VERP, we incurred a related repositioning charge of $12.5 million in 2012. We recognized an additional charge of $1.5 million related to the VERP in first quarter 2013. These charges were included within the repositioning line of our Condensed Consolidated Statements of Operations. The majority of the charges represent cash obligations associated with severance. During fourth quarter 2012 and full year 2013, cash payments of $1.4 million and $12.6 million, respectively, were made for severance and related costs associated with the VERP. As of December 31, 2013 and June 30, 2014, our repositioning accrual was zero. There were no additional charges or cash payments related to the VERP in 2014 and we do not expect to incur any additional charges related to the VERP.

3. SIGNIFICANT AGREEMENTS:

During second quarter 2014, we entered into a patent license agreement with Samsung Electronics Co., Ltd. ("Samsung"). The multi-year agreement also resolved all pending litigation between the companies. The royalty-bearing license agreement sets forth terms covering the sale by Samsung of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013. For the period through the earlier of any exercise or expiration of Samsung's termination right, we expect to recognize revenue associated with this agreement on a straight-line basis. The amount of revenue we will recognize after 2017 will depend on, among other things, whether or not Samsung elects to terminate certain rights and obligations under the license and amounts payable in 2017 and thereafter. During second quarter 2014, we recognized $103.5 million of revenue, including $86.2 million of past patent royalties and $17.3 million of recurring fixed-fee royalties associated with this agreement. Additionally, as of June 30, 2014, we included $270.0 million within our Accounts Receivable balance, $200.0 million of which we collected after the balance sheet date and the remaining $70.0 million of which remains due within twelve months of the balance sheet date. Consistent with our accounting policy, we have not recorded in accounts receivable any amounts due more than twelve months from the balance sheet date.

Additionally, during second quarter 2014, the company's patent-holding subsidiaries entered into patent license agreements with two additional licensees. Both of these agreements cover infrastructure equipment and one of the agreements also covers terminal units. We have recognized past sales from each agreement in second quarter 2014 and will recognize future revenue from these agreements on a straight-line basis over their respective expected terms, beginning with second quarter 2014. These two agreements contributed $37.5 million of revenue in the quarter, including $5.3 million of recurring revenue and $32.2 million of past sales. A portion of the consideration received under these agreements 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.

Each of the three patent license agreements signed during second quarter 2014, as discussed above, is a multiple-element arrangement for accounting purposes. Consistent with the revenue recognition policy disclosed in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in our 2013 Form 10-K, for each agreement, 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.

4. INCOME TAXES:

In first half 2014, our effective tax rate was approximately 37.4% as compared to 51.9% during first half 2013, based on the statutory federal tax rate net of discrete federal and state taxes. The decrease in the effective tax rate resulted from the impact of lower forecasted state tax expense resulting, in part, from the Company's income mix between patent licensing royalties and technology solutions revenue.
During first half 2014 and 2013, we paid approximately $14.1 million and $2.6 million, respectively, of foreign source withholding tax. In 2013, we accrued approximately $5.7 million of the first half 2014 foreign source withholding payments and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes. Additionally, as of June 30, 2014, included within our taxes payable and deferred tax
asset balances is $44.6 million of foreign source withholding tax and the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes. This balance is related to a receivable from a foreign licensee.
During second quarter 2014, the Company settled an outstanding audit and, in connection with this settlement, paid $2.5 million in taxes and related interest.
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 June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to common shareholders	$78,901	$78,901	$9,238	$9,238
Denominator:				
Weighted-average shares outstanding: Basic	40,443	40,443	41,161	41,161
Dilutive effect of stock options, RSUs, convertible securities, and warrants		379		295
Weighted-average shares outstanding: Diluted		40,822		41,456
Earnings Per Share:				
Net income: Basic	$1.95	$1.95	$0.22	$0.22
Dilutive effect of stock options, RSUs, convertible securities, and warrants		(0.02)		—
Net income: Diluted		$1.93		$0.22

	For the Six Months Ended June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income (loss) applicable to common shareholders	$77,040	$77,040	$(3,031)	$(3,031)
Denominator:				
Weighted-average shares outstanding: Basic	40,444	40,444	41,150	41,150
Dilutive effect of stock options, RSUs, convertible securities, and warrants		199		—
Weighted-average shares outstanding: Diluted		40,643		41,150
Earnings Per Share:				
Net income (loss): Basic	$1.90	$1.90	$(0.07)	$(0.07)
Dilutive effect of stock options, RSUs, convertible securities, and warrants		—		—
Net income (loss): Diluted		$1.90		$(0.07)

For the three months ended June 30, 2014 and June 30, 2013 and the six months ended June 30, 2014 and June 30, 2013, options to purchase 0.2 million, less than 0.1 million, 0.2 million and 0.1 million shares, respectively, of common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the three and six months ended June 30, 2014 and June 30, 2013, 4.0 million shares of common stock issuable under convertible securities and 4.0 million shares of common stock issuable under warrants were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

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6. LITIGATION AND LEGAL PROCEEDINGS:

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

USITC Proceeding (337-TA-868)

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the United States International Trade Commission (the “USITC” or “Commission”) against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the “337-TA-868 Respondents”), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe one or more of up to seven of InterDigital's U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC seeks an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. Certain of the asserted patents have been asserted against Nokia, Huawei and ZTE in earlier pending USITC proceedings (including the Nokia, Huawei and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. On February 21, 2013, each 337-TA-868 Respondent filed their respective responses to the complaint.

On February 6, 2013, the Administrative Law Judge (“ALJ”) overseeing the proceeding issued an order setting a target date of June 4, 2014 for the Commission's final determination in the investigation, with the ALJ's Initial Determination on alleged violation due on February 4, 2014. On September 26, 2013, the ALJ issued an order modifying the procedural schedule and extending the target date for completion of the investigation. The ALJ set new dates for the evidentiary hearing of February 10 to February 21, 2014, moved the due date for the ALJ’s Final Initial Determination (“ID”) to April 25, 2014 and extended the target date for the Commission’s completion of the investigation to August 25, 2014. On October 18, 2013, the ALJ issued an order, in light of the 16-day federal government shutdown, modifying the date for the ALJ’s Final ID and extending the target date for completion of the investigation. The date for the ALJ's Final ID and the target date for the Commission’s final determination were set for May 12, 2014 and September 10, 2014, respectively. The trial dates were unchanged, and the trial commenced on February 10, 2014 and ended on February 20, 2014. On April 18, 2014, the ALJ issued an initial determination extending the target date for completion of the investigation by approximately one month to October 14, 2014, thereby moving the due date for the ALJ's final initial determination to June 13, 2014. On May 16, 2014, the Commission determined not to review the ALJ's initial determination extending the target date.

On February 21, 2013, Samsung moved for partial termination of the investigation as to six of the seven patents asserted against Samsung, alleging that Samsung was authorized to import the specific 3G or 4G devices that InterDigital relied on to form the basis of its complaint. InterDigital opposed this motion on March 4, 2013. On May 10, 2013, the ALJ denied Samsung’s motion for partial termination.

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

On March 13, 2013, InterDigital moved to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 (the “’244 patent”) by all 337-TA-868

Respondents. On March 25, 2013, the 337-TA-868 Respondents opposed InterDigital's motion. On May 10, 2013, the ALJ denied InterDigital's motion to amend the complaint. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which was scheduled to be completed by December 19, 2013. InterDigital opposed that motion on July 29, 2013. On August 8, 2013, the ALJ denied the motion. On June 19, 2013, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of over 30 collective claims from five of the seven asserted patents. The ALJ granted the motion on June 24, 2013. On August 22, 2013, InterDigital also filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of eight collective claims from the other two asserted patents. The ALJ granted the motion on August 26, 2013.

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

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

On December 12, 2013, Samsung moved for partial summary determination that, in view of the Commission's claim construction and determination in the 337-TA-800 investigation, it does not infringe the asserted claims of U.S. Patent No. 8,009,636 (the "'636 patent"), and the '830, '966, and '847 patents. Huawei and ZTE joined Samsung's motion on December 12, 2013 and December 13, 2013, respectively. InterDigital opposed Samsung's motion on January 2, 2014. On February 5, 2014, the ALJ granted in part and denied in part the motion. Specifically, the ALJ granted the motion with respect to the '830 and '636 patents, and denied the motion with respect to the '966 and '847 patents. On February 14, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '830 and '636 Patents. On March 5, 2014, the Commission denied this petition. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the Federal Circuit.

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

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

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

On December 12, 2013, Samsung moved to terminate the investigation as to U.S. Patent No. 7,616,970 (the "'970 patent") in view of the USITC's determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 6, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission's final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 6, 2014, the Commission's Office of Unfair Import Investigations responded in support of the underlying legal analysis but stated that would not support the motion in the form of a motion to terminate. Samsung withdrew the motion to terminate and, on January 9, 2014, Samsung moved for partial summary determination of no violation of Section 337 as to the '970 patent in view of the USITC's determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 10, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission's final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 15, 2014, the ALJ issued an initial determination finding that the ALJ is bound by the Commission's determination in the 337-TA-800 investigation and granting Samsung's motion. On January 27, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the ’970 patent, and on February 11, 2014, the USITC denied this petition. On April 14, 2014, InterDigital filed a petition for review of the Commission’s determination with the Federal Circuit.

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

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

From February 10 to February 20, 2014, ALJ Essex presided over the evidentiary hearing in this investigation. The patents in issue in this investigation as of the hearing were the '966 and '847 patents asserted against ZTE and Samsung, and the '151 patent asserted against ZTE, Samsung and Nokia. On March 7, 2014, InterDigital and Respondents filed opening post-hearing briefs. On March 21, 2014, InterDigital and Respondents filed reply post-hearing briefs.

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

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

In concluding that the accused devices do not infringe the asserted claims in the ’966 and ’847 “power ramp-up” patents, the ALJ’s decision hinged on the construction of one patent claim term (“successively transmits/transmitted signals”) related to a claim term that InterDigital believes the Commission misconstrued in its decision in the previous 337-TA-800 investigation regarding the same family of patents. As discussed below, InterDigital has appealed that claim construction from the 337-TA-800 investigation to the Federal Circuit. InterDigital believes it has a strong appeal based on a favorable prior ruling from the Federal Circuit related to this claim term on both the ’966 and ’847 patents, a favorable decision from the U.S. District Court for the District of Delaware involving this claim term in these same patents, and the Commission’s own decision in connection with the remand proceeding in the 337-TA-613 investigation, discussed below, dealing with these patents.

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

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of the ALJ’s conclusion that claim 16 of the ‘151 patent is invalid; that none of the asserted patents are infringed; that InterDigital did not establish the “technical prong” of the domestic industry requirement; and that the effective date of any exclusion order should

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be delayed by six months. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID's finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues. On July 8, 2014, oppositions to the petitions were field. By USITC rule, the Commission will determine whether to review the ID on or before August 14, 2014. The target date for completion of the investigation is October 14, 2014.

On May 20, 2014, Nokia Corp. and Microsoft Mobile Oy ("MMO") moved to substitute MMO for Nokia Corp. as a respondent in the investigation. On May 30, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 3, 2014, which InterDigital opposed on June 5, 2014. By initial determination dated June 13, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to termination of the investigation as to Nokia Corp. On June 23, 2014, Nokia Corp. and MMO petitioned the Commission for review of the initial determination to the extent it added MMO to the investigation but did not substitute MMO for Nokia Corp., which InterDigital opposed on June 30, 2014. On July 14, 2014, the Commission determined not to review this initial determination.

Related Delaware District Court Proceedings

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

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

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

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

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

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

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

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

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

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

On February 11, 2014, the Delaware District Court judge granted an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims. There is currently no schedule in place regarding these issues.

On March 12, 2014, the Delaware District Court judge held a claim construction hearing in the Nokia and ZTE cases. The court issued a claim construction opinion on April 22, 2014. As to the ’966 and ’847 patents asserted in the ZTE case (which patents are also in issue in the 337-TA-868 investigation and the related Samsung Delaware action, as well as in the 337-TA-613 investigation and the related stayed Delaware action, and are also related to the ’830 and ’636 patents in issue in the 337-TA-800 investigation and in the appeal of that investigation before the Federal Circuit as well as the related stayed Delaware action), the court adopted InterDigital’s proposed constructions for the three claim terms construed by the court. As to the ’151 patent asserted in both the Nokia and ZTE cases (which patent is also in issue in the 337-TA-868 investigation and the Samsung Delaware action) and the ’244 patent asserted in both the Nokia and ZTE cases (which patent is also in issue in the related Samsung Delaware action, and which is related to the ’970 patent asserted in each of the 337-TA-800 and 337-TA-868 investigations and in appeals of those investigations before the Federal Circuit), the court adopted certain constructions proposed by InterDigital, certain constructions proposed by Nokia and/or ZTE, and arrived at certain other constructions based on its own analysis. The court also ordered the parties to confer regarding which terms remain in dispute in light of the court’s opinion. The court’s claim constructions, which are not final and may be altered prior to the trials against ZTE and Nokia, may be considered and given weight by the USITC and its ALJs, as well as other courts, at their discretion. The court also found claim 16 of the asserted ’151 patent to be invalid as indefinite. InterDigital can appeal the court’s indefiniteness ruling as to claim 16 upon issuance of judgment by the court.

On May 29, 2014, the court issued an order construing the claim term “circuit,” which appears in the ’847 patent, adopting a construction that InterDigital agreed would be acceptable to it and rejecting narrowing limitations proposed by ZTE.

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On June 23, 2014, the court held a supplemental claim construction hearing on the term “synchronized to [a/the] pilot signal,” which appears in the ’847 patent. The parties submitted supplemental letter briefs concerning construction of “synchronized to [a/the] pilot signal” on June 27 and 30, 2014. Construction of the term “synchronized to [a/the] pilot signal” remains pending before the court. On June 10, 2014, InterDigital filed a motion seeking summary judgment (1) that the asserted ’151 patent is not unenforceable by reason of inequitable conduct; (2) that the asserted claims of the ’244 patent are not anticipated or obvious in view of the prior art; and (3) that the asserted claims of the ’966 and ’847 patents are not invalid for lack of enablement or written description. Also on June 10, 2014, Nokia and ZTE filed motions seeking summary judgment (1) that the asserted claims of the ’151 patent are not infringed; (2) that the asserted claims of the ’966 and ’847 patents are not infringed; and (3) that the asserted claims of the ’244 patent are not infringed and are invalid for lack of written description. On June 27, 2014, the parties filed oppositions to the pending motions for summary judgment. On July 10 and 11, 2014, the parties filed replies in further support of their respective motions for summary judgment. All of the forgoing motions remain pending before the Delaware District Court.

On June 3, 2014, InterDigital and Samsung jointly moved to stay the case against Samsung until August 18, 2014, to allow the parties time to fulfill certain contractual obligations under their settlement agreement before they jointly stipulate to dismissal with prejudice of the action. On June 9, 2014, the court granted the parties’ joint motion. On August 5, 2014, the parties filed a stipulation of dismissal in light of the parties’ settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice.

On July 1, 2014, InterDigital moved under Federal Rule of Civil Procedure 25(c) to join MMO into the case. On July 22, 2014 defendants Nokia and MMO filed a cross-motion seeking to substitute MMO for Nokia Corp. in this case. On July 3, 2014, Nokia filed a motion to stay this Delaware action in view of the pending appeal of the 337-TA-800 investigation and the ID issued in the 337-TA-868 investigation. On July 8, 2014, InterDigital opposed Nokia’s motion, and on July 9, 2014, Nokia filed a reply in further support of its motion. Following a hearing held on July 10, 2014, the Delaware District Court denied Nokia’s motion to stay the case.

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. This arbitration is expected to be completed by early 2015.

Huawei China Proceedings

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

On February 4, 2013, the Shenzhen Intermediate People's Court issued rulings in the two proceedings. With respect to the first complaint, the court decided that InterDigital had violated the Chinese Anti-Monopoly Law by (i) making proposals for royalties from Huawei that the court believed were excessive, (ii) tying the licensing of essential patents to the licensing of non-essential patents, (iii) requesting as part of its licensing proposals that Huawei provide a grant-back of certain patent rights to InterDigital and (iv) commencing a USITC action against Huawei while still in discussions with Huawei for a license. Based on these findings, the court ordered InterDigital to cease the alleged excessive pricing and alleged improper bundling of InterDigital's Chinese essential and non-essential patents, and to pay Huawei 20.0 million RMB (approximately 3.2 million

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

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

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

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

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

Investigation by National Development and Reform Commission of China

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

1. Whenever InterDigital engages with a Chinese Manufacturer to license InterDigital's patent portfolio for 2G, 3G and 4G wireless mobile standards, InterDigital will offer such Chinese Manufacturer the option of taking

a worldwide portfolio license of only its standards-essential wireless patents, and comply with F/RAND principles when negotiating and entering into such licensing agreements with Chinese Manufacturers.

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

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

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

USITC Proceeding (337-TA-800)

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

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

On January 20, 2012, LG filed a motion to terminate the investigation as it relates to the LG entities, alleging that there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012. On July 6, 2012, the Commission determined not to review the ALJ's order, and the investigation was terminated as to LG. On August 27, 2012, InterDigital filed a petition for review of the ALJ's order in the Federal Circuit. On September 14, 2012, the Federal Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG’s request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. On October 3, 2013, the Federal Circuit denied LG’s petition for rehearing and rehearing en banc and issued its mandate on October 10, 2013. LG filed a petition for a writ of certiorari with the U.S. Supreme Court seeking reversal of the Federal Circuit’s judgment on December 31, 2013. On January 13, 2014, InterDigital filed a motion to terminate the

337-TA-800 investigation as to the LG Respondents. No opposition to InterDigital's motion was filed. On February 12, 2014, the Commission granted InterDigital's motion to terminate the investigation as to LG. In terminating the 337-TA-800 investigation, the Commission adopted the ALJ's determination that the '830, '636 and '406 patents and U.S. Patent No. 7,706,332 (the "'332 patent") are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues. On April 21, 2014, the Supreme Court granted LG's petition for certiorari, vacating the

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underlying Federal Circuit decision and remanding the case to the Federal Circuit with instructions to dismiss the case as moot (in light of InterDigital's decision to terminate the 337-TA-800 investigation as to LG).

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

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

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

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

The ALJ held an evidentiary hearing from February 12-21, 2013. The patents in issue in this investigation as of the hearing were the '830, '636, '406, '332 and '970 patents, U.S. Patent No. 7,536,013 (the "'013 patent") and U.S. Patent No. 7,970,127 (the "'127 patent") asserted against all of the Respondents. The parties submitted initial post-hearing briefs on March 8, 2013 and reply post-hearing briefs on March 22, 2013. The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of the '970 patent, but not as to the other asserted claims of the '970 patent, or any of the other asserted patents. In addition, the ALJ found that the asserted claims of the '970, '013 and '127 patents were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they are licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA-800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that the '830, '636, '406 and '332 patents were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of "Articles protected by the patent." Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the

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Commission to issue its Final Determination, in view of the federal government shutdown, from November 13, 2013 to December 19, 2013.

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

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission’s final determination. InterDigital’s appeal was docketed on December 23, 2014. On January 17, 2014, the Nokia and ZTE Respondents moved for leave to intervene in the appeal. On January 30, 2014, the court granted these motions. On January 22, 2014, third party Samsung moved for leave to intervene in the appeal. Nokia and ZTE responded to this motion on February 2, 2014. On March 13, 2014, the court denied Samsung’s motion to intervene without prejudice to Samsung’s moving for leave to file a brief as an amicus curiae. On April 7, 2014, InterDigital filed its opening appellate brief. The USITC and intervenors Nokia and ZTE filed responsive briefs on July 1, 2014. InterDigital’s reply brief is due on August 8, 2014.

On July 2, 2014, Nokia Corporation, Nokia Inc., and MMO filed an unopposed motion to substitute MMO for Nokia Corporation as intervenor. The court granted this motion on July 11, 2014.

Related Delaware District Court Proceeding

On July 26, 2011, the same date that InterDigital filed USITC Proceeding (337-TA-800), it filed a parallel action in the United States District Court for the District of Delaware against the 337-TA-800 Respondents alleging infringement of the same asserted patents identified in USITC Proceeding (337-TA-800). The Delaware District Court complaint seeks a permanent injunction and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement, and recovery of reasonable attorneys' fees and costs. On September 23, 2011, the defendants in the Delaware District Court complaint filed a motion to stay the Delaware District Court action pending the parallel proceedings in the USITC. Because the USITC has instituted USITC Proceeding (337-TA-800), the defendants have a statutory right to a mandatory stay of the Delaware District Court proceeding pending a final determination in the USITC. On October 3, 2011, InterDigital amended the Delaware District Court complaint, adding LG as a defendant and adding the same additional patent that InterDigital requested be added to USITC Proceeding (337-TA-800). On October 11, 2011, the Delaware District Court granted the defendants' motion to stay. On January 14, 2014, InterDigital and Huawei filed a stipulation of dismissal of their disputes in this action on account of the confidential settlement agreement mentioned above. On the same day, the Delaware District Court granted the stipulation of dismissal.

ZTE China Proceedings

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China on April 3, 2014. The first complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to comply with its FRAND obligations for the licensing of its Chinese standard essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital’s standard 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 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 3.2 million USD based on the exchange rate as of June 30, 2014), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

The Company has not recorded any accrual at June 30, 2014 for contingent losses associated with this matter, as the matter is still in a preliminary stage.

LG Arbitration and Related Delaware Chancery Court Proceeding

On March 19, 2012, LG Electronics, Inc. filed a demand for arbitration against the Company's wholly owned subsidiaries InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Communications, LLC (now InterDigital Communications, Inc.) with the American Arbitration Association's International Centre for Dispute Resolution ("ICDR"), initiating an arbitration in Washington, D.C. LG seeks a declaration that it is licensed to certain patents owned by InterDigital, including the patents asserted against LG in USITC Proceeding (337-TA-800). On April 18, 2012, InterDigital

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filed an Answering Statement objecting to the jurisdiction of the ICDR on the ground that LG's claims are not arbitrable, and denying all claims made by LG in its demand for arbitration.

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

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

On June 9, 2014, the arbitration tribunal lifted the temporary stay at the request of the parties. The final evidentiary hearing is scheduled to take place from February 16-20, 2015.

Also on June 9, 2014, LG filed an action in the Court of Chancery of the State of Delaware seeking a declaration that InterDigital breached a non-disclosure agreement between the parties by submitting certain evidence regarding the parties' licensing communications to the arbitration tribunal; LG also seeks related injunctive relief. On June 23, 2014, InterDigital filed a motion to dismiss LG's complaint. The court held a hearing on InterDigital's motion on July 16, 2014, but has not yet issued a decision.

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

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

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

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

On October 16, 2009, the Commission issued a notice that it had determined to review in part the Initial Determination, and that it affirmed the ALJ's determination of no violation and terminated the investigation. The Commission determined to review the claim construction of the patent claim terms "synchronize" and "access signal" and also determined to review the ALJ's validity determinations. On review, the Commission modified the ALJ's claim construction of “access signal” and took no position with regard to the claim term “synchronize” or the validity determinations. The Commission determined not to review the remaining issues decided in the Initial Determination. On November 30, 2009, InterDigital filed with the Federal Circuit a petition for review of certain rulings by the USITC. In the appeal, neither the construction of the term “synchronize” nor the issue of validity can be raised because the

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Commission took no position on these issues in its Final Determination. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Federal Circuit on January 4, 2010. In its appeal, InterDigital seeks reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the Commission's determination of no Section 337 violation and a remand for further proceedings before the Commission. InterDigital is not appealing the Commission's determination of non-infringement with respect to U.S. Patent Nos. 6,973,579 and 7,117,004. On August 1, 2012, the Federal Circuit issued its decision in the appeal, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On September 17, 2012, Nokia filed a combined petition for rehearing by the panel or en banc with the Federal Circuit. On January 10, 2013, the Federal Circuit denied Nokia's petition.

On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 4, 2013, on remand from the Federal Circuit, the Commission issued an order requiring the parties to submit comments regarding what further proceedings must be conducted to comply with the Federal Circuit's August 1, 2012 judgment, including whether any issues should be remanded to an ALJ to be assigned to this investigation. All parties filed initial responses to the Commission’s order by February 14, 2013 and reply responses by February 22, 2013. On March 27, 2013, Nokia filed a motion asking the Federal Circuit to recall its mandate, which the Federal Circuit denied on March 28, 2013.

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

On February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. In doing so, the Commission determined certain issues and identified others that would be subject to further proceedings by the ALJ. For example, with respect to domestic industry, the Commission acknowledged the Federal Circuit’s affirmance of InterDigital’s domestic industry and declined Nokia’s invitation to revisit the issue on remand. With respect to validity, the Commission affirmed the ALJ’s determination that the Lucas reference does not anticipate or render obvious the asserted claims of the ‘966 and ‘847 patents. The Commission further affirmed the ALJ’s determination that the asserted claims of the ‘966 and ’847 patents are not rendered obvious by the IS-95 references combined with the CODIT reference. The Commission construed the claim limitation “synchronize” in the asserted claims of the ‘847 patent to mean “establishing a timing reference with the pilot signal transmitted by a base station,” as InterDigital had originally proposed to the ALJ.

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

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

- take additional briefing and make findings on whether the accused Nokia handsets meet the “generated using a same code” limitation or “the message being transmitted only subsequent to the subscriber unit receiving the indication” limitation in the asserted claims of the ‘966 patent, and whether the accused Nokia handsets meet the “generated using a same code” limitation or the “function of a same code” limitation in the asserted claims of the ‘847 patent;
- take additional briefing and make findings on whether the 3GPP standard supports a finding that the pilot signal (P-CPICH) satisfies the claim limitation “synchronized to a pilot signal” as recited in the asserted claims of the ‘847

patent by synchronizing to either the P-SCH or S-SCH signals under the Commission's construction of that claim limitation, as well as, regarding the asserted claims of the ‘847 patent, whether the PRACH Message is transmitted during the power ramp up process; and

- take evidence and/or briefing and make findings regarding (i) whether Nokia’s currently imported products infringe the asserted patents; (ii) whether the chips in the currently imported products are licensed; (iii) whether the issue of the standard-essential nature of the ‘847 and ‘966 patents is contested; (iv) whether there is “patent hold-up” or “reverse patent hold-up”; and (v) the statutory public interest factors.

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

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

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

On March 5, 2014, the ALJ issued an order establishing August 28, 2015 as the target date for completion of the investigation, and a separate order setting the hearing in the matter for January 26-30, 2015.

On May 21, 2014, Nokia Corp. and MMO moved to substitute MMO for Nokia Corp. as a respondent in the investigation. On June 2, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 13, 2014. By initial determination dated June 18, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to termination of the investigation as to Nokia Corp. On June 26, 2014, Nokia Corp. and MMO petitioned the Commission for review of the initial determination to the extent it added MMO to the investigation but did not substitute MMO for Nokia Corp., which InterDigital opposed on July 3, 2014. The Commission determined not to review the initial determination on July 18, 2014.

Nokia Delaware Proceeding

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

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

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

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Nokia Arbitration Concerning Presentations

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

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

Arbitration with Arima Communications Corporation

On May 13, 2014, a panel convened by the American Arbitration Association’s International Centre for Dispute Resolution issued a partial final award in a dispute between InterDigital and Arima Communications Corporation (“Arima”) regarding the obligations of the parties relating to Arima’s patent license agreement with the company. The arbitration panel awarded InterDigital unpaid patent license fees of approximately $14.5 million plus interest and related fees and costs (including reasonable attorneys’ fees) in an amount to be determined.

After InterDigital submitted an application for fees and costs, on July 1, 2014, the panel issued a final award, which was subsequently modified on July 14, 2014, resulting in an award of approximately $23.6 million. On July 2, 2014, InterDigital commenced an action in the Delaware District Court to confirm the arbitration award and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately $23.6 million. The Company will recognize any related revenue in the period in which collectibility is reasonably assured.

Other

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

7. EQUITY TRANSACTIONS:

Changes in shareholders’ equity for the six months ended June 30, 2014 and June 30, 2013 were as follows (in thousands):

	For the Six Months Ended June 30,	
	2014	2013
Balance beginning of period, December 31	$528,650	$518,705
Net income (loss)	77,040	(3,031)
Unrealized gain on investments, net	382	248
Cash dividends declared	(12,336)	(8,233)
Repurchase of Common Stock	(8,454)	—
Net proceeds for exercise of stock options	353	641
Taxes withheld upon restricted stock unit vestings	(2,465)	(2,411)
Tax benefit from share-based compensation	1,196	683
Share-based compensation	9,721	7,791
Total InterDigital, Inc. shareholders’ equity end of period	$594,087	$514,393
Noncontrolling Interest Balance beginning of period, December 31	5,170	—
Proceeds from noncontrolling interests	2,550	5,101
Net (loss) income attributable to noncontrolling interest	(1,483)	(1,266)
Noncontrolling interest	6,237	3,835
Total Equity end of period	$600,324	$518,228

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Repurchase of Common Stock

In May 2012, our Board of Directors authorized a share repurchase program, which was then expanded in June 2012 to increase the amount of the program from $100.0 million to $200.0 million (the "2012 Repurchase Program"). Of the $200.0 million authorized under the 2012 Repurchase Program, $106.8 million was utilized prior to the termination of the program in June 2014. In June 2014, our Board of Directors authorized a new $300.0 million share repurchase program (the "2014 Repurchase Program"). The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases. The table below sets forth for the periods presented the number of shares repurchased and the dollar value of shares repurchased under the 2012 Repurchase Program and the 2014 Repurchase Program, in millions.

	2012 Repurchase Program		2014 Repurchase Program	
	# of Shares	Value	# of Shares	Value
2014	—	$—	0.2	$8.5
2013	0.9	29.1	—	—
2012	2.6	77.7	—	—
Total	3.5	$106.8	0.2	$8.5

All shares repurchased under the 2014 Repurchase Program as set forth in the table above occurred during first half 2014. In addition, from July 1, 2014 through August 6, 2014, we repurchased 0.5 million shares at a cost of $21.5 million under the 2014 Repurchase Program.

Dividends

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

2014	Per Share	Total	Cumulative by Fiscal Year
First quarter	$0.10	$4,045	$4,045
Second quarter	0.20	8,291	12,336
	$0.30	$12,336	

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

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

Common Stock Warrants

On March 29, 2011 and March 30, 2011, we entered into privately negotiated warrant transactions with Barclays Bank PLC, through its agent, Barclays Capital Inc., whereby we sold to Barclays Bank PLC warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively, at a strike price of $64.09 per share, as adjusted for the Company's special dividend paid December 28, 2012. The warrants

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become exercisable in tranches starting in June 2016. In consideration for the warrants issued on March 29, 2011 and March 30, 2011, the Company received $27.6 million and $4.1 million, respectively, on April 4, 2011.

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 June 30, 2014, two licensees comprised 92% of our net accounts receivable balance. At December 31, 2013, five licensees represented 96% of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

Fair Value Measurements

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

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

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

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated.

Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of June 30, 2014 and December 31, 2013 (in thousands):

	Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market and demand accounts (a)	$364,153	$—	$—	$364,153
Commercial paper (b)	—	92,873	—	92,873
U.S. government securities	—	174,856	—	174,856
Corporate bonds, asset backed and other securities	1,891	39,129	—	41,020
	$366,044	$306,858	$—	$672,902

(a) Included within cash and cash equivalents.
(b) Includes $18.9 million of commercial paper that is included within cash and cash equivalents.

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	Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market and demand accounts (a)	$465,722	$—	$—	$465,722
Commercial paper (b)	—	192,478	—	192,478
U.S. government securities	—	31,688	—	31,688
Corporate bonds, asset backed and other securities	1,398	7,165	—	8,563
	$467,120	$231,331	$—	$698,451

(a) Included within cash and cash equivalents.
(b) Includes $18.2 million of commercial paper that is included within cash and cash equivalents.

The carrying amount of long-term debt reported in the Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 was $213.2 million and $208.8 million, respectively. Using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources, we determined the fair value of these Level 2 Notes (as defined in Note 8 "Long-Term Debt") to be $253.9 million as of June 30, 2014 and $234.0 million as of December 31, 2013.
When assessing whether an other-than-temporary decline in value has occurred, we consider such factors as the valuation placed on the investee in subsequent rounds of financing, the performance of the investee relative to its own performance targets and business plan, and the investee's revenue and cost trends, liquidity and cash position, including its cash burn rate, and updated forecasts. During first quarter 2013, we reassessed the carrying value of an investment accounted for under the cost method and concluded that given the entity's current financial position it was necessary to record an impairment of $6.7 million during first quarter 2013, which wrote down our carrying amount of our investment to approximately $15.1 million. The $6.7 million impairment charge was included in Other Expense on our Consolidated Statements of Operations in first quarter 2013. During fourth quarter 2013, we reassessed the carrying value of our investment and concluded that given the entity's current financial position it was necessary to fully impair our investment, which wrote down the carrying amount of our investment to zero at December 31, 2013. When evaluating our investment, we assessed subsequent rounds of financing, the entity's current financial performance, pertinent risk factors, performance ratios and industry analyst forecasts. The $15.1 million impairment charge was recorded in fourth quarter 2013.
As discussed in Note 3, "Significant Agreements," we acquired patents associated with patent license agreements signed during second quarter 2014. We have recorded these patents based on their total estimated fair value of $64.3 million and will amortize them over their estimated useful lives. We estimated the fair value of the patents in these transactions by a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others. For the market approach, judgment was applied as to which market transactions were most comparable to the transaction.

9. LONG-TERM DEBT:

Senior Convertible Note, Note Hedge and Warrant Transactions

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

with respect to any subsidiaries that become guarantors pursuant to the terms of the Indenture.
The Notes will be convertible into cash and, if applicable, shares of the Company's common stock at a conversion rate of 17.958 shares of common stock per $1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately $55.69 per share), as adjusted for the special cash dividend paid by the Company on December 28, 2012. The

conversion rate, and thus the conversion price, may be adjusted under certain circumstances, including in connection with conversions made following certain fundamental changes and under other circumstances as set forth in the Indenture.

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

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

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

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

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

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

On March 29 and March 30, 2011, InterDigital also entered into privately-negotiated warrant transactions with Barclays Bank PLC, through its agent, Barclays Capital Inc., whereby InterDigital sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million shares and approximately 0.5 million shares, respectively, of common stock at a strike price of $64.09 per share, as adjusted for the special dividend paid by the Company on December 28, 2012. The warrants become exercisable in tranches starting in June 2016. As consideration for the warrants issued on March 29 and March 30, 2011, the Company received, on April 4, 2011, $27.6 million and $4.1 million, respectively.

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

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

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

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

Under current accounting guidance, the Company bifurcated the proceeds from the offering of the 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

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

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

The following table reflects the carrying value of the Company's convertible debt as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
2.50% Senior Convertible Notes due 2016	$230,000	$230,000
Less: Unamortized interest discount	(16,753)	(21,187)
Net carrying amount of 2.50% Senior Convertible Notes due 2016	$213,247	$208,813

The following table presents the amount of interest cost recognized for the three and six months ended June 30, 2014 and June 30, 2013 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Contractual coupon interest	$1,438	$1,438	$2,876	$2,876
Accretion of debt discount	2,255	2,105	4,434	4,139
Amortization of financing costs	326	326	652	652
Total	$4,019	$3,869	$7,962	$7,667

10. VARIABLE INTEREST ENTITIES:

Convida Wireless

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

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

Convida Wireless is a variable interest entity. Based on our provision of M2M research and platform development services to Convida Wireless, we have determined that we are the primary beneficiary for accounting purposes and must consolidate Convida Wireless. For the three months ended June 30, 2014 and 2013, we have allocated approximately $0.8 million and $0.6 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties. For the six months ended June 30, 2014 and 2013, we have allocated approximately $1.5 million and $1.3 million, respectively, of Convida Wireless's net loss to noncontrolling interests held by other parties.

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The assets and liabilities of Convida Wireless that are contained within our Consolidated Balance Sheet as of June 30, 2014 and December 31, 2013 are as follows (in thousands):

ASSETS	JUNE 30, 2014	DECEMBER 31, 2013
Cash	$11,595	$8,905
Patents, Net	486	151
LIABILITIES		
Accounts Payable and Other Accrued Expenses	$441	$95

Signal Trust for Wireless Innovation

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

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

InterDigital has committed funding to the Signal Trust to help ensure its successful launch. The Company will also be 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 newly formed 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. The impact of the consolidation of the Signal Trust on our financial statements was immaterial as of June 30, 2014 and December 31, 2013.

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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 2013 Form 10-K, other reports filed with the SEC and the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 — Forward-Looking Statements below.

Patent License Agreements

Second Quarter 2014 Agreements

During second quarter 2014, we entered into a patent license agreement with Samsung Electronics Co., Ltd. ("Samsung"). The multi-year agreement also resolved all pending litigation between the companies. The royalty-bearing license agreement sets forth terms covering the sale by Samsung of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013. For the period through the earlier of any exercise or expiration of Samsung's termination right, we expect to recognize revenue associated with this agreement on a straight-line basis. The amount of revenue we will recognize after 2017 will depend on, among other things, whether or not Samsung elects to terminate certain rights and obligations under the license and amounts payable in 2017 and thereafter. During second quarter 2014, we recognized $103.5 million of revenue, including $86.2 million of past patent royalties and $17.3 million of recurring fixed-fee royalties associated with this agreement. Additionally, as of June 30, 2014, we included $270.0 million within our Accounts Receivable balance, $200.0 million of which we collected after the balance sheet date and the remaining $70.0 million of which remains due within twelve months of the balance sheet date. Consistent with our accounting policy, we have not recorded in accounts receivable any amounts due more than twelve months from the balance sheet date.

Additionally, during second quarter 2014, we signed two additional patent license agreements. These two agreements contributed $37.5 million of revenue in the quarter, including $5.3 million of recurring revenue and $32.2 million of past sales.

Apple Agreement

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

Other

As of June 30, 2014, due to the deteriorating financial condition of one of our fixed-fee licensees, we determined that the patent license agreement with such licensee no longer met all of the revenue recognition criteria; as a result, we reduced both accounts receivable and deferred revenue by $15.0 million. This amount represented the amount due to us over the next twelve months from such licensee. We will continue to monitor the situation and will resume revenue recognition if and when this patent license agreement again meets all of the revenue recognition criteria.

Arbitration with Arima Communications Corporation

On July 1, 2014, a panel convened by the American Arbitration Association's International Centre for Dispute Resolution issued a final award in a dispute between InterDigital and Arima Communications Corporation ("Arima") regarding the obligations of the parties relating to Arima's patent license agreement with the Company. This award was subsequently modified on July 14, 2014, resulting in an award to InterDigital of approximately $23.6 million (which included $14.5 million of unpaid patent license fees plus interest and related fees and costs). On July 2, 2014, we commenced an action in the Delaware District Court to confirm the arbitration award and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately $23.6 million. We will recognize any related revenue in the period in which collectibility is reasonably assured.

Revenue

Total revenue of $194.2 million in second quarter 2014 increased $136.4 million over first quarter 2014, driven primarily by a $119.1 million increase in past sales and an $18.7 million increase in recurring revenue. These sequential

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increases were primarily associated with the new patent license agreements signed during second quarter 2014, as discussed above.

Intellectual Property Enforcement

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

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

On January 2, 2013, the company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the USITC against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America (collectively, "Samsung"), LLC, Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Samsung, Nokia and Huawei the “337-TA-868 Respondents”), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe certain of InterDigital's U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital's complaint with the USITC seeks an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. On January 16, 2014, the Administrative Law Judge ("ALJ") overseeing the proceeding granted a joint motion by InterDigital and Huawei to terminate the investigation as to Huawei, and on February 12, 2014, the USITC determined not to review the initial determination terminating the investigation as to Huawei. Certain of the asserted patents have been asserted against Nokia and ZTE in earlier pending USITC proceedings (including the Nokia and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. On June 3, 2014, InterDigital and Samsung filed a joint motion to terminate the investigation as to Samsung on the basis of settlement. The ALJ granted the joint motion by initial determination issued on June 9, 2014, and the USITC determined not to review the initial determination on June 30, 2014. On June 13, 2014, the ALJ issued an Initial Determination (“ID”) in the in the 337-TA-868 investigation. In the ID, the ALJ found that no violation of Section 337 has occurred in connection with the importation of 3G/4G devices by ZTE or Nokia, on the basis that the accused devices do not infringe certain asserted claims of the ’151, ’966 and ’847 patents. The ALJ also found that claim 16 of the ’151 patent was invalid as indefinite. On June 30, 2014, InterDigital filed a Petition for Review seeking review and reversal of the ALJ’s conclusion that claim 16 of the ‘151 patent is invalid and that none of the asserted patents are infringed. 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. By USITC rule, the Commission will determine whether to review the ID on or before August 14, 2014. The target date for completion of the investigation is October 14, 2014.

On January 2, 2013, the company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the Delaware District Court against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement and recovery of reasonable attorneys' fees and costs. On March 13, 2013, InterDigital filed an amended complaint against Nokia and Samsung, respectively, in Delaware District Court to assert allegations of infringement of the recently issued '244 patent. On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against

Huawei and ZTE, respectively, to assert allegations of infringement of the '244 patent. On December 30, 2013, the Delaware District Court granted the stipulation of dismissal filed by InterDigital and Huawei, terminating the Huawei district court action. On June 3, 2014, InterDigital and Samsung jointly moved to stay the case against Samsung until August 18, 2014, to allow the parties time to fulfill certain contractual obligations under their settlement agreement before they jointly stipulate to dismissal with prejudice of the action. On June 9, 2014, the court granted the parties' joint motion. On August 5, 2014, the parties filed a stipulation of dismissal in light of the parties' settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice. The Delaware District Court has set separate trial dates for the cases against each of the two remaining defendants, with Nokia scheduled for September 2014 and ZTE scheduled for October 2014. Issues relating to damages, FRAND-related affirmative defenses and FRAND-related counterclaims have been bifurcated.

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

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

The ALJ's Initial Determination issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Petitions for review of the Initial Determination ("ID") to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety. On December 19, 2013, the Commission issued its final determination. The Commission adopted, with some modification, the ALJ’s finding of no violation of section 337 as to Nokia, Huawei, and ZTE. The Commission did not rule on any other issue, including FRAND and domestic industry, and stated that all other issues remain under review. In December 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission’s final determination. In January 2014, the court granted motions filed by the Nokia and ZTE Respondents for leave to intervene in the appeal.

Nokia 2007 USITC Proceeding (337-TA-613) and Related Delaware District Court Proceeding

On August 1, 2012, the Federal Circuit issued its decision in InterDigital's appeal of the USITC's Final Determination in this proceeding, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. The ALJ has set August 28, 2015 as the target date for completion of the investigation, and has scheduled the hearing in the matter for January 26-30, 2015.

Comparability of Financial Results

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

- Our second quarter 2014 revenue includes:
  $119.9 million of past sales primarily related to the new patent license agreements signed during the quarter.
- Our second quarter 2014 operating expenses includes:
  $7.0 million of expenses to increase certain accrual rates under our incentive compensation plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2013 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 2013 Form 10-K. There have been no material changes in our existing critical accounting policies from the disclosures included in our 2013 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 updates related to certain critical accounting estimates.

Second Quarter 2014 Agreements

Each of the three patent license agreements signed during second quarter 2014, as discussed above, is a multiple-element arrangement for accounting purposes. Consistent with the revenue recognition policy disclosed in Note 2, Summary of

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Significant Accounting Policies, to the consolidated financial statements included in our 2013 Form 10-K, for each agreement, we identified each element of the arrangement, estimated its relative value for purposes of allocating the arrangement consideration and determined when each of those elements should be recognized. Using the accounting guidance applicable to multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of the term and value of each element. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the assumed royalty rates, sales volumes, discount rate and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the relative fair value assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transactions.

The impact that a five percent change to the following key estimate would have had on second quarter 2014 revenue is summarized in the following table (in millions):

	Change in estimate	
	+5%	-5%
Allocation to past patent royalties	$5.7	$(5.7)

Revenue From Non-financial Sources

During first half 2014 and first half 2013, our patent licensing royalties were derived from patent license agreements ("PLAs") with twenty-six and twenty-three independent licensees, respectively. During first half 2014 and first half 2013, we recognized revenue from two PLAs and one PLA, respectively, for which patents comprised less than one-third of the total consideration paid or due to us under those agreements. In addition, during first half 2014, we recognized revenue from one PLA that was executed in connection with a patent purchase agreement ("PPA") with the licensee. Total cash paid or due to our licensee under this PPA is approximately 56% of the total cash due to us under this licensee's PLA.

During first half 2014 and first half 2013, 8% and 4%, respectively, of our total revenue was based on the estimated fair value of the patents in the above transactions. We estimated the fair value of the patents in the above transactions by a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others. For the market approach, judgment was applied as to which market transactions were most comparable to this transaction.

The development of a number of these inputs and assumptions requires a significant amount of management judgment and is based upon a number of factors, including the selection of industry comparables, assumed royalty rates, sales volumes, economic lives of the patents and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the fair value assigned to the patents for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transaction.

The impact that a five percent change in the estimated value of the patents would have had on our second quarter 2014 revenue, patent amortization and pretax income is summarized in the following table (in millions):

	Change in estimate	
	+5%	-5%
Revenue	$1.0	$(1.0)
Patent Amortization	0.1	(0.1)
Pre-tax Income	$0.9	$(0.9)

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash, cash equivalents and short-term investments, as well as cash generated from operations. We believe we have the ability to obtain additional liquidity through debt and equity financings. Based on our past performance and current expectations, we believe our available sources of funds, including cash, cash equivalents and short-

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term investments and cash generated from our operations, will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months.

Cash, cash equivalents and short-term investments

At June 30, 2014 and December 31, 2013, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

	June 30, 2014	December 31, 2013	Increase / (Decrease)
Cash and cash equivalents	$383,046	$497,714	$(114,668)
Short-term investments	289,856	200,737	89,119
Total Cash and cash equivalents and short-term investments	$672,902	$698,451	$(25,549)

The decrease in cash, cash equivalents and short-term investments was primarily attributable to capital investments of$43.9 million and $12.4 million of cash used by financing activities, which was partially offset by $30.3 million of cash provided by operating activities.

Cash flows from operations

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

	For the Six Months Ended June 30,		
	2014	2013	Increase / (Decrease)
Net cash provided by operating activities	$30,281	$219,750	$(189,469)

Cash provided by operations during first half 2014 included cash receipts of $170.2 million from patent license and technology solutions agreements. We received $85.6 million of per-unit royalty payments, including past patent royalties, current royalties and prepayments, from existing customers, and $79.5 million of fixed-fee payments from existing and new licensees. Cash receipts from our technology solutions agreements totaled $5.2 million, primarily related to royalties and other license fees associated with our SlimChip modem core. These items were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents and share-based compensation) of $95.7 million, cash payments for short-term incentive compensation of $11.0 million, cash payments for foreign source withholding and income taxes of $22.8 million and other changes in working capital.

The positive operating cash flow during first half 2013 was derived principally from cash receipts of $343.4 million from patent license and technology solutions agreements. We received $310.7 million of per-unit royalty payments, including past patent royalties, current royalties and prepayments, from existing customers and $23.4 million of fixed-fee payments. Included in the $310.7 million of per-unit cash receipts are prepayments totaling $242.4 million from existing licensees. Cash receipts from our technology solutions agreements totaled $9.2 million, primarily related to royalties and other license fees associated with our SlimChip modem core. These cash receipts and other changes in working capital were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash cost of patent sales and non-cash compensation) of $93.4 million, cash payments for short-term and long-term incentive compensation of $17.3 million, cash payments for foreign source withholding taxes of $2.6 million and other changes in working capital.

Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and/or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and/or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at June 30, 2014, and December 31, 2013 (in thousands), as follows:

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	June 30, 2014	December 31, 2013	Increase / (Decrease)
Current assets	$1,117,091	$857,514	$259,577
Less: current liabilities	245,423	126,438	118,985
Working capital	871,668	731,076	140,592
Subtract:			
Cash and cash equivalents	383,046	497,714	(114,668)
Short-term investments	289,856	200,737	89,119
Add:			
Current deferred revenue	127,466	60,176	67,290
Adjusted working capital	$326,232	$92,801	$233,431

The $233.4 million net increase in adjusted working capital is primarily attributable to a net increase in accounts receivable of $253.5 million primarily related to new patent license agreements signed during the quarter and was partially offset by the related increase in foreign taxes payable.

Cash flows from investing and financing activities

We used net cash in investing activities of $132.5 million in first half 2014 and $112.9 million in first half 2013. We purchased $88.7 million and $83.5 million of short-term marketable securities, net of sales, in first half 2014 and 2013, respectively. Investment costs associated with capitalized patent costs and acquisition of patents increased to $42.4 million in first half 2014 from $27.7 million in first half 2013, primarily due to an initial payment of $25.0 million on a $45.0 million patent acquisition made in first half 2014.

Net cash used by financing activities for first half 2014 was $12.4 million, a $14.8 million decrease from first half 2013. This decrease primarily resulted from the timing of $4.0 million of dividend payments and $8.5 million of share repurchases.

Other

Our combined short-term and long-term deferred revenue balance at June 30, 2014 was approximately $490.8 million, an increase of $186.8 million from December 31, 2013. We have no material obligations associated with such deferred revenue. The increase was due to a gross increase in deferred revenue of $256.9 million associated with fixed-fee agreement payments or payments due within twelve months and patents received in consideration for patent license agreements signed during the quarter, which was partially offset by $74.3 million of deferred revenue recognized. The deferred revenue recognized was comprised of $55.2 million of amortized fixed-fee royalty payments, $16.8 million in per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees) and $2.3 million of past patent royalties.

Based on current license agreements, we expect the amortization of fixed-fee royalty payments to reduce the June 30, 2014 deferred revenue balance of $490.8 million by $127.5 million over the next twelve months. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

RESULTS OF OPERATIONS

Second Quarter 2014 Compared to Second Quarter 2013

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Revenues

The following table compares second quarter 2014 revenues to second quarter 2013 revenues (in millions):

	For the Three Months Ended June 30,				
	2014	2013	Increase/(Decrease)		
Per-unit royalty revenue	$33.9	$26.1	$7.8	30	%
Fixed-fee amortized royalty revenue	38.3	16.9	21.4	127	%
Current patent royalties [a]	72.2	43.0	29.2	68	%
Past patent royalties [b]	119.9	24.2	95.7	395	%
Total patent licensing royalties	192.1	67.2	124.9	186	%
Current technology solutions revenue [a]	2.1	0.5	1.6	320	%
Past technology solutions revenue [b]	—	—	—	—	%
Total revenue	$194.2	$67.7	$126.5	187	%

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 $126.5 million increase in total revenue was primarily attributable to the $95.7 million increase in past sales, as well as a $29.2 million increase in current patent royalties. The new patent license agreements signed during second quarter 2014 contributed to the increased past sales, as well as the increase in fixed-fee royalties. Additionally, per-unit royalties increased $7.8 million primarily related to increased shipments by, and the coverage of additional products under, our agreement with Pegatron Corporation ("Pegatron"). Current technology solutions revenue increased by $1.6 million primarily due to the inclusion of royalties on certain products upon the resolution of the Intel arbitration.

In second quarter 2014 and second quarter 2013, 64% and 61% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In second quarter 2014 and second quarter 2013, the following companies accounted for 10% or more of our total revenues:

	For the Three Months Ended June 30,	
	2014	2013
Samsung	53%	—%
Telefonaktiebolaget LM Ericsson	11%	—%
Pegatron	<10%	35%
Sony Corporation of America	<10%	15%
BlackBerry Limited	<10%	11%

Operating Expenses

The following table summarizes the changes in operating expenses between second quarter 2014 and second quarter 2013 by category (in millions):

	For the Three Months Ended June 30,				
	2014	2013	Increase/ (Decrease)		
Patent administration and licensing	$30.9	$33.2	$(2.3)	(7	)%
Development	22.9	13.5	9.4	70	%
Selling, general and administrative	12.1	8.3	3.8	46	%
Total operating expenses	$65.9	$55.0	$10.9	20	%

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Operating expenses increased 20% to $65.9 million in second quarter 2014 from $55.0 million in second quarter 2013. The $10.9 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in millions):

	Increase/ (Decrease)
Performance-based incentive compensation	$13.4
Consulting services	2.6
Depreciation and amortization	1.7
Personnel-related costs	1.0
Other	0.1
Intellectual property enforcement and non-patent litigation	(7.9)
Total increase in operating expenses	$10.9

The $10.9 million increase in operating expenses was primarily due to performance-based incentive compensation adjustments related to increased revenue and cash flow resulting from new license agreements. The $13.4 million increase in performance-based incentive compensation was primarily attributable to both a true-up to increase the beginning period compensation to the current rate and higher accrual rates in second quarter 2014 as compared to very low accrual rates in second quarter 2013. The $2.6 million increase in consulting services was primarily related to the support of research and development projects initiated in the last twelve months. Patent amortization increased $1.7 million primarily due to patent acquisitions made within the last year. The $1.0 million increase in personnel-related costs was primarily related to hiring activity. The $7.9 million decrease in intellectual property enforcement and non-patent litigation primarily related to costs associated with the USITC actions and licensee arbitrations.

Patent Administration and Licensing Expense: The decrease in patent administration and licensing expense primarily resulted from the above-noted decrease in costs associated with the USITC actions and licensee arbitrations and a decrease in consulting services. These decreases were partially offset by increases in patent amortization and performance-based incentive compensation as described above.

Development Expense: The increase in development expense was primarily attributable to increases in performance-based incentive compensation and consulting services as described above.

Selling, General and Administrative Expense: The increase in selling, general and administrative expense was primarily attributable to an increase in performance-based incentive compensation as described above.

Other (Expense) Income

The following table compares second quarter 2014 other (expense) income to second quarter 2013 other (expense) income (in millions):

	For the Three Months Ended June 30,			
	2014	2013	Change	
Interest expense	$(4.0)	$(3.9)	$(0.1)	3%
Other	—	$(0.6)	0.6	(100)%
Interest and investment income	0.4	$7.4	(7.0)	(95)%
	$(3.6)	$2.9	$(6.5)	(224)%

In second quarter 2014, other expense was $3.6 million as compared to other income of $2.9 million in second quarter 2013. The change in other (expense) income between periods primarily resulted from interest income associated with the Pegatron arbitration award received in second quarter 2013.

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Income tax provision

In second quarter 2014, our effective tax rate was approximately 37.4% as compared to 44.8% during second quarter 2013, based on the statutory federal tax rate net of discrete federal and state taxes. The decrease in the effective tax rate resulted from the impact of lower forecasted state tax expense resulting, in part, from the Company's income mix between patent licensing royalties and technology solutions revenue.

First Half 2014 Compared to First Half 2013

Revenues

The following table compares first half 2014 revenues to first half 2013 revenues (in millions):

	For the Six Months Ended June 30,				
	2014	2013	Increase/(Decrease)		
Per-unit royalty revenue	$70.4	$55.4	$15.0	27	%
Fixed-fee amortized royalty revenue	55.2	33.8	21.4	63	%
Current patent royalties [a]	125.6	89.2	36.4	41	%
Past patent royalties [b]	120.8	24.9	95.9	385	%
Total patent licensing royalties	246.4	114.1	132.3	116	%
Current technology solutions revenue [a]	4.9	0.9	4.0	444	%
Past technology solutions revenue [b]	0.8	—	0.8	100	%
Total revenue	$252.1	$115.0	$137.1	119	%

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 $137.1 million increase in total revenue was primarily attributable to the $95.9 million increase in past sales, as well as a $36.4 million increase in current patent royalties and a $4.0 million increase in current technology solutions revenue. The new patent license agreements signed during second quarter 2014 contributed to the increased past sales, as well as the increase in fixed-fee royalties. Additionally, per-unit royalties increased $15.0 million primarily related to the $34.8 million royalty increase associated with increased shipments by, and the coverage of additional products under, our agreement with Pegatron. The increase in per-unit royalties from Pegatron was partially offset by a total decrease of $18.5 million attributable to certain of our other per-unit licensees with concentrations in the smartphone market. Current technology solutions revenue increased by $4.0 million primarily due to the inclusion of royalties on certain products upon the resolution of the Intel arbitration.

In first half 2014 and first half 2013, 55% and 63% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In first half 2014 and first half 2013, the following companies accounted for 10% or more of our total revenues:

	For the Six Months Ended June 30,	
	2014	2013
Samsung	41%	—%
Pegatron	14%	21%
Sony Corporation of America	< 10%	17%
HTC Corporation	< 10%	13%
BlackBerry Limited	< 10%	12%

Operating Expenses

The following table summarizes the changes in operating expenses between first half 2014 and first half 2013 by category (in millions):

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	For the Six Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	
Patent administration and licensing	$64.2	$70.0	$(5.8)	(8)%
Development	38.3	29.6	8.7	29%
Selling, general and administrative	21.2	16.2	5.0	31%
Repositioning	—	1.5	(1.5)	(100)%
Total operating expenses	$123.7	$117.3	$6.4	5%

Operating expenses increased 5% to $123.7 million in first half 2014 from $117.4 million in first half 2013. Not including the $1.5 million in repositioning charges in first half 2013, operating expenses would have increased 7%. The $6.4 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in millions):

	Increase/ (Decrease)
Performance-based incentive compensation	$15.4
Depreciation and amortization	3.0
Consulting services	2.1
Patent maintenance and patent evaluation	(1.0)
Intellectual property enforcement and non-patent litigation	(11.6)
Total decrease in operating expenses not including repositioning charges	7.9
Repositioning	(1.5)
Total increase in operating expenses	$6.4

The $6.4 million increase in operating expenses was primarily due to performance-based incentive compensation adjustments related to increased revenue and cash flow resulting from new license agreements. The $15.4 million increase in performance-based incentive compensation was primarily attributable to both a true-up to increase the beginning period compensation to the current rate and higher accrual rates in second quarter 2014 as compared to very low accrual rates in second quarter 2013. Patent amortization increased $3.0 million primarily due to patent acquisitions made within the last year. The $2.1 million increase in consulting services was primarily related to the support of research and development projects initiated in the last twelve months. The $1.0 million decrease in patent maintenance and patent evaluation costs was primarily related to decreased due diligence costs associated with both patent acquisition and patent sale opportunities. The $11.6 million decrease in intellectual property enforcement and non-patent litigation primarily related to costs associated with the USITC actions and licensee arbitrations.

Patent Administration and Licensing Expense: The decrease in patent administration and licensing expense primarily resulted from the above-noted decrease in costs associated with the USITC actions and licensee arbitrations and a decrease in consulting services. These decreases were partially offset by increases in patent amortization and performance-based incentive compensation as described above.

Development Expense: The increase in development expense was primarily attributable to increases in performance-based incentive compensation and consulting services as described above.

Selling, General and Administrative Expense: The increase in selling, general and administrative expense was primarily attributable to an increase in performance-based incentive compensation as described above.

Other (Expense) Income

The following table compares first half 2014 other (expense) income to first half 2013 other (expense) income (in millions):

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	For the Six Months Ended June 30,			
	2014	2013	Change	
Interest expense	$(8.0)	$(7.7)	$(0.3)	4 %
Other	(0.2)	$(7.0)	6.8	(97)%
Interest and investment income	0.6	$8.1	(7.5)	(93)%
	$(7.6)	$(6.6)	$(1.0)	15 %

In first half 2014, other expense was $7.6 million as compared to other expense of $6.6 million in first half 2013. The change between periods primarily resulted from the $6.7 million investment impairment recognized during first quarter 2013, which was offset by the interest income associated with the Pegatron arbitration award received in second quarter 2013.

Income tax provision

In first half 2014, our effective tax rate was approximately 37.4% as compared to 51.9% during first half 2013, based on the statutory federal tax rate net of discrete federal and foreign taxes. The decrease in the effective tax rate resulted from the impact of lower forecasted state tax expense resulting, in part, from the Company's income mix between patent licensing royalties and technology solutions revenue.

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 simil expressions are intended to identify such forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

- The potential effects of new accounting standards on our financial statements or results of operations;
- Our expectation that the amortization of fixed-fee royalty payments will reduce our June 30, 2014 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 and beliefs with respect to, our various litigation, arbitration and administrative matters;
- Our belief that we have the ability to obtain additional liquidity through debt and equity financings;
- Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months;
- Our expectation that we will not incur any additional charges related to the VERP;
- Our expectation that for the period through the earlier of any exercise or expiration of Samsung’s termination right, we expect to recognize revenue associated with the Samsung patent license agreement on a straight-line basis; and
- Our expectation that we will continue to pay dividends comparable to our quarterly $0.20 per share cash dividend in the future.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A of our 2013 Form 10-K. 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.

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There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2013 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

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

Reference is made to the USITC proceeding and related Delaware District Court proceeding initiated in January 2013 involving InterDigital, Samsung, Nokia and ZTE previously disclosed in the 2013 Form 10-K and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (the "First Quarter 2014 Form 10-Q"). On April 24, 2014, the Samsung Respondents filed an unopposed motion to intervene in the appeal filed with the Federal Circuit by InterDigital on April 14, 2014. The Federal Circuit granted Samsung’s unopposed motion on May 1, 2014. On May 13, 2014, InterDigital, the USITC and Samsung filed a joint motion to stay the appeal filed by InterDigital on April 14, 2014, pending resolution of the appeal of the 337-TA- 800 investigation, discussed below. The court granted the parties’ joint motion on May 30, 2014.

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

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

In concluding that the accused devices do not infringe the asserted claims in the ’966 and ’847 “power ramp-up” patents, the ALJ’s decision hinged on the construction of one patent claim term (“successively transmits/transmitted signals”) related to a claim term that InterDigital believes the Commission misconstrued in its decision in the previous 337-TA-800 investigation regarding the same family of patents. As discussed below, InterDigital has appealed that claim construction from the 337-TA-800 investigation to the Federal Circuit. InterDigital believes it has a strong appeal based on a favorable prior ruling from the Federal Circuit related to this claim term on both the ’966 and ’847 patents, a favorable decision from the U.S. District Court for the District of Delaware involving this claim term in these same patents, and the Commission’s own decision in connection with the remand proceeding in the 337-TA-613 investigation, discussed below, dealing with these patents.
The ALJ also determined that, except for claim 16 of the ’151 patent, none of the asserted patents were invalid. The ALJ further determined that InterDigital did not violate any FRAND obligations, a conclusion also reached by the ALJ in the 337-TA-800 investigation, and that Respondents have engaged in patent “hold out.” Additionally, the ID recognized that both InterDigital’s licensing and research and development programs satisfy the “economic prong” of the Section 337 domestic industry requirement, confirming numerous prior rulings by the Commission in InterDigital USITC investigations as well as by the Federal Circuit in affirming the Commission’s domestic industry conclusions in the 337-TA-613 investigation. The ALJ found, however, that InterDigital did not establish the “technical prong” of the domestic industry requirement for the same reasons he concluded there was no infringement by the accused products. Finally, the ALJ recommended that, should the Commission find a violation of section 337, it should issue a cease and desist order against Nokia and an exclusion order directed to infringing products. The ALJ recommended, however, that the effective date of any exclusion order should be delayed by six months.

On June 30, 2014, InterDigital filed a Petition for Review seeking review with the USITC and reversal of the ALJ's conclusion that claim 16 of the '151 patent is invalid; that none of the asserted patents are infringed; that InterDigital did not establish the "technical prong" of the domestic industry requirement; and that the effective date of any exclusion order should be delayed by six months. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID's finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues. On July 8, 2014, oppositions to the petitions were field. By USITC rule, the Commission will determine whether to review the ID on or before August 14, 2014. The target date for completion of the investigation is October 14, 2014.

On May 20, 2014, Nokia Corp. and Microsoft Mobile Oy ("MMO") moved to substitute MMO for Nokia Corp. as a respondent in the 337-TA-868 investigation. On May 30, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to

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Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 3, 2014, which InterDigital opposed on June 5, 2014. By initial determination dated June 13, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to termination of the investigation as to Nokia Corp. On June 23, 2014, Nokia Corp. and MMO petitioned the Commission for review of the initial determination to the extent it added MMO to the investigation but did not substitute MMO for Nokia Corp., which InterDigital opposed on June 30, 2014. On July 14, 2014, the Commission determined not to review this initial determination.

In the related Delaware Nokia and ZTE proceedings, on May 28, 2014, the court granted InterDigital’s motion to dismiss the defendants' declaratory judgment counterclaims relating to the request for determination of FRAND terms, ruling that such declaratory judgments would serve no useful purpose. On May 29, 2014, the court issued an order construing the claim term “circuit,” which appears in the ’847 patent, adopting a construction that InterDigital agreed would be acceptable to it and rejecting narrowing limitations proposed by ZTE. On June 23, 2014, the court held a supplemental claim construction hearing on the term “synchronized to [a/the] pilot signal,” which appears in the ’847 patent. The parties submitted supplemental letter briefs concerning construction of “synchronized to [a/the] pilot signal” on June 27 and 30, 2014. Construction of the term “synchronized to [a/the] pilot signal” remains pending before the court.

On June 10, 2014, InterDigital filed a motion seeking summary judgment (1) that the asserted ’151 patent is not unenforceable by reason of inequitable conduct; (2) that the asserted claims of the ’244 patent are not anticipated or obvious in view of the prior art; and (3) that the asserted claims of the ’966 and ’847 patents are not invalid for lack of enablement or written description. Also on June 10, 2014, Nokia and ZTE filed motions seeking summary judgment (1) that the asserted claims of the ’151 patent are not infringed; (2) that the asserted claims of the ’966 and ’847 patents are not infringed; and (3) that the asserted claims of the ’244 patent are not infringed and are invalid for lack of written description. On June 27, 2014, the parties filed oppositions to the pending motions for summary judgment. On July 10 and 11, 2014, the parties filed replies in further support of their respective motions for summary judgment. All of the forgoing motions remain pending before the Delaware District Court.

On June 3, 2014, InterDigital and Samsung jointly moved to stay the case against Samsung until August 18, 2014, to allow the parties time to fulfill certain contractual obligations under their settlement agreement before they jointly stipulate to dismissal with prejudice of the action. On June 9, 2014, the court granted the parties’ joint motion. On August 5, 2014, the parties filed a stipulation of dismissal in light of the parties’ settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice.

On July 1, 2014, InterDigital moved under Federal Rule of Civil Procedure 25(c) to join MMO into the case. On July 22, 2014 defendants Nokia and MMO filed a cross-motion seeking to substitute MMO for Nokia Corp. in this case. On July 3, 2014, Nokia filed a motion to stay this Delaware action in view of the pending appeal of the 337-TA-800 investigation and the ID issued in the 337-TA-868 investigation. On July 8, 2014, InterDigital opposed Nokia’s motion, and on July 9, 2014, Nokia filed a reply in further support of its motion. Following a hearing held on July 10, 2014, the Delaware District Court denied Nokia’s motion to stay the case.

Investigation by National Development and Reform Commission of China

Reference is made to the investigation by China's National Development and Reform Commission ("NDRC") previously disclosed in the 2013 Form 10-K and the First Quarter 2014 Form 10-Q. On May 22, 2014, the NDRC formally suspended its investigation of InterDigital. The Company’s commitments with respect to the licensing of its patent portfolio for wireless mobile standards to Chinese manufacturers of cellular terminal units ("Chinese Manufacturers") are as follows:

1. Whenever InterDigital engages with a Chinese Manufacturer to license InterDigital's patent portfolio for 2G, 3G and 4G wireless mobile standards, InterDigital will offer such Chinese Manufacturer the option of taking a worldwide portfolio license of only its standards-essential wireless patents, and comply with F/RAND principles when

negotiating and entering into such licensing agreements with Chinese Manufacturers.

2. As part of its licensing offer, InterDigital will not require that a Chinese Manufacturer agree to a royalty-free, reciprocal cross-license of such Chinese Manufacturer's similarly categorized standards-essential wireless patents.
3. Prior to commencing any action against a Chinese Manufacturer in which InterDigital may seek exclusionary or injunctive relief for the infringement of any of its wireless standards-essential patents, InterDigital will offer such Chinese Manufacturer the option to enter into expedited binding arbitration under fair and reasonable procedures to resolve the royalty rate and other terms of a worldwide license under InterDigital's wireless standards-essential patents. If the Chinese Manufacturer accepts InterDigital's binding arbitration

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offer or otherwise enters into an agreement with InterDigital on a binding arbitration mechanism, InterDigital will, in accordance with the terms of the arbitration agreement and patent license agreement, refrain from seeking exclusionary or injunctive relief against such company.

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

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

Reference is made to the USITC proceeding and related Delaware District Court proceeding initiated in July 2011 and the related Federal Circuit appeal involving InterDigital, Nokia and ZTE previously disclosed in the 2013 Form 10-K and the First Quarter 2014 Form 10-Q. On July 1, 2014, the USITC and intervenors Nokia and ZTE filed briefs in response to InterDigital's opening appellate brief in its Federal Circuit appeal. InterDigital’s reply brief is due on August 8, 2014. On July 2, 2014, Nokia Corporation, Nokia Inc., and MMO filed an unopposed motion to substitute MMO for Nokia Corporation as intervenor. The court granted this motion on July 11, 2014.

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 standard essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital’s standard 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 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 3.2 million USD based on the exchange rate as of June 30, 2014), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

LG Arbitration and Related Delaware Chancery Court Proceeding

Reference is made to the arbitration initiated against InterDigital by LG Electronics, Inc. ("LG") in March 2012 previously disclosed in the 2013 Form 10-K. On June 9, 2014, the arbitration tribunal lifted the temporary stay at the request of the parties. The final evidentiary hearing is scheduled to take place from February 16-20, 2015.

Also on June 9, 2014, LG filed an action in the Court of Chancery of the State of Delaware seeking a declaration that InterDigital breached a non-disclosure agreement between the parties by submitting certain evidence regarding the parties’ licensing communications to the arbitration tribunal; LG also seeks related injunctive relief. On June 23, 2014, InterDigital filed a motion to dismiss LG’s complaint. The court held a hearing on InterDigital’s motion on July 16, 2014, but has not yet issued a decision.

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

Reference is made to the USITC proceeding initiated in 2007 and the related Federal Circuit appeal involving InterDigital and Nokia previously disclosed in the 2013 Form 10-K and the First Quarter 2014 Form 10-Q. On May 21, 2014, Nokia Corp. and MMO moved to substitute MMO for Nokia Corp. as a respondent in the investigation. On June 2, 2014, InterDigital responded in support of the motion as to the addition of MMO to the investigation but opposed the motion to the extent it sought termination of the investigation as to Nokia Corp. Nokia Corp. and MMO sought leave to reply in further support of their motion on June 13, 2014. By initial determination dated June 18, 2014, the ALJ granted the motion as to the addition of MMO as a respondent in the investigation but denied the motion as it related to termination of the investigation as to Nokia Corp. On June 26, 2014, Nokia Corp. and MMO petitioned the

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

On July 24, 2014, the Federal Circuit denied Nokia's April 22, 2014 petition for a writ of mandamus to the USITC, in which Nokia had requested the court to order the Commission to address in the remand investigation the non-infringement arguments that the Commission determined Nokia has waived.

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Arbitration with Arima Communications Corporation

On May 13, 2014, a panel convened by the American Arbitration Association's International Centre for Dispute Resolution issued a partial final award in a dispute between InterDigital and Arima Communications Corporation ("Arima") regarding the obligations of the parties relating to Arima's patent license agreement with the company. The arbitration panel awarded InterDigital unpaid patent license fees of approximately $14.5 million plus interest and related fees and costs (including reasonable attorneys' fees) in an amount to be determined.

After InterDigital submitted an application for fees and costs, on July 1, 2014, the panel issued a final award, which was subsequently modified on July 14, 2014, resulting in an award of approximately $23.6 million. On July 2, 2014, InterDigital commenced an action in the Delaware District Court to confirm the arbitration award and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately $23.6 million. The Company will recognize any related revenue in the period in which collectibility is reasonably assured.

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 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 1, Item 1A of our 2013 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 our 2013 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.

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

The following table provides information regarding Company purchases of its common stock during second quarter 2014.

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchases as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (3)
April 1, 2014 - April 30, 2014	—	$—	—	$—
May 1, 2014 - May 31, 2014	—	$—	—	$—
June 1, 2014 - June 30, 2014	180,000	$46.95	180,000	$291,545,688
Total	180,000	$46.95	180,000	$291,545,688

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

(2) Shares were purchased pursuant to the Company's $300.0 million share repurchase program (the "2014 Repurchase Program"), which was authorized by the Company's Board of Directors on June 11, 2014 and announced on June 12, 2014. The 2014 Repurchase Program has no expiration date. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases.

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

In addition, from July 1, 2014 through August 6, 2014, we repurchased 461,500 shares at a cost of $21.5 million under the 2014 Repurchase Program.

In May 2012, our Board of Directors authorized a share repurchase program, which was then expanded in June 2012 to increase the amount of the program from $100.0 million to $200.0 million (the "2012 Repurchase Program"). In June 2014, the 2012 Repurchase Program was terminated. Of the $200 million authorized under the 2012 Repurchase Program, $106.8

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million was utilized prior to the termination of the program. The Company did not make any repurchases under the 2012 Repurchase Program in 2014.

Item 6. EXHIBITS.
The following is a list of exhibits filed with this Quarterly Report on Form 10-Q:

Exhibit Number	Exhibit Description
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
Exhibit 32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.*
Exhibit 32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.*
Exhibit 101	The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 7, 2014, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 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: August 7, 2014	/s/ WILLIAM J. MERRITT William J. Merritt President and Chief Executive Officer
Date: August 7, 2014	/s/ RICHARD J. BREZSKI Richard J. Brezski Chief Financial Officer

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