

Creating the Living Network



ANNUAL REPORT 2013
Notice of 2014 Annual Meeting
and Proxy Statement

InterDigital, Inc.

To Our Shareholders

'We continue to believe in careful, conservative management, diversification of technology investments, and continued focus on our goals.'



William J. Merritt
President and
Chief Executive Officer



Steven "Terry" Clontz
Chairman of the Board

The technology industry is often marked by spectacular advances and shattering defeats, stratospheric rises and crashing falls. That is certainly true of the mobile industry: only one of the top 5 mobile device vendors in 2004 remains a market leader today. Most have disappeared.

Within that context, InterDigital continues to operate as an anomaly. As a developer of fundamental patented technology designed to be used across the mobile industry, we are less impacted by any one vendor's or wireless ecosystem's success. Instead, we mainly benefit from the increasing pervasiveness of wireless. So, while in 2013 we did not achieve all that we had challenged ourselves to achieve, we nonetheless delivered another strong year of cash flow and profit, and positioned ourselves for more success going forward.

In terms of technology, InterDigital Labs – our powerful internal research engine – continued its strong work broadening the scope of technology areas that we've addressed in recent years, reflecting the broader range of technologies that are the value drivers of today's mobile devices. Our researchers drove new innovation related to spectrum use, heterogeneous network architecture, machine-to-machine and Internet of Things, content delivery and other areas designed to create the absolute leading edge of mobile technology.

Our internal technology development efforts were strongly supplemented by the work of our Innovation Partners unit. Innovation Partners closed three major agreements: with VTT, a technical research center in Finland with a long track record of innovation for major wireless brands; DDD Group, for video research; and BIO-key, for biometric security research. In addition, we engaged a number of prolific inventors from outside the company to work with us in key technology areas. Together with our internal efforts, we accessed a substantial number of new inventions with a much broader technology footprint.

With regard to our licensing program, we experienced a setback in one of our cases before the United States International Trade Commission, which we are appealing, and we did not sign any major licenses during 2013 despite very significant effort on our part. Despite that, we nonetheless continued to advance towards our goals. In the second quarter, we prevailed in an arbitration with our licensee Pegatron, defining the scope of our license with them and confirming that their shipments of devices to Apple Inc. were indeed subject to our per-unit agreement (to the extent that those products were not covered by our license agreement with Apple). Then, in the fourth quarter, we prevailed in a separate but related arbitration with Apple, confirming that the bulk of their newer products – including those manufactured by Pegatron – were not licensed under our fixed-fee agreement. The result of these two arbitrations, combined, has been a significant contribution to revenue in 2013 as well as an anticipated good driver of revenue in 2014.

In fourth quarter 2013, we also reached a settlement with Huawei to have the terms of our license agreement set by an expedited arbitration. That decision to arbitrate is a tremendous solution for both companies, leading to a license at a fair rate, it also shows the great strength of our portfolio, which is the result of many years of development and investment. That very positive development for us came on the heels of our loss in the one case at the International Trade Commission.

What this demonstrated was that our company's progress is not tied to any one litigation or event – on the contrary, we always have multiple touch points with prospective licensees. Here, the companies were involved in multiple litigations in different forums on different patents, reflecting the depth of our patent position, our financial strength, and persistence. For that and other reasons, the companies rightly chose a more business-friendly way of resolving their dispute – arbitration – and one which we would hope more companies would embrace. This step reflected another core quality of InterDigital

– our reasonable and creative approach to licensing.

All of these qualities – our innovative strength, our financial strength, our persistence, our flexibility – have enabled us to continue to thrive when others do not. And 2013 was no exception in terms of showing the tremendous strength of our business model: despite not achieving all of the licensing goals we set for ourselves, we still delivered revenue of \$325.4 million, substantially ahead of many expectations at the start of the year. More significantly, InterDigital generated free cash flow¹ of \$179.5 million, bringing our total cash position at year end to almost half a billion dollars, net of debt.

So, we did not knock it out of the park in 2013 but we delivered a positive year nonetheless, and one that we think puts us in a strong position for success in 2014. Wherever the road leads – and in the mobile industry that can be challenging to predict – we'll continue to progress, with our usual careful approach and our focus on advancing technology, driving new solutions, and maximizing value for our shareholders.



William J. Merritt
President and Chief Executive Officer



Steven "Terry" Clontz
Chairman of the Board

Message from the
Chairman of the Board and
Chief Executive Officer

¹ Free cash flow is a non-GAAP financial measure. See Page 9 for definition and reconciliation.

'InterDigital sees a network of the future where people and devices interact effortlessly, abstracting the fabric of networks, technologies, and applications.'

Creating the Living Network



InterDigital develops and invests in a broad range of technologies, but these efforts are guided by our vision for the future of mobile – what we call The Living NetworkSM.

Until now, wireless communication has been characterized by a continued evolution that optimizes and improves a single relationship: that of a device to a network, using a single wireless interface at a time. And those evolutions have had considerable success.

But, while InterDigital continues to drive research into that area, the network of the future will be very different. A vast range of device types, spurred on by the growth of the Internet of Things, will come on line at an exponential rate, using various connectivity strategies. The range of services delivered, from voice to social media to video to augmented reality, will broaden. The types of network resources available to users and devices will increase in variety. Finally, the context of the individual or thing using a connection will take on greater importance – all of this in a world where data-driven services play a growing role.

InterDigital sees a network of the future – a living network – where people and devices interact effortlessly, abstracting the fabric of networks, technologies and applications. We see networks that are self-forming, self-healing and self-optimizing, and can intelligently grasp which resources provide the best solution for a specific need. We see those networks as dynamic repositories and distribution points for the data that will be the foundation for so many future services. We see connectivity that's ubiquitous, seamlessly connecting people – and the devices that extend their reach – through that network to each other.

That future will mobilize a complex web of spectrum resources, network management capabilities, device types, infrastructure assets and deployment strategies, context aware, and content delivery strategies. Those are the technologies we're developing. InterDigital is Creating the Living Network.

Creating the Living Network means developing the building blocks that will contribute to the networks of tomorrow – technologies that are smart, adaptable, and represent new and innovative ways of envisioning the transfer of data.

Spectrum Solutions:

In 2013, we continued our ground-breaking research driving the integration of unlicensed and shared spectrum into the overall mix of access technologies. After having announced a world's first public demonstration of Wi-Fi over multiple dynamic TV White Space channels simultaneously late in 2012, we followed up in 2013 with a pioneering demo of Wi-Fi at a wide area network level over unlicensed spectrum, announced at Mobile World Congress in Barcelona. These, alongside our live demos of LTE over unlicensed spectrum and other research, place InterDigital at the absolute leading edge of spectrum research and solution development globally.

Video Streaming:

A significant portion of network congestion from the explosion in streamed media content can be addressed by driving user- and network-aware context into today's networks. Few applications are more varied in goal and approach, and so reliant on the human element in the overall experience. In 2013, InterDigital launched its pioneering User-Aware Video system, which factors human perceptual limits into an overall streaming system to ensure an optimal user experience with very significant bandwidth savings. Through 2013, development continued in User-Aware Video (including the availability of a software development kit) as well as the launch of a new technology, the Perceptual Pre-Filter, which drives bandwidth savings of up to 40% with 4K content. The Perceptual Pre-Filter was launched in early 2014 and featured at Mobile World Congress and the National Association of Broadcasters' NAB Show.

Wi-Fi Offload and Smart Access Manager:

Operator Wi-Fi is rapidly becoming a reality, and is a key component on the technical agenda of major operators. InterDigital's Smart Access Manager (SAM), which was launched in 2012, gained momentum through 2013: not only did InterDigital announce the integration of the Hotspot 2.0 standard and support for iOS devices, but SAM also entered into Tier 1 operator trials worldwide with leading infrastructure partners. The technology, which was featured at Mobile World Congress and in Barcelona, the Consumer Electronics Show in Las Vegas and Broadband World Forum in Amsterdam, is the only full-featured ANDSF client solution in the market today.

Internet of Things (IoT):

InterDigital has conducted research and contributed technology platforms to standards-based machine-to-machine (M2M) communications for a number of years – including providing the platform for multiple multi-vendor demonstrations by the European Telecommunications Standards Institute (ETSI). The world of M2M and IoT is evolving very rapidly and InterDigital is evolving with it, continuing to drive research into new standards and developing new solutions for 2014. Like everyone, InterDigital sees IoT as one of the next major waves of disruptive change – and value – in the mobile ecosystem.

Technologies that Adapt, Sense, and Break New Ground



Focused on Long-Term Shareholder Value

'Free cash flow of \$179.5 million, a performance that continued to show the resiliency of our business'

InterDigital's 2013 financial year was highlighted by diligent license management, conservative moves to keep expenses in line while investing in research, and a continued focus on long-term shareholder value.

In terms of license management, our efforts to ensure license compliance resulted in two separate arbitration wins, with Pegatron and Apple, which taken together unlocked significant value for the company and placed us in a strong position for 2014.

On the expense side, InterDigital was able to trim its research and development expense from \$68 million in 2012 to \$55 million in 2013 – still a very healthy investment – as a result of initiatives implemented toward the end of 2012. This reduction had minimal impact on the company's development of technologies and intellectual property – InterDigital Labs added approximately 180 U.S. patents to its portfolio in 2013, as well as a number of applications – and also provided us with greater flexibility to pursue a broader range of R&D initiatives.

Finally, although revenues were down significantly in 2013 as a result of a large patent sale in 2012, the company had a strong year from a cash flow perspective. InterDigital generated free cash flow of \$179.5 million, a performance that continued to show the resiliency of our business.

Financial Highlights

(in thousands, except per share data)

	2013	2012	2011
Total Revenue	\$ 325,361	663,063	301,742
Income from Operations	\$ 84,756	419,030	134,757
Net Income	\$ 35,683	271,804	89,468
Net Income Attributable to InterDigital, Inc.	\$ 38,165	271,804	89,468
Net Income Per Common Share - Diluted	\$ 0.92	6.26	1.94
Total Cash, Cash Equivalents & Short-Term Investments	\$ 698,451	577,279	677,994
Total Assets	\$ 1,113,183	1,056,609	996,968
Total InterDigital, Inc. Shareholders' Equity	\$ 528,650	518,705	471,682
Total Equity	\$ 533,820	518,705	471,682

Reconciliation of Free Cash Flow to Net Cash Provided by Operating Activities

Free cash flow is a supplemental non-GAAP financial measure that InterDigital believes is helpful in evaluating the company's ability to invest in its business, make strategic acquisitions and fund share repurchases, among other things. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in the company's cash balance for the period. InterDigital defines "free cash flow" as net cash provided by operating activities less purchases of property and equipment, technology licenses and investments in patents. InterDigital's computation of free cash flow might not be comparable to free cash flow reported by other companies. The presentation of this financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles ("GAAP"). The table below presents a reconciliation of this non-GAAP financial measure to net cash provided by operating activities, the most directly comparable GAAP financial measure.

	2013
Net cash provided by operating activities	\$ 218,175
Purchases of property, equipment, & technology licenses	\$ (4,591)
Capitalized patent costs	\$ (34,057)
Free cash flow	\$ 179,527

Forward- Looking Statements

Statements made in the letter to shareholders and in the introduction to this annual report that relate to our future plans, events, financial results or performance, including, without limitation, statements relating to the company's anticipated performance and success in 2014 and our beliefs regarding the development and impact of our technologies, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current goals, estimates, information, and expectations. Actual results might differ materially from those anticipated as a result of certain risks and uncertainties, including delays, difficulties, the outcomes of our litigation and arbitration proceedings, changed strategies, or unanticipated factors affecting the implementation of the company's plans. You should carefully consider the risks and uncertainties outlined in greater detail in the accompanying Form 10-K, including "Item 1A – Risk Factors," before making any investment decision with respect to our common stock. We undertake no obligation to revise or publicly update any forward-looking statement for any reason, except as otherwise required by law.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission file number 1-33579

INTERDIGITAL, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-1882087
(IRS Employer
Identification No.)

200 Bellevue Parkway, Suite 300
Wilmington, Delaware
(Address of principal executive offices)

19809
(Zip Code)

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

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

Common Stock (par value \$0.01 per share)
(title of class)

NASDAQ

(name of exchange on which registered)

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,823,567,304 as of June 28, 2013.

The number of shares outstanding of the registrant's common stock was 40,452,673 as of February 20, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with the registrant's 2014 annual meeting of shareholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. BUSINESS.

Overview

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

Given our long history and focus on advanced research and development, InterDigital has one of the most significant patent portfolios in the wireless industry. As of December 31, 2013, InterDigital’s wholly owned subsidiaries held a portfolio of over 20,500 patents and patent applications related to the fundamental technologies that enable wireless communications. In that portfolio are a number of patents and patent applications that we believe are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards. That portfolio has largely been built through internal development, supplemented by joint development projects with other companies as well as select patent acquisitions. Products incorporating our patented inventions include: mobile devices, such as cellular phones, tablets, notebook computers and wireless personal digital assistants; wireless infrastructure equipment, such as base stations; and components, dongles and modules for wireless devices.

InterDigital derives revenues primarily from patent licensing and sales, technology solutions licensing and sales and engineering services. In 2013, our total revenues were \$325.4 million, a decrease of \$337.7 million compared to 2012. Our revenues in 2012 included \$384.0 million related to the sale of less than ten percent of our patent portfolio. Our patent licensing revenues in 2013 were \$264.2 million, a decrease of \$12.4 million compared to 2012. Additional information about our revenues, profits and assets, as well as additional financial data, is provided in the selected financial data in Part II, Item 6, and in the financial statements and accompanying Notes in Part II, Item 8, of this Form 10-K.

Our Strategy

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

To execute our strategy, we intend to:

- ***Develop and source innovative technologies related to wireless.*** We intend to maintain a leading position in advanced wireless technology, by leveraging our expertise in digital cellular and wireless products to guide internal research and development capabilities and by directing our efforts in partnering with leading inventors and industry players to source new technologies.
- ***Establish and grow our patent-based revenue.*** We intend to grow our licensing revenue base by adding licensees, expanding into adjacent technology areas that align with our intellectual property position and leveraging the continued growth of the overall mobile technology market. Those licensing efforts can be self-driven or executed in conjunction with licensing partnerships, trusts and other efforts, and may involve the vigorous defense of our intellectual property through litigation and other means. We also believe that the size and growth rate of our patent portfolio enable us to sell patent assets that are not essential to our core licensing programs as a sustainable revenue stream, as well as to execute patent swaps that can strengthen our overall portfolio.
- ***Pursue commercial opportunities for our advanced platforms and solutions.*** We intend to pursue, through our InterDigital Solutions unit, the commercialization of our technology platforms and solutions.

As part of our ongoing research and development efforts, InterDigital often builds out entire functioning platforms in various technology areas. InterDigital Solutions seeks to bring those technologies to market through various structures including technology licensing, joint ventures, and partnerships.

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

Technology Research and Development

InterDigital pursues a diversified approach to sourcing the innovations that underpin our business. That approach incorporates internally driven research and development efforts by our InterDigital Labs unit, as well as externally focused efforts by our Innovation Partners unit. As of December 31, 2013, our patent portfolio consisted of approximately 1,700 U.S. patents (approximately 180 of which were issued in 2013) and approximately 10,300 non-U.S. patents (approximately 1,300 of which were issued in 2013). As of the same date, we also had numerous patent applications pending worldwide, with approximately 1,200 applications pending in the United States and approximately 7,300 pending non-U.S. applications. The patents and applications comprising our portfolio relate predominantly to digital wireless radiotelephony technology (including, without limitation, 2G, 3G and 4G technologies). Issued patents expire at differing times ranging from 2014 through 2032.

InterDigital Labs

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

Our capabilities in the development of advanced digital wireless technologies are based on the efforts of a highly specialized engineering team, leveraging leading-edge equipment and software platforms. As of December 31, 2013, we employed approximately 164 engineers, 74% of whom hold advanced degrees (including 46 doctorate degrees). Over the last three years, investment in development has ranged from \$63.3 million to \$67.9 million, and the largest portion of this expense has been personnel costs. Additional information about our development expenses is provided in the results of operations, under the heading “Operating Expenses,” in Part II, Item 7, of this Form 10-K.

Our current research efforts are focused on technology solutions to solve the industry’s challenge of delivering connectivity and content to handsets and various other connected devices, such as tablets and laptops, as well as areas of network infrastructure including spectrum research and wireless backhaul. We have taken a broad approach to solve these challenges, which includes air interface enhancements, policy-driven bandwidth management, cognitive radio and intelligent and optimized data delivery. We are developing technologies that will enable efficient multimedia content delivery across heterogeneous devices and networks, to enable richer multimedia experience with optimal data usage and radio network efficiency. From an air interface perspective, we are creating evolved system architectures that enable operation in small cells and additional frequency bands, improved cell-edge performance as well as device-to-device communications. These solutions provide interference mitigation across cells, uniform coverage and significantly improved data rates, system capacity and energy efficiency. We are also developing technologies that will optimize use of the current network resources

by dynamically allocating and aggregating bandwidth across different networks and spectrum bands. With the goal of reducing the looming bandwidth supply/demand gap in mobile networks, our technologies will enable the aggregation, segregation and offload of traffic. In the field of machine-to-machine (M2M) applications and the Internet of Things (IoT), we are developing technologies to enable seamless interconnection for multiple access types (cellular, WLAN, WPAN) and M2M service frameworks that can be managed by an operator and leveraged by a diverse set of vertical applications.

Innovation Partners

In fourth quarter 2012, we announced an enhancement to our technology sourcing strategy with the formation of Innovation Partners, an external sourcing model based around partnerships with leading inventors and research organizations, as well as the acquisition of technology and patent portfolios that align with InterDigital's roadmap.

In 2013, Innovation Partners engaged with a range of external companies to drive research and source intellectual property:

- In December 2013, we announced that we had signed a collaboration agreement with VTT Technical Research Centre of Finland, a multi-technological applied research organization in Northern Europe. The initial engagement focuses on the future of "user-centric context aware" research that will create value for the mobile ecosystem.
- In September 2013, we signed a development agreement with a wholly owned subsidiary of DDD Group plc regarding its next generation HD and UHD video processing technologies. The agreement focused on collaboration to combine DDD's image processing techniques with InterDigital's user-adaptive video streaming technology to explore the feasibility of the combined solution for applications in streaming video to mobile devices and Smart TVs.
- In February 2013, we entered into a collaboration with BIO-key International, Inc., a company involved in fingerprint biometric identification solutions and advanced mobile credentialing and identity verification. The engagement brought together BIO-key's research and development and InterDigital's identity and access management research.

InterDigital's Technology Position

Cellular Technologies

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

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

- The fundamental architecture of commercial TD/FDMA systems;
- Methods of synchronizing TD/FDMA systems;
- A flexible approach to managing system capacity through the reassignment of online subscriber units to different time slots and/or frequencies in response to system conditions;
- The design of a multi-component base station, utilizing distributed intelligence, which allows for more robust performance; and
- Initializing procedures that enable roaming.

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

- *Global pilot:* The use of a common pilot channel to synchronize sub-channels in a multiple access environment;
- *Bandwidth allocation:* Techniques including multi-channel and multi-code mechanisms;
- *Power control:* Highly efficient schemes for controlling the transmission output power of terminal and base station devices, a vital feature in a CDMA system;
- Joint detection and interference cancellation techniques for reducing interference;
- Soft handover enhancement techniques between designated cells;
- Various sub-channel access and coding techniques;
- Packet data;
- Fast handoff;
- Geo-location for calculating the position of terminal users;
- Multi-user detection;
- High-speed packet data channel coding; and
- High-speed packet data delivery in a mobile environment, including enhanced uplink.

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

- MIMO technologies for reducing interference and increasing data rates;
- OFDM/OFDMA/SC-FDMA;
- Power control;
- Hybrid-ARQ for fast error correction;
- Discontinuous reception for improved battery life;
- Control channel structures for efficient signaling;
- Advanced resource scheduling/allocation (bandwidth on-demand);
- Security;
- Home Node-B (femto cells);
- Relay communications for improved cell-edge performance;
- LTE receiver implementations;
- Carrier aggregation for LTE-Advanced;
- Multi-carrier HSDPA;

- Coordinated Multi-Point Communications for LTE-Advanced; and
- Machine Type Communications.

Other Wireless Technologies

Our strong wireless background includes engineering and corporate development activities that focus on solutions that apply to other wireless market segments. These segments primarily fall within the continually expanding scope of the IEEE 802, IETF and ETSI standards. We are building a portfolio of technology related to WLAN, Wi-Fi, WMAN and the digital cellular area that includes, for example, improvements to the IEEE 802.11 PHY and MAC to increase peak data rates (i.e., IEEE 802.11n, 802.11ac, 802.11ad and future variants), handover among radio access technologies (IEEE 802.21), mesh networks (IEEE 802.11s), radio resource measurements (IEEE 802.11k), wireless network management (IEEE 802.11v), wireless network security and broadband wireless (IEEE 802.16, including WiMAX wireless technology). We are actively developing technology for newer Wi-Fi and WLAN standards focused on fast initial link setup (802.11ai), hotspot operation (WFA HOTSPOT 2.0) and the use of additional spectrum bands, such as TV-Whitespace (802.11af) and sub 1 GHz (802.11ah). We also are expanding our portfolio of technologies in areas such as M2M or MTC, mobility, spectrum management and session continuity within ETSI and IETF. In addition, we have commenced development of a portfolio related to improved video delivery, including solutions related to the ITU-T HEVC standards.

Patent-Based Revenue

We believe that companies making, importing, using or selling products compliant with the standards covered by our patent portfolio, including all manufacturers of mobile handsets, tablets and other devices, require a license under our patents and will require licenses under patents that may issue from our pending patent applications. We have successfully entered into license agreements with many of the leading mobile communications companies globally, including Apple Inc. (“Apple”), Sony Corporation of America, HTC Corporation and BlackBerry Limited, among others. In 2012, we began the process of securing license agreements with companies shipping 4G products.

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

In most cases, we recognize the revenue from per-unit royalties in the period when we receive royalty reports from licensees. In circumstances where we receive consideration for past patent royalties, we recognize such payments as revenue in the period in which the patent license agreement is signed. Some of these patent license agreements provide for the non-refundable prepayment of royalties that are usually made in exchange for prepayment discounts. As the licensee reports sales of covered products, the royalties are calculated and either applied against any prepayment or become payable in cash or other consideration. Additionally, royalties on sales of licensed products under the license agreement become payable or applied against prepayments based on the royalty formula applicable to the particular license agreement. These formulas include flat dollar rates per unit, a percentage of sales, a percentage of sales with a per-unit cap and other similar measures. The formulas can also vary by other factors, including territory, covered standards, quantity and dates sold.

Some of our patent licenses are paid up, requiring no additional payments relating to designated sales under agreed upon conditions. Those conditions can include paid-up licenses for a period of time, for a class of products, for a number of products sold, under certain patents or patent claims, for sales in certain countries or a combination thereof. Licenses have become paid-up based on the payment of fixed amounts or after the payment of royalties for a term. With the exception of amounts allocated to past patent royalties, we recognize revenues related to fixed amounts on a straight-line basis. Our license agreements typically contain provisions that give us the right to audit our licensees' books and records to ensure compliance with the licensees' reporting and payment obligations under those agreements. From time to time, these audits reveal underreporting or underpayments under the applicable agreements. In such cases, we seek payment for the amount owed and enter into negotiations with the licensee to resolve the discrepancy.

The company also pursues, on occasion, targeted sales of portions of its large and growing patent portfolio as a revenue stream. This strategy is based on the expectation that the company's portfolio and its growth rate extend well beyond the requirements for a successful licensing program. In addition, the strategy leverages the desire from new entrants in the mobile technology space to build strong intellectual property positions to support their businesses.

Signal Trust for Wireless Innovation

On October 17, 2013, InterDigital announced the formation of the Signal Trust for Wireless Innovation. The goal of the Signal Trust is to monetize a large InterDigital patent portfolio related to cellular infrastructure. More than 500 patents and patent applications were transferred to the Signal Trust, focusing primarily on 3G and LTE technologies and developed by InterDigital's engineers and researchers over more than a decade. A number of these innovations have been contributed to the worldwide standards process, resulting in a portfolio that includes patents for pioneering inventions that the company believes are used pervasively in the cellular wireless industry.

InterDigital has committed funding to the Signal Trust to help ensure its successful launch, and the company 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.

Other Potential Revenue Sources

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

InterDigital Solutions

In fourth quarter 2012, the company announced the formation of InterDigital Solutions. This unit is focused on commercializing market-ready technologies. These include:

- Smart Access Manager, a standards-based bandwidth management solution for operators, infrastructure companies and device manufacturers. Smart Access Manager enables operators and others to integrate Wi-Fi management seamlessly into their offerings, and, at the end of 2013, was in field trials with operators in the United States, Europe and elsewhere.
- User-Aware Video, a solution that uses contextual awareness of viewers and viewing conditions to deliver real-time and streaming video with the minimum required bandwidth to ensure an optimal viewing experience.

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

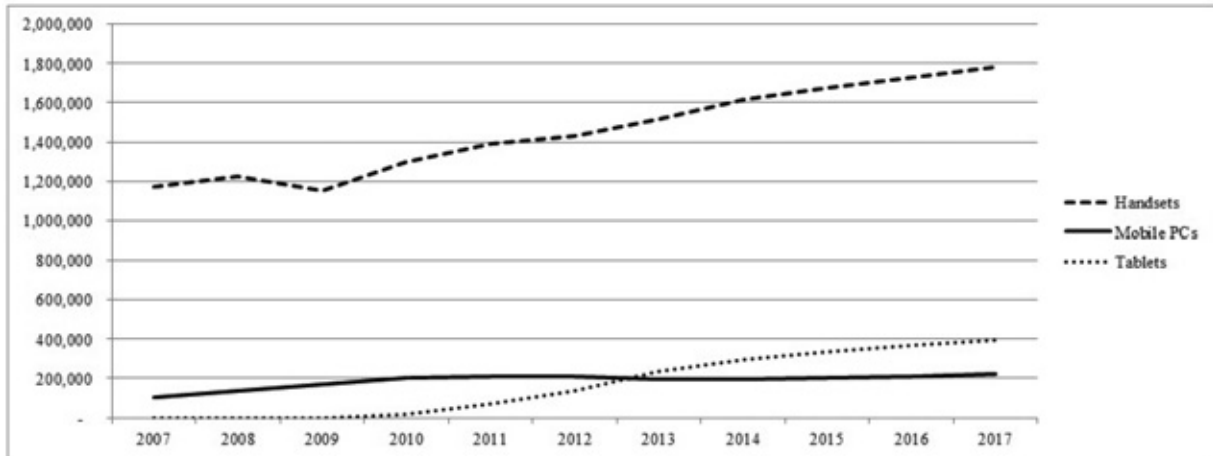
Convida Wireless

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

Wireless Communications Industry Overview

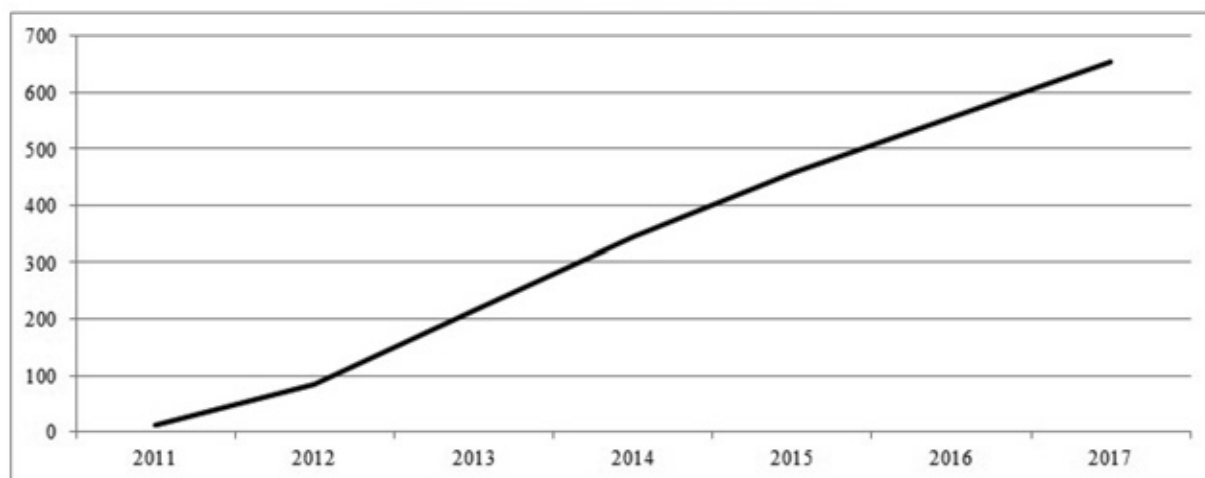
The wireless communications industry continues to experience rapid growth worldwide, as well as an expansion of device types entering the market. IHS iSuppli estimates that just over 1.7 billion handsets and tablets alone were shipped in 2013 — a number that is expected to grow to more than 2 billion devices yearly in 2017 (source: IHS iSuppli, Smartphone and Mobile Broadband Devices Tracker, 2013). In addition, the rate of uptake of the latest 4G technologies has been very rapid, with global LTE subscriber growth increasing an estimated 115% in 2013 over 2012 (*IHS iSuppli Research, January 2013*).

Global Mobile Device Shipments



Worldwide shipments of mobile handsets, PCs and tablets, 2007-2017 ('000s). Source: IHS iSuppli Connected Devices Database, Q4 2013.

Global LTE Handset Shipments



Worldwide shipments of LTE handsets, 2011-2017 ('Ms). Source: IHS iSuppli Design Forecast — Mobile Handsets, H2 2013.

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

Standards have evolved in response to consumer demand for services and expanded capabilities of mobile devices. Cellular standards have evolved from voice-oriented services to multimedia services that exploit the higher speeds offered by newer technologies, such as 3G, or, most recently, LTE. The wireless communications industry has also made significant advances in non-cellular wireless technologies. In particular, IEEE 802.11 WLAN has gained momentum in recent years as a wireless broadband solution in the home, office and select public areas. IEEE 802.11 technology offers high-speed data connectivity through unlicensed spectra within a relatively modest operating range. The IEEE wireless standards bodies are creating sets of standards to enable higher data rates, provide coverage over longer distances, enable roaming and integrate more fully with cellular networks.

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

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

Business Activities

2013 Patent Licensing Activity

In first quarter 2013, we entered into a new agreement with SII Mobile Communications Inc. to extend patent coverage to include 4G technologies, including LTE and LTE-Advanced, as well as products not previously covered under the parties' existing agreement. The patent license agreements now provide SII Mobile Communications with worldwide, non-transferable, non-exclusive, royalty-bearing patent coverage for certain products designed to operate in accordance with 2G, 3G and 4G wireless technologies. SII Mobile Communications Inc. is a subsidiary of Seiko Instruments Inc. and is headquartered in Japan.

In third quarter 2013, we entered into an amendment to our worldwide, non-exclusive, royalty-bearing patent license agreement with Panasonic Mobile Communications Co., Ltd. ("PMC"), headquartered in Japan. This amendment expanded the scope of our existing agreement with PMC to cover its sales of products designed to operate in accordance with 4G wireless technologies, including LTE, LTE-Advanced and WiMax standards, in addition to 2G and 3G wireless technologies. PMC is a worldwide leader in the development and manufacture of mobile communications products.

In fourth quarter 2013, we entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with Teltronics S.A. Unipersonal ("Teltronics"), headquartered in Spain. The agreement covers products that are designed to operate in accordance with 4G wireless technologies, including LTE, LTE-Advanced and WiMax. Teltronics is a world leader in the design and manufacturing of mission-critical radio communications equipment and systems.

Customers Generating Revenues Exceeding 10% of Total 2013 Revenues

Pegatron Corporation ("Pegatron"), Intel Mobile Communications GmbH ("Intel") and Sony Corporation of America ("Sony") comprised approximately 30%, 18% and 12% of our total 2013 revenues, respectively.

In 2008, we entered into a patent license agreement with Pegatron (the "2008 Pegatron PLA") that covers Pegatron and its affiliates. Under the terms of the 2008 Pegatron PLA, we granted Pegatron a non-exclusive, non-transferable, world-wide royalty-bearing license covering the sale of certain products designed to operate in accordance with 2G and 3G wireless standards. In 2007, we entered into a worldwide, non-transferable, non-exclusive, fixed-fee royalty-bearing patent license agreement with Apple (the "2007 Apple PLA"). In second quarter and fourth quarter 2013, we received arbitration awards in separate proceedings we initiated against Pegatron and Apple, respectively. Taken together, these arbitration awards clarified that Pegatron owes us royalties on certain products it produces for Apple. The Pegatron arbitration award confirmed that, to the extent that Pegatron manufactures products for Apple that are not licensed under the 2007 Apple PLA, those products are covered by the 2008 Pegatron PLA and are royalty bearing under that agreement. The Apple arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. As a result of these two arbitration awards, we recognized \$96.1 million of revenue associated with sales of Apple products under the 2008 Pegatron PLA in 2013, \$71.4 million of which was recognized as past patent royalties and \$24.7 million of which was recognized as per-unit royalties.

In third quarter 2013, we received an arbitration award in a proceeding initiated in 2012 to determine whether royalties were owed on specific product classes pursuant to our technology solutions agreement with Intel (the "Intel Agreement"). As a result of the award, in third quarter 2013, we recognized related revenue of \$51.6 million that had been deferred pending the resolution of the arbitration, resulting in the recognition during 2013 of a total of \$59.3 million of revenue associated with the Intel Agreement.

In fourth quarter 2012, we entered into a patent license agreement with Sony that covers Sony's sale of 3G and 4G products (the "Sony PLA"). During 2013, we recognized \$40.0 million of revenue associated with the Sony PLA.

Patent Infringement and Declaratory Judgment Proceedings

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

Contractual Arbitration Proceedings

We and our customers, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales and royalties. Our license agreements typically provide for audit rights as well as private arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by the arbitrators or by settlement between the parties. Parties to arbitration might have the right to have the award reviewed in a court of competent jurisdiction. However, based on public policy favoring the use of arbitration, it is generally difficult to have arbitration awards vacated or modified. The party securing an arbitration award may seek to have that award converted into a judgment through an enforcement proceeding. The purpose of such a proceeding is to secure a judgment that can be used for, if need be, seizing assets of the other party.

Competition

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

Due to the exclusionary nature of patent rights, we do not compete, in a traditional sense, with other patent holders for licensing relationships or sale transactions. Other patent holders do not have the same rights to the inventions and technologies encompassed by our patent portfolio. In any device or piece of equipment that contains intellectual property, the manufacturer may need to obtain licenses from multiple holders of intellectual property. In licensing our patent portfolio, we compete with other patent holders for a share of the royalties, which may face practical limitations. We believe that licenses under a number of our patents are required to manufacture and sell 2G, 3G and 4G products. However, numerous companies also claim that they hold 2G, 3G and 4G patents that are or may be essential or may become essential to cellular and other wireless standards. To the extent that multiple parties all seek royalties on the same product, the manufacturers could claim to have difficulty in meeting the financial requirements of each patent holder. In the past, certain manufacturers have

sought antitrust exemptions to act collectively on a voluntary basis. In addition, certain manufacturers have sought to limit aggregate licensing fees or rates for essential patents. Similarly, potential purchasers of our patents often amass patent portfolios for defensive and/or cross-licensing purposes and could choose to acquire patent assets within the same general technology space from other patent holders.

In the last several years, intellectual property has emerged as a strategically important asset class and a number of large patent acquisition transactions have taken place. As new participants have entered the mobile ecosystem, the market for intellectual property has become increasingly competitive, with many large, well-capitalized companies pursuing mobile ecosystem related patent portfolios. As we enhance our technology sourcing by supplementing our internal research and development efforts with acquisitions of intellectual property assets, we compete with such other companies over available mobile ecosystem related assets.

Employees

As of December 31, 2013, we had approximately 290 employees. None of our employees are represented by a collective bargaining unit.

Geographic Concentrations

We have one reportable segment. During 2013, the majority of our revenue was derived from a limited number of licensees based outside of the United States, primarily in Asia. These revenues were paid in U.S. dollars and were not subject to any substantial foreign exchange transaction risk. The table below lists the countries of the headquarters of our licensees and customers and the total revenue derived from each country or region for the periods indicated (in thousands):

	For the Year Ended December 31,		
	2013	2012	2011
Taiwan	\$128,551	\$ 40,394	\$ 43,993
United States	108,728	406,950	13,719
Canada	36,148	40,667	54,728
Japan	27,494	39,558	61,594
Korea	15,334	118,078	118,078
Germany	4,539	3,470	5,439
Other Europe	3,004	4,700	3,461
China	1,563	9,246	688
Other Asia	—	—	42
Total	<u>\$325,361</u>	<u>\$663,063</u>	<u>\$301,742</u>

At December 31, 2013, 2012 and 2011, we held \$215.9 million, \$185.4 million and \$146.0 million, respectively, or nearly 100% in each year, of our property and equipment and patents in the United States net of accumulated depreciation and amortization. At each of December 31, 2013, 2012 and 2011, we also held less than \$0.1 million of property and equipment, net of accumulated depreciation, in Canada. During 2013, we opened a small office in the United Kingdom and held less than \$0.1 million of property and equipment, net of accumulated depreciation, in the United Kingdom at December 31, 2013.

Corporate Information

The ultimate predecessor company of InterDigital, Inc. was incorporated in 1972 under the laws of the Commonwealth of Pennsylvania and conducted its initial public offering in November 1981. Our corporate headquarters and administrative offices are located in Wilmington, Delaware, USA. Our research and technology

development centers are located in the following locations: King of Prussia, Pennsylvania, USA; Melville, New York, USA; San Diego, California, USA; Montreal, Quebec, Canada; and London, England, United Kingdom.

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

Item 1A. RISK FACTORS.

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

Risks Related to Our Business

Rulings in legal proceedings and the outcome of potential patent legislation, USPTO rule changes and international patent rule changes may affect our strategies for patent prosecution, licensing and enforcement and could have a material adverse effect on our licensing business as well as our business as a whole.

Rulings in our legal proceedings as well as those of third parties may affect our strategies for patent prosecution, licensing and enforcement. For example, the U.S. International Trade Commission has recently taken some actions that have been viewed as unfavorable to patentees, including the company, seeking recourse in this forum. Any potential changes in the law or other developments that reduce the number of forums available or the type of relief available in such forums (such as injunctive relief), or that otherwise cause us to seek alternative forums (such as arbitration or state court), would make it more difficult for InterDigital to enforce its patents, whether in adversarial proceedings or in negotiations. Because we have historically depended on the availability of certain forms of legal process to enforce our patents and obtain fair and adequate compensation for the use of our intellectual property by unauthorized parties, developments that undermine our ability to do so could have a negative impact on the company’s revenue and future licensing efforts. In addition, changes to certain U.S. and international patent laws, rules and regulations may occur in the future, some or all of which may affect our costs, the scope of future patent coverage we secure and remedies that we may be entitled to in patent litigation and may require us to reevaluate and modify our patent prosecution, licensing and enforcement strategies. We continue to monitor and evaluate our strategies for prosecution, licensing and enforcement with regard to these developments; however, any resulting change in such strategies may have an adverse impact on our business and financial condition.

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

We face challenges in entering into new patent license agreements. The most significant challenge we face is that most potential licensees do not voluntarily seek to enter into license agreements with us before they commence manufacturing and/or selling devices that use our patented inventions. As a result, we must approach companies that are reluctant to take licenses and attempt to establish license agreements with them. The process of identifying potential users of our inventions and negotiating license agreements with reluctant prospective

licensees requires significant time, effort and expense. Once discussions with unlicensed companies have commenced, we face the additional challenges imposed by the significant negotiation issues that arise from time to time. Given these challenges relating to our ability to enter into new license agreements, we cannot assure that all prospective licensees will be identified or, if they are identified, will be persuaded during negotiations to enter into a patent license agreement with us, either at all or on terms acceptable to us, and, as a result, our revenue and cash flow could materially decline. In addition, the length of time required to negotiate a license agreement leads to delays in the receipt of the associated revenue stream, which could also cause our revenue and cash flow to decline.

Royalty rates could decrease for future license agreements.

Royalty payments to us under future license agreements could be lower than anticipated. Certain licensees and others in the wireless industry, individually and collectively, are demanding that royalty rates for patents be lower than historic royalty rates. There is also increasing downward pricing pressure on certain products, including handsets, that we believe implement our patented inventions, and some of our royalty rates are tied to the pricing of handsets. In addition, a number of other companies also claim to hold patents that are essential with respect to products for the cellular market. The increasing pricing pressure, as well as the number of patent holders seeking royalties on their cellular technologies, could result in a decrease in the royalty rates we receive for use of our patented inventions, thereby decreasing future revenue and cash flow. Finally, to the extent that royalty rates are determined through arbitration or other legal proceedings, because litigation and adversarial proceedings are inherently unpredictable and uncertain and there are few precedents for such determinations, it is possible that such rates may be lower than our historical rates, which may have an adverse effect on our revenue and cash flow.

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

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

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

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

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

We earn a significant amount of our revenues from a limited number of licensees or customers, and we expect that a significant portion of our revenues will continue to come from a limited number of licensees or

customers for the foreseeable future. For example, in 2013, Pegatron, Intel and Sony accounted for approximately 30%, 18% and 12% of our total revenues, respectively. In the event that one or more of our significant licensees or customers fail to meet their payment or reporting obligations under their respective license agreements, we are unable to renew one or more of such license agreements upon expiration or our revenues from these licensees significantly decline, our future revenue and cash flow could be materially adversely affected.

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

As part of our business strategy, we are seeking to broaden our revenue sources through joint ventures, services agreements and the continued development, commercialization and licensing of technology projects. There is no guarantee that we will succeed in acquiring or developing technology and patents or partnering with inventors and research organizations to contribute new areas to our existing portfolio of intellectual property. Also, our technology development activities may experience delays, or the markets for our technology solutions may fail to materialize to the extent or at the rate we expect, each of which could reduce our opportunities for technology sales and licensing. Additionally, investing in technology development is costly and may require structural changes to the organization that could require additional costs, including without limitation legal and accounting fees. Furthermore, delays or failures to enter into additional partnering relationships to facilitate technology development efforts or delays or failures to enter into technology licensing agreements to secure integration of additional functionality, could impair our ability to introduce into the market portions of our technology and resulting products, cause us to miss critical market windows, or decrease our ability to remain competitive. In addition, the commercialization of certain technologies could potentially lead to patent exhaustion issues that could limit the company's ability to derive licensing revenue from certain patents under its patent licensing program. In the event that any of these risks materialize, our long-term business, financial condition and operating results may be materially adversely affected.

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

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

Due to the nature of our business, we could be involved in a number of costly litigation, arbitration and administrative proceedings to enforce our intellectual property rights.

While some companies seek licenses before they commence manufacturing and/or selling devices that use our patented inventions, most do not. Consequently, we approach companies and seek to establish license agreements for using our inventions. We expend significant time and effort identifying potential users of our inventions and negotiating license agreements with companies that may be reluctant to take licenses. However, if we believe that a third party is required to take a license to our patents in order to manufacture, sell, offer for sale, import or use products, we may commence legal or administrative action against the third party if they refuse to enter into a license agreement with us. In turn, we could face counterclaims that challenge the essential nature of our patents, that our patents are invalid, unenforceable or not infringed or that our royalty rates are other than fair, reasonable and nondiscriminatory. As a result of enforcing our patents, we could be subject to

significant legal fees and costs, including the costs and fees of opposing counsel in certain jurisdictions if we are unsuccessful. In addition, litigation, arbitration and administrative proceedings require significant key employee involvement for significant periods of time, which could divert these employees from other business activities.

In addition, the cost of enforcing and defending our intellectual property has been and may continue to be significant. Litigation may be required to enforce our intellectual property rights, protect our trade secrets, enforce patent license and confidentiality agreements or determine the validity, enforceability and scope of proprietary rights of others. In addition, third parties could commence litigation against us seeking to invalidate our patents or obtain a determination that our patents are not infringed, are not essential, are invalid or are unenforceable. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to protect our intellectual property rights could be costly and could require significant amounts of time by key members of executive management and other personnel.

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

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

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

We may acquire or develop businesses, acquire technology and/or intellectual property, enter into joint ventures or other strategic transactions, purchase equity and debt securities in other entities, including minority equity interests and corporate bonds/notes in publicly traded and privately held companies or create new businesses. In some cases, such strategic investments may serve as consideration for a license in lieu of cash royalties. Most strategic investments entail a high degree of risk and will not become liquid until more than one year from the date of investment, if at all. Further, we may attempt to develop technologies or services that we believe we would be able to sell or license commercially using inside or outside technical, legal and financial resources. Acquisitions or strategic investments may increase our costs, including but not limited to accounting and legal fees, and may not generate financial returns or result in increased adoption or continued use of our technologies. In addition, other investments may not generate financial returns or may result in losses due to market volatility, the general level of interest rates and inflation expectations. We could make strategic investments in early-stage companies, which require us to consolidate or record our share of the earnings or losses of those companies. Our share of any such losses may adversely affect our financial results until we exit from or reduce our exposure to these investments.

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

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

Although we own a growing portfolio of issued and pending patents related to 4G and non-cellular technologies, our patent portfolio licensing program in these areas is less established and may not be as successful in generating licensing income as our 2G and 3G licensing programs. Many wireless operators have selected LTE as their next-generation technology for deployment in existing or future spectrum bands as complementary to their existing 2G or 3G networks. Although we believe that certain of our technology is, may be or may become essential to the LTE standard, we may not be as successful in licensing 4G products or products containing other technologies as we have been in licensing 2G and 3G products or we may not achieve a level of royalty revenues on such products that is comparable to that we have historically received on 2G and 3G products.

The licenses that we grant under our patent license agreements typically only cover products designated to operate in accordance with specified cellular technologies and that were manufactured or deployed or soon to be manufactured or deployed at the time of entry into the agreement. As a result, many of our current patent license agreements cover products designed to operate in accordance with 2G and/or 3G standards but do not cover products designed to operate in accordance with 4G standards. Also, we have patent license agreements with licensees that now offer for sale types of products that were not sold by such licensees at the time the patent license agreements were entered into and, thus, are not licensed by us. We do not derive patent licensing revenue from the sale of products by our licensees that are not covered by a patent license agreement. In order to grant a patent license for any such products, we will need to extend or modify our patent license agreements or enter into new license agreements with such licensees. We may not be able to modify these license agreements on financial terms acceptable to us, without affecting the other material terms and conditions of our license agreements with such licensees or at all. Further, such modifications may adversely affect our revenue on the sale of products covered by the license prior to modification.

Consolidation in the wireless communications industry could adversely affect our business.

The wireless communications industry has experienced consolidation of participants and sales of participants or their businesses, and these trends may continue. Any concentration or sale within the wireless industry may reduce the number of licensing opportunities or, in some instances, result in the reduction, loss or elimination of existing royalty obligations. For example, in 2013, Samsung, Nokia and Apple collectively accounted for just over 50% of worldwide handset shipments. Further, if wireless carriers consolidate with companies that utilize technologies that are competitive with our technologies or that are not covered by our patents, we could lose market opportunities, which could negatively impact our revenues and financial condition.

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

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

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

We face risks from doing business in international markets.

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

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

The calculation of tax assets and liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to examinations by the Internal Revenue Service (IRS) and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings and foreign tax liability and withholding. With our January 1, 2007 adoption of the guidance for accounting for uncertainty in income taxes, certain tax contingencies are recognized when they are determined to be more likely than not to occur. Although we believe we have adequately recorded tax assets and accrued for tax contingencies that meet this criterion, we may not fully recover our tax assets or may be required to pay taxes in excess of the amounts we have accrued. As of December 31, 2013 and 2012, there were certain tax contingencies that did not meet the applicable criteria to record an accrual. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have an adverse effect on our consolidated financial condition or results of operations.

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

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

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

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

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

Many of our license agreements have fixed terms. We endeavor to renew license agreements with fixed terms prior to the expiration of the license agreements and, due to various factors, including the technology and business needs and competitive positions of our licensees and, at times, reluctance on the part of our licensees to participate in renewal discussions, we may not be able to renegotiate the license agreements on acceptable terms before the expiration of the license agreement, on acceptable terms after the expiration of the license agreement, or at all. If there is a delay in renegotiating and renewing a license agreement prior to its expiration, there could be a gap in time during which we may be unable to recognize revenue from that licensee or we may be forced to renegotiate and renew the license agreement on terms that are more favorable to such licensee, and, as a result, our revenue and cash flow could be materially adversely affected. In addition, if we fail to renegotiate and renew our license agreements at all, we could lose existing licensees, and our revenue and cash flow could be materially adversely affected.

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

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

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

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

Market projections and data are forward-looking in nature.

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

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

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

We face competition from companies developing other or similar technologies.

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

Our technology development activities may experience delays.

We may experience technical, financial, resource or other difficulties or delays related to the further development of our technologies. Delays may have adverse financial effects and may allow competitors with comparable technology offerings to gain an advantage over us in the marketplace or in the standards setting arena. There can be no assurance that we will continue to have adequate staffing or that our development efforts will ultimately be successful. Moreover, certain of our technologies have not been fully tested in commercial use, and it is possible that they may not perform as expected. In such cases, our business, financial condition and operating results could be adversely affected, and our ability to secure new licensees and other business opportunities could be diminished.

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

Successful exploitation of our technology solutions is partially dependent on the establishment and success of relationships with equipment producers and other industry participants. Delays or failure to enter into licensing or other relationships to facilitate technology development efforts or delays or failure to enter into technology

licensing agreements to secure integration of additional functionality could impair our ability to introduce into the market portions of our technology and resulting products, cause us to miss critical market windows or impair our ability to remain competitive.

Our engineering services business could subject us to specific costs and risks that we might fail to manage adequately.

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

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

From time to time the Financial Accounting Standards Board (the “FASB”) and the SEC change their guidance governing the form and content of our external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles (“GAAP”), such as the FASB and the SEC may change or even reverse their previous interpretations or positions with regard to how these standards should be applied. A change in accounting principles or their interpretation can have a significant effect on our reported results. In certain cases, the company could be required to apply new or revised guidance retroactively or apply existing guidance differently. For example, in January 2012, the FASB and International Accounting Standards Board released an updated exposure draft, *Revenue from Contracts with Customers*, which, if it becomes final, could significantly impact the timing of revenue recognition for new and existing contracts with licensees. This and other potential changes in reporting standards could substantially change our reporting practices in a number of areas, including revenue recognition and recording of assets and liabilities, and affect our reported financial condition or results of operations.

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

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

- If the effective price of products sold by our licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for the products could fall, which in turn would reduce our royalty revenues.
- Assets or liabilities of our consolidated subsidiaries may be subject to the effects of currency fluctuations, which may affect our reported earnings. Our exposure to foreign currencies may increase as we expand into new markets.
- Certain of our operating and investing costs, such as foreign patent prosecution, are based in foreign currencies. If these costs are not subject to foreign exchange hedging transactions, strengthening currency values in selected regions could adversely affect our near-term operating expenses, investment costs and cash flows. In addition, continued strengthening of currency values in selected regions over an extended period of time could adversely affect our future operating expenses, investment costs and cash flows.

If wireless handsets are perceived to pose health and safety risks, demand for products of our licensees could decrease.

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

Risks Relating to Our Common Stock and the Notes

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

Historically, we have had large fluctuations in the price of our common stock, and such fluctuations could continue. From January 3, 2011 to February 21, 2014, the trading price of our common stock has ranged from a low of \$22.37 per share to a high of \$82.50 per share. The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

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

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

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

Our total consolidated long-term debt as of December 31, 2013 was approximately \$208.8 million. This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under our 2.50% senior convertible notes due 2016 (the "Notes");
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

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

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

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

Our initial dividend policy, adopted and announced in December 2010, contemplates the payment of a regular quarterly cash dividend of \$0.10 per share on our outstanding common stock. We expect to continue to pay quarterly cash dividends on our common stock at the rate set forth in our current dividend policy. However, the dividend policy and the payment and timing of future cash dividends under the policy are subject to the final determination each quarter by our Board of Directors that (i) the dividend will be made in compliance with laws applicable to the declaration and payment of cash dividends, including Section 1551(b) of the Pennsylvania Business Corporation Law, and (ii) the policy remains in our best interests, which determination will be based on a number of factors, including our earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by the Board of Directors. Given these considerations, our Board of Directors may increase or decrease the amount of the dividend at any time and may also decide to vary the timing of or suspend or discontinue the payment of cash dividends in the future. Any decrease in the amount of the dividend, or suspension or discontinuance of payment of a dividend, could cause our stock price to decline.

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

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

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

In connection with the offering of the Notes, we entered into convertible note hedge transactions with an affiliate of the initial purchaser (the “option counterparty”). We also sold warrants to the option counterparty. These transactions have been accounted for as an adjustment to our shareholders’ equity. The convertible note hedge transactions are expected to reduce the potential equity dilution upon conversion of the Notes. The warrants will have a dilutive effect to the extent that the market value per common share of our common stock, as measured under the warrants, exceeds the strike price of the warrants at the time the warrants are exercisable.

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

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

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

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

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

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

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

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

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

The option counterparty is a financial institution or the affiliate of a financial institution, and we will be subject to the risk that the option counterparty may default or otherwise fail to perform, or may exercise certain rights to terminate their obligations, under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparty will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If the option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transactions. Our exposure will depend

on many factors but, generally, the increase in our exposure will be correlated to the increase in our common stock market price and in volatility of our common stock. In addition, upon a default by the option counterparty, we may suffer adverse tax consequences and dilution with respect to our common stock. We can provide no assurance as to the financial stability or viability of the option counterparty.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

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

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

We are also a party to a lease for a small office in London, England, United Kingdom that contains administrative office and research space.

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

Item 3. LEGAL PROCEEDINGS.

Samsung, Nokia, Huawei 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 are now 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 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 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, which, if denied, would ensure that InterDigital would be permitted to appeal the order to the Federal Circuit. That petition for review remains pending before the USITC.

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, 2014. 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, 2014, 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, which, if denied, would ensure that InterDigital would be permitted to appeal the order to the Federal Circuit. That petition for review remains pending before the USITC.

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 it would not support the motion in the form of a motion to terminate. Samsung withdrew the motion to terminate and, on January 9, 2014, Samsung moved for partial summary determination of no violation of Section 337 as to the '970 Patent in view of the USITC’s determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 10, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission’s final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 Patent. On January 15, 2014, the ALJ issued an initial determination finding that the ALJ is bound by the Commission’s determination in the 337-TA-800 investigation and granting Samsung’s motion. On January 27, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '970 Patent, and on February 11, 2014, the USITC denied this petition. InterDigital is now permitted to appeal the order terminating the 337-TA-868 investigation to the Federal Circuit.

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing dispute. The agreement is based on an expedited process leading to a license on terms set by the arbitration panel, with the arbitration process expected to be complete in 2014 or early 2015. 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.

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

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

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. The court has not yet ruled on InterDigital's motion.

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 FRAND-related counterclaims.

Huawei Complaint to European Commission

On May 23, 2012, Huawei lodged a complaint with the European Commission alleging that InterDigital was acting in breach of Article 102 of the Treaty on the Functioning of the European Union (the “TFEU”). Huawei alleged that InterDigital has a dominant position with respect to the alleged market for the licensing of its 3G standards-essential patents. Huawei further alleged that InterDigital was acting in abuse of its alleged dominant position by allegedly seeking to force Huawei to agree to unfair purchase or selling prices and in applying dissimilar conditions to equivalent transactions contrary to Article 102 of the TFEU. The European Commission had not yet indicated whether or not it would initiate proceedings against InterDigital as a result of the complaint and, in January 2014, as a result of the confidential settlement agreement mentioned above, Huawei contacted the European Commission and requested the withdrawal of the complaint.

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People’s Court in China on December 5, 2011. The first complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.). This first complaint alleges that InterDigital had a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. Huawei sought relief in the amount of 20.0 million RMB (approximately 3.2 million USD based on the 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 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 intends to appeal the Guangdong Province High Court's decision regarding the setting of FRAND royalties with respect to InterDigital's Chinese essential patents to the Supreme People's Court in Beijing.

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.

Investigation by National Development and Reform Commission of China

On September 23, 2013, counsel for InterDigital was informed by China's National Development and Reform Commission ("NDRC") that the NDRC had initiated a formal investigation into whether InterDigital has violated China's Anti-Monopoly Law with respect to practices related to the licensing of InterDigital's standards-essential patents to Chinese companies. Companies found to violate the Anti-Monopoly Law may be subject to a cease and desist order, fines, and disgorgement of any illegal gains. The Company continues to cooperate with the NDRC's investigation and, on February 10, 2014, submitted a proposed commitments request to NDRC that could form the predicate for suspension of NDRC's investigation under a procedure provided for under the Anti-Monopoly Law.

Nokia, Huawei 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 United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). On September 14, 2012, the Federal Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing *en banc*. 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. Responses to LG's petition are due on March 19, 2014. 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, '406, and '332 patents are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues.

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

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

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

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

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

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that InterDigital's U.S. Patent No. 7,706,830, U.S. Patent No. 8,009,636, U.S. Patent No. 7,502,406 and U.S. Patent No. 7,706,332 were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of "Articles protected by the patent." Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the Commission to issue its Final Determination, in view of the federal government shutdown, from November 13, 2013 to December 19, 2013.

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

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. 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 ALJ 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. Samsung's motion remains pending.

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.

LG Arbitration

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

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.

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

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

In addition, on the same date as the filing of USITC Proceeding (337-TA-613), InterDigital also filed a complaint in the Delaware District Court alleging that Nokia's 3G mobile handsets and components infringe the

same two InterDigital patents identified in the original USITC complaint. The complaint seeks a permanent injunction and damages in an amount to be determined. This Delaware action was stayed on January 10, 2008, pursuant to the mandatory, statutory stay of parallel district court proceedings at the request of a respondent in a USITC investigation. Thus, this Delaware action is stayed with respect to the patents in this case until the USITC's determination on these patents becomes final, including any appeals. The Delaware District Court permitted InterDigital to add to the stayed Delaware action the third and fourth patents InterDigital asserted against Nokia in the USITC action.

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

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

On November 30, 2009, InterDigital filed with the Federal Circuit a petition for review of certain rulings by the USITC. In the appeal, neither the construction of the term "synchronize" nor the issue of validity can be raised because the Commission took no position on these issues in its Final Determination. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Federal Circuit on January 4, 2010. In its appeal, InterDigital seeks reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 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 affirmation of InterDigital's domestic industry and declined Nokia's invitation to revisit the issue on remand. With respect to validity, the Commission affirmed the ALJ's determination that the Lucas reference does not anticipate or render obvious the asserted claims of the '966 and '847 patents. The Commission further affirmed the ALJ's determination that the asserted claims of the '966 and '847 patents are not rendered obvious by the IS-95 references combined with the CODIT reference. The Commission construed the claim limitation "synchronize" in the asserted claims of the '847 patent to mean "establishing a timing reference with the pilot signal transmitted by a base station," as InterDigital had originally proposed to the ALJ.

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

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

- take additional briefing and make findings on whether the accused Nokia handsets meet the "generated using a same code" limitation or "the message being transmitted only subsequent to the subscriber unit receiving the indication" limitation in the asserted claims of the '966 patent, and whether the accused Nokia handsets meet the "generated using a same code" limitation or the "function of a same code" limitation in the asserted claims of the '847 patent;
- take additional briefing and make findings on whether the 3GPP standard supports a finding that the pilot signal (P-CPICH) satisfies the claim limitation "synchronized to a pilot signal" as recited in the asserted claims of the '847 patent by synchronizing to either the P-SCH or S-SCH signals under the Commission's construction of that claim limitation, as well as, regarding the asserted claims of the '847 patent, whether the PRACH Message is transmitted during the power ramp up process; and
- take evidence and/or briefing and make findings regarding (i) whether Nokia's currently imported products infringe the asserted patents; (ii) whether the chips in the currently imported products are licensed; (iii) whether the issue of the standard-essential nature of the '847 and '966 patents is contested; (iv) whether there is "patent hold-up" or "reverse patent hold-up"; and (v) the statutory public interest factors.

The ALJ requested the parties submit by February 24, 2014 briefing regarding their respective positions, including proposed procedural schedules, for the limited proceedings they respectively contend are necessary in view of the Commission's order 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.

Nokia Delaware Proceeding

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

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

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

Nokia Arbitration Concerning Presentations

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

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

Other

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.

Technology Solutions Agreement Arbitration Award

Our wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.) and InterDigital Technology Corporation were engaged in an arbitration relating to a contractual dispute concerning the scope of royalty obligations and the scope of the licenses granted under one of our technology solutions agreements. The arbitration hearing took place in late June 2012, and the arbitration award was issued on August 13, 2013. As a result of the award, in third quarter 2013, we recognized related revenue of \$51.6 million that had been deferred pending the resolution of the arbitration.

Pegatron Arbitration Award

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

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

Arbitration with Apple Inc. Regarding Scope of 2007 Patent License Agreement

On October 10, 2013, a three-member tribunal constituted by the American Arbitration Association’s International Centre for Dispute Resolution issued an arbitration award in a proceeding initiated by our wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. to resolve a dispute surrounding our 2007 patent license agreement with Apple Inc. (the “Apple PLA”). The arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. On October 30, 2013, InterDigital Technology Corporation and IPR Licensing, Inc. filed a petition to confirm the arbitration award in the United States District Court for the Northern District of California. On December 11, 2013, Apple responded to InterDigital’s petition to confirm the award, stating that it did not oppose confirmation of the award, and on December 17, 2013, InterDigital filed a reply in support of its petition to confirm the arbitration award. A hearing is scheduled on InterDigital’s petition for April 4, 2014.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information

The NASDAQ Stock Market ("NASDAQ") is the principal market for our common stock, which is traded under the symbol "IDCC." The following table sets forth the high and low sales prices of our common stock for each quarterly period in 2013 and 2012, as reported by NASDAQ.

	High	Low
2013		
First quarter	\$48.68	\$41.67
Second quarter	48.60	38.60
Third quarter	41.24	35.02
Fourth quarter	39.87	28.53
	High	Low
2012		
First quarter	\$46.75	\$34.75
Second quarter	35.25	22.37
Third quarter	37.29	25.00
Fourth quarter	45.24	33.06

Holdings

As of February 20, 2014, there were 841 holders of record of our common stock.

Dividends

Prior to 2010, we had not declared any cash dividends on our shares of common stock. In fourth quarter 2010, our Board of Directors approved the company's initial dividend policy and declared the first quarterly cash dividend of \$0.10 per share. On December 5, 2012, we announced that our Board of Directors had declared a special cash dividend of \$1.50 per share on InterDigital common stock. The dividend was payable on December 28, 2012 to stockholders of record as of the close of business on December 17, 2012. Cash dividends on the company's outstanding common stock declared in 2013 and 2012 were as follows (in thousands, except per share data):

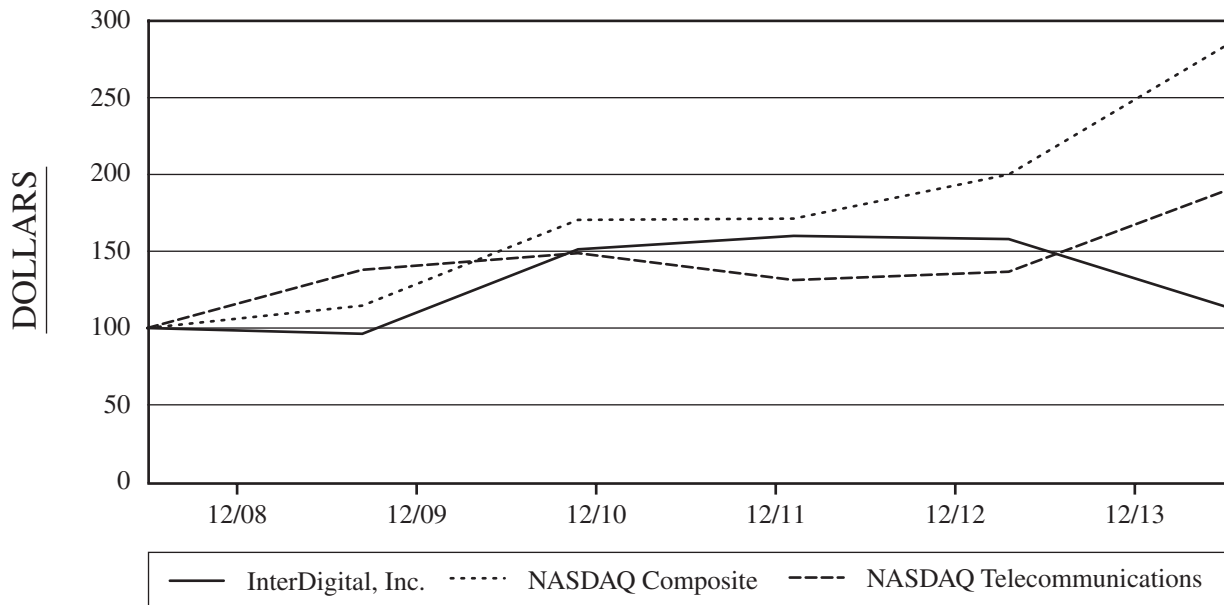
	Per Share	Total	Cumulative by Fiscal Year
2013			
First quarter	\$0.10	\$ 4,115	\$ 4,115
Second quarter	0.10	4,118	8,233
Third quarter	0.10	4,119	12,352
Fourth quarter	0.10	4,031	16,383
	<u>\$0.40</u>	<u>\$16,383</u>	
2012			
First quarter	\$0.10	\$ 4,469	\$ 4,469
Second quarter	0.10	4,348	8,817
Third quarter	0.10	4,095	12,912
Fourth quarter	1.60	65,643	78,555
	<u>\$1.90</u>	<u>\$78,555</u>	

We currently expect to continue to pay dividends comparable to our regular quarterly \$0.10 cash dividends in the future; however, continued payment of cash dividends and changes in the company’s dividend policy will depend on the company’s earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

Performance Graph

The following graph compares five-year cumulative total returns of the company, the NASDAQ Composite Index and the NASDAQ Telecommunications Stock Index. The graph assumes \$100 was invested in the common stock of InterDigital and each index as of December 31, 2008 and that all dividends were re-invested. Such returns are based on historical results and are not intended to suggest future performance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
among InterDigital, Inc., the NASDAQ Composite Index
and the NASDAQ Telecommunications Index



	12/08	12/09	12/10	12/11	12/12	12/13
InterDigital, Inc.	100.00	96.58	151.42	160.17	158.00	114.33
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
NASDAQ Telecommunications	100.00	137.81	148.84	131.52	136.58	189.00

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

Issuer Purchases of Equity Securities

Repurchase of Common Stock

The following table provides information regarding company purchases of its common stock during fourth quarter 2013.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased(1)</u>	<u>Average Price Paid Per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchases as Part of Publicly Announced Plans or Programs(2)</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs(3)</u>
October 1, 2013 — October 31, 2013	16,000	\$34.99	16,000	\$121,746,500
November 1, 2013 — November 30, 2013	288,000	\$33.35	288,000	\$112,141,502
December 1, 2013 — December 31, 2013 . .	613,000	\$32.16	613,000	\$ 93,189,610
Total	<u>917,000</u>	<u>\$32.76</u>	<u>917,000</u>	<u>\$ 93,189,610</u>

- (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 \$200.0 million share repurchase program (the "2012 Repurchase Program"), which was initially authorized by the company's Board of Directors on May 3, 2012 and announced on May 4, 2012. On June 18, 2012, the company announced that the board had authorized an increase to the amount of the 2012 Repurchase Program from \$100.0 million to \$200.0 million. The 2012 Repurchase Program has no expiration date. The company may repurchase shares under the 2012 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 2012 Repurchase Program.

From January 1, 2014 through February 23, 2014, we did not make any share repurchases under the 2012 Repurchase Program.

Item 6. SELECTED FINANCIAL DATA.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(in thousands except per share data)				
Consolidated statements of operations data:					
Revenues(a)	\$ 325,361	\$ 663,063	\$301,742	\$394,545	\$297,404
Income from operations(b)	\$ 84,756	\$ 419,030	\$134,757	\$235,873	\$113,889
Income tax provision(c)	\$ (25,836)	\$ (136,830)	\$ (35,140)	\$ (84,831)	\$ (25,447)
Net income applicable to Interdigital, Inc.					
common shareholders	\$ 38,165	\$ 271,804	\$ 89,468	\$153,616	\$ 87,256
Net income per common share — basic	\$ 0.93	\$ 6.31	\$ 1.97	\$ 3.48	\$ 2.02
Net income per common share — diluted	\$ 0.92	\$ 6.26	\$ 1.94	\$ 3.43	\$ 1.97
Weighted average number of common shares					
outstanding — basic	41,115	43,070	45,411	44,084	43,295
Weighted average number of common shares					
outstanding — diluted	41,424	43,396	46,014	44,824	44,327
Cash dividends declared per common share(d) . . .	\$ 0.40	\$ 1.90	\$ 0.40	\$ 0.10	\$ —
Consolidated balance sheets data:					
Cash and cash equivalents	\$ 497,714	\$ 349,843	\$342,211	\$215,451	\$210,863
Short-term investments	200,737	227,436	335,783	326,218	198,943
Working capital	731,076	641,434	595,734	440,996	449,762
Total assets	1,113,183	1,056,609	996,968	874,643	908,485
Total debt	208,813	200,391	192,709	468	1,052
Total InterDigital, Inc. shareholders' equity	528,650	518,705	471,682	353,116	169,537
Noncontrolling interest	5,170	—	—	—	—
Total shareholders' equity	\$ 533,820	\$ 518,705	\$471,682	\$353,116	\$169,537

- (a) In 2013, our revenues included \$124.7 million of past patent royalties related to the previously discussed arbitration awards. In 2012, our revenues included \$384.0 million associated with patent sales.
- (b) Our income from operations included charges of \$1.5 million, \$12.5 million and \$38.6 million in 2013, 2012 and 2009, respectively, associated with actions to reposition the company's operations.
- (c) In 2012, our income tax provision included a tax benefit of \$6.7 million related to the release of valuation allowances on deferred tax assets, which we now expect to utilize. In 2011, our income tax provision included benefits of \$6.8 million related to the favorable resolution of tax contingencies and \$1.5 million associated with after-tax interest income on tax refunds. In 2009, our income tax provision included a net benefit of approximately \$16.4 million, primarily related to the recognition of foreign tax credits. See Note 11 to the Consolidated Financial Statements for further discussion on these foreign tax credits.
- (d) On December 5, 2012, we announced that our Board of Directors had declared a special cash dividend of \$1.50 per share on InterDigital common stock. The dividend was payable on December 28, 2012 to stockholders of record as of the close of business on December 17, 2012.

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

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

Business

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

Given our long history and focus on advanced research and development, InterDigital has one of the most significant patent portfolios in the wireless industry. As of December 31, 2013, InterDigital’s wholly owned subsidiaries held a portfolio of over 20,500 patents and patent applications related to the fundamental technologies that enable wireless communications. In that portfolio are a number of patents and patent applications that we believe are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards. That portfolio has largely been built through internal development, supplemented by joint development projects with other companies as well as select patent acquisitions. Products incorporating our patented inventions include: mobile devices, such as cellular phones, tablets, notebook computers and wireless personal digital assistants; wireless infrastructure equipment, such as base stations; and components, dongles and modules for wireless devices.

InterDigital derives revenues primarily from patent licensing and sales, technology solutions licensing and sales and engineering services. In 2013, 2012, and 2011, our total revenues were \$325.4 million, \$663.1 million and \$301.7 million, respectively. Our revenues in 2012 included \$384.0 million related to the sale of less than ten percent of our patent portfolio. Our patent licensing revenues in 2013, 2012, and 2011 were \$264.2 million, \$276.6 million and \$295.3 million, respectively.

In 2013, the amortization of fixed-fee royalty payments accounted for approximately 26% of our patent licensing revenues. These fixed-fee revenues are not affected by the related licensees’ success in the market or the general economic climate. The majority of the remaining portion of our patent licensing revenue is variable in nature due to the per-unit structure of the related license agreements. Approximately 83% of this per-unit, variable portion for 2013 related to sales by three of our licensees with concentrations in the smartphone market and our collection of Japanese licensees, for whom the majority of the sales are within Japan. As a result, our per-unit, variable patent license royalties have been, and will continue to be, largely influenced by the sales performance of these licensees.

Huawei Settlement Agreement

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing dispute. The agreement is based on an expedited process leading to a license on terms set by the arbitration panel, with the arbitration process expected to be complete in 2014 or early 2015.

Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties, including the two USITC investigations and related U.S. district court proceedings as they relate to Huawei, and including withdrawal by Huawei of its various antitrust complaints, but excluding the action filed by Huawei in China to set a FRAND rate for the licensing of InterDigital’s Chinese standards-essential patents. The terms of the settlement agreement permit InterDigital to further appeal, through a petition for retrial in the Chinese Supreme People’s Court, this Chinese court decision relating to InterDigital’s Chinese standards-essential patents.

Repositioning

On October 23, 2012, we announced that, as part of our ongoing expense management, we had initiated a voluntary early retirement program (“VERP”). In connection with the VERP, we incurred related repositioning

charges of \$1.5 million and \$12.5 million in 2013 and 2012, respectively. These charges are included in the repositioning line of our Consolidated Statements of Income. The majority of the charges represent cash obligations associated with severance. During 2012 and 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 December 31, 2012, our accrued repositioning charges were zero and \$11.1 million, respectively. We do not expect to incur any additional charges related to the VERP.

Patent Sales

On June 18, 2012, we announced that certain of our subsidiaries had entered into a definitive agreement to sell approximately 1,700 patents and patent applications, including approximately 160 issued U.S. patents and approximately 40 U.S. patent applications, to Intel Corporation for \$375.0 million. The sale agreement involved patents primarily related to 3G, LTE and 802.11 technologies. Upon completion of the transaction in third quarter 2012, we recognized \$375.0 million as patent sales revenue and \$15.6 million as patent sales expense, which was recorded within the patent administration and licensing line on our Consolidated Statements of Income. Included in the patent sales expense was the remaining net book value of the patents sold, as well as commissions and legal and accounting services fees paid in conjunction with the sale. We did not complete any patents sales in 2013 or 2011.

We intend to pursue additional patent sale opportunities as part of our expanded strategy. However, we are unable to predict the timing and magnitude of any such sales due to the unpredictable nature of the sales cycle for such transactions.

Expiration of Apple Patent License Agreement

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

Patent Licensing Royalties

Patent licensing royalties in 2013 of \$264.2 million decreased 4% from the prior year. This \$12.4 million year-over-year decrease in patent licensing royalties was primarily driven by a decrease in fixed-fee revenues offset by an increase in past patent royalties driven by arbitration awards received in 2013. Refer to “Results of Operations — 2013 Compared with 2012” for further discussion of our 2013 revenue.

In 2007, we entered into a worldwide, non-transferable, non-exclusive, fixed-fee royalty-bearing patent license agreement with Apple (the “2007 Apple PLA”). In 2008, we entered into a patent license agreement with Pegatron (the “2008 Pegatron PLA”) that covers Pegatron and its affiliates. Under the terms of the 2008 Pegatron PLA, we granted Pegatron a non-exclusive, non-transferable, worldwide royalty-bearing license covering the sale of certain products designed to operate in accordance with 2G and 3G wireless standards.

In second quarter and fourth quarter 2013, we received arbitration awards in separate proceedings we initiated against Pegatron and Apple, respectively. Taken together, these arbitration awards clarified that Pegatron owes us royalties on certain products it produces for Apple. The Pegatron arbitration award confirmed that, to the extent that Pegatron manufactures products for Apple that are not licensed under the 2007 Apple PLA, those products are covered by the 2008 Pegatron PLA and are royalty bearing under that agreement. The Apple arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. As a result of these two arbitration awards, we recognized \$96.1 million of revenue associated with sales of Apple products under the 2008 Pegatron PLA in 2013, \$71.4 million of which was recognized as past patent royalties revenue and \$24.7 million of which was recognized as per-unit royalties.

Technology Solutions and Engineering Services

In third quarter 2013, we received an arbitration award in a proceeding initiated in 2012 to determine whether royalties were owed on specific product classes pursuant to our technology solutions agreement with Intel Mobile Communications GmbH (“Intel”) (the “Intel Agreement”). As a result of the award, in third quarter 2013, we recognized related revenue of \$51.6 million that had been deferred pending the resolution of the arbitration, resulting in the recognition during 2013 of a total of \$59.3 million of revenue associated with the Intel Agreement.

USITC Proceedings

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

On January 2, 2013, the company’s wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the USITC against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America (collectively, “Samsung”), LLC, Nokia Corporation and Nokia Inc. (collectively, “Nokia”), Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, “Huawei”) and ZTE Corporation and ZTE (USA) Inc. (collectively, “ZTE” and together with Samsung, Nokia and Huawei the “337-TA-868 Respondents”), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe one or more of up to seven of InterDigital’s U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating 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. The evidentiary hearing in the proceeding was held in February 2014 and the ALJ has set May 12, 2014 as the due date for the ALJ’s Final Initial Determination and September 10, 2014 as the target date for the Commission’s completion of the investigation.

On January 2, 2013, the company’s wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the Delaware District Court against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement and recovery of reasonable attorneys’ fees and costs. On March 13, 2013, InterDigital filed an amended complaint against Nokia and Samsung, respectively, in Delaware District Court to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244. On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244. On December 30, 2013, the Delaware District Court granted the stipulation of dismissal filed by InterDigital and Huawei,

terminating the Huawei district court action. The Delaware District Court has set separate trial dates for the cases against each of the three remaining defendants, with Nokia scheduled for September 2014, ZTE scheduled for October 2014 and Samsung scheduled for June 2015.

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

On July 26, 2011, InterDigital's wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. filed a complaint with the USITC against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-800 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G wireless devices (including WCDMA-and cdma2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices) that infringe seven of InterDigital's U.S. patents. The action also extends to certain WCDMA and cdma2000 devices incorporating 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. On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. On January 17, 2014, the Nokia and ZTE Respondents moved for leave to intervene in the appeal, and on January 30, 2014, the ALJ granted these motions. On January 22, 2014, third party Samsung moved for leave to intervene in the appeal. Samsung's motion remains pending.

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

On August 1, 2012, the Federal Circuit issued its decision in InterDigital's appeal of the USITC's Final Determination in this proceeding, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On May 10, 2013, Nokia filed a petition for a writ of certiorari to the United States Supreme Court (No. 12 -1352), and on October 15, 2013, the Supreme Court denied Nokia's petition.

On February 12, 2014, the Commission issued a notice, order and opinion remanding the 337-TA-613 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. Please see Part I, Item 3, of this Form 10-K for more information regarding the Commission's February 12, 2014 action in the 337-TA-613 investigation as well as for a fuller discussion of our other USITC proceedings.

Cash and Short-Term Investments

At December 31, 2013, we had \$698.5 million of cash and short-term investments and an additional \$164.5 million of fixed-fee or royalty prepayments due under agreements signed, including \$92.8 million recorded in accounts receivable as it is due within twelve months of the balance sheet date. A substantial portion of this balance relates to fixed and prepaid royalty payments we have received that relate to future sales of our licensees' products. As a result, our cash receipts from existing licenses subject to fixed and prepaid royalties will be reduced in future periods. During 2013, we recorded \$441.0 million of cash receipts related to patent licensing, technology solutions agreements and patent sales as follows (in thousands):

	Cash In
Prepaid royalties	\$242,401
Past patent royalties	73,808
Current royalties	58,710
Fixed royalty payments	42,150
Technology solutions	19,882
Patent sales	4,000
	<u>\$440,951</u>

The \$284.6 million of fixed-fee and prepaid royalty cash receipts, together with a \$62.5 million accrual of accounts receivable related to scheduled prepaid royalties and fixed-fee payments, more than offset the \$174.0 million in deferred revenue recognized, resulting in a net \$35.9 million increase in deferred revenue to \$304.0 million at December 31, 2013. Approximately \$69.5 million of our \$304.0 million deferred revenue balance relates to fixed royalty payments that are scheduled to amortize as follows (in thousands):

2014	\$60,176
2015	4,612
2016	3,271
2017	1,459
2018	—
Thereafter	—
	<u>\$69,518</u>

The remaining \$234.5 million of deferred revenue primarily relates to prepaid royalties that will be recorded as revenue as our licensees report their sales of covered products.

Repurchase of Common Stock

In March 2009, our Board of Directors authorized a \$100.0 million share repurchase program (the "2009 Repurchase Program"). The company repurchased shares under the 2009 Repurchase Program through pre-arranged trading plans and completed the program in second quarter 2012.

In May 2012, our Board of Directors authorized a new 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"). The company may repurchase shares under the 2012 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below sets forth for the periods presented the number of shares repurchased and the dollar value of shares repurchased under the 2009 Repurchase Program and the 2012 Repurchase Program, in millions.

Period	2009 Repurchase Program		2012 Repurchase Program		Total Both Programs	
	# of Shares	Value	# of Shares	Value	# of Shares	Value
2013	—	\$ —	0.9	\$ 29.1	0.9	\$ 29.1
2012	2.3	75.0	2.6	77.7	4.9	152.7
2011	—	—	—	—	—	—
Prior to 2011	1.0	25.0	—	—	1.0	25.0
Total	<u>3.3</u>	<u>\$100.0</u>	<u>3.5</u>	<u>\$106.8</u>	<u>6.8</u>	<u>\$206.8</u>

From January 1, 2014 through February 23, 2014, we did not make any share repurchases under the 2012 Repurchase Program.

Intellectual Property Rights Enforcement

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

In 2013, our intellectual property enforcement costs increased to \$75.0 million from \$52.7 million and \$23.7 million in 2012 and 2011, respectively. This represented 52% of our 2013 total patent administration and licensing costs of \$143.0 million. Intellectual property enforcement costs will vary depending upon activity levels, and it is likely they will continue to be a significant expense for us in the future.

Comparability of Financial Results

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

- Our 2013 revenue includes:
 - \$73.8 million of past patent royalties primarily as a result of arbitration awards received during the year related to patent license agreements; and
 - \$53.3 million of past technology solutions revenue recognized due to the resolution of the Intel arbitration.
- Our 2013 operating expenses include:
 - \$1.5 million of expense associated with actions to reposition the company's operations; and
 - \$6.5 million of expense to increase certain accrual rates under our incentive compensation plan.
- Our 2013 other expense includes:
 - A charge of \$21.7 million related to an impairment on our investment in Pantech Co., Ltd. ("Pantech"); and
 - \$11.8 million of interest income related to arbitration awards received during the year.

Critical Accounting Policies and Estimates

Our consolidated financial statements are based on the selection and application of accounting principles generally accepted in the United States of America ("GAAP"), which require us to make estimates and

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

Revenue Recognition

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

We establish a receivable for payments expected to be received within twelve months from the balance sheet date based on the terms in the license. Our reporting of such payments often results in an increase to both accounts receivable and deferred revenue. Deferred revenue associated with fixed-fee royalty payments is classified on the balance sheet as short-term when it is scheduled to be amortized within twelve months from the balance sheet date. All other deferred revenue is classified as long term, as amounts to be recognized over the next twelve months are not known.

Patent License Agreements

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

Consideration for Past Patent Royalties: Consideration related to a licensee’s product sales from prior periods may result from a negotiated agreement with a licensee that utilized our patented inventions prior to

signing a patent license agreement with us or from the resolution of a disagreement or arbitration with a licensee over the specific terms of an existing license agreement. We may also receive consideration for past patent royalties in connection with the settlement of patent litigation where there was no prior patent license agreement. In each of these cases, we record the consideration as revenue when we have obtained a signed agreement, identified a fixed or determinable price and determined that collectibility is reasonably assured. In prior periods, we have referred to “past patent royalties” as “past sales.”

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

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

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

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

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

Patent Sales

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

Technology Solutions and Engineering Services

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

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

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

Sony Agreement

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

Our agreement with Sony 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 patent royalties.

Under the arrangement, we expect to collect a total of \$125.0 million of cash and have also acquired certain patents covering non-baseband technologies from Sony. We have estimated the value of the acquired patents to be \$28.9 million. We estimated the fair value of patents 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 this estimate were based on a market participant perspective and included estimates of projected royalties, discount rates, useful 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. These inputs and assumptions represent our best estimates at the time of the transaction. Changes in any number of these assumptions may have had a substantial impact on the estimated value of the acquired patents.

In connection with this arrangement, we recognized \$22.3 million of patent licensing revenue in fourth quarter 2012, \$40.0 million in 2013 and we expect to recognize \$76.6 million of patent licensing revenue, using the straight-line method, over the remaining life of the three-year term of the patent license. The remaining \$15.0 million represents funding toward M2M research and platform development.

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. Because Convida Wireless had no operations in 2012, the consolidation of Convida Wireless had no impact on our financial statements as of December 31, 2012, and there was no income or loss to allocate to interests held by other parties. For the twelve months ended December 31, 2013, we have allocated approximately \$2.5 million of Convida Wireless's net loss for the same period to noncontrolling interests held by other parties.

The agreement is a multiple-element arrangement for accounting purposes. As discussed in our revenue recognition policy footnote, we identified each element of the arrangement and determined when those elements should be recognized. Using the accounting guidance for multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of selling price for 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 selection of industry comparables, market growth rates and other relevant factors. Changes in any number of these assumptions may have had a substantial impact on the fair value as assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transaction.

The impact that a five percent change in each of the following key estimates would have had on fourth quarter 2012 revenue and pretax income is summarized in the following table (in millions):

	<u>Change in estimate</u>	
	<u>+ 5%</u>	<u>- 5%</u>
Value of patents acquired	\$ 1.4	\$(1.4)
Allocation between past and future royalties	\$(7.0)	\$ 7.0

Compensation Programs

We use a variety of compensation programs to both attract and retain employees, and to more closely align employee compensation with company performance. These programs include, but are not limited to, short-term incentive awards tied to performance goals and cash awards to inventors for filed patent applications and patent issuances, as well as stock option awards, time-based restricted stock unit ("RSU") awards and performance-based awards, which can be in the form of equity or cash, under the LTCP. Prior to 2010, performance-based awards would alternate annually between RSU and cash cycles, each of which generally covered a three-year period and could overlap with another cycle by as many as two years.

For LTCP cycles that began between 2010 and 2012, executives and employees at or above the manager level received 25% of their LTCP participation in the form of time-based RSUs that vest in full at the end of the respective three-year cycle and the remaining 75% in the form of performance-based awards granted under the long-term incentive plan ("LTIP") component of the LTCP. LTIP performance-based awards may be paid out in the form of cash, equity or any combination thereof, as determined by the Compensation Committee of the Board of Directors. Where the form of payment has not been determined at the beginning of the cycle, as is the case of Cycle 5, Cycle 6 and Cycle 7 (each as defined below), the LTIP payment was assumed to be 100% cash for accounting purposes. In January 2013, subsequent to the start of Cycles 6 and 7, it was determined that the LTIP component of such cycles would be paid out in equity and, therefore, performance-based RSUs were immediately granted on January 18, 2013. All employees below manager level received 100% of their LTCP participation in the form of time-based RSUs that vest in full at the end of the respective three-year cycle.

In January 2013, the LTCP was amended to adjust the program participation levels to reflect current market conditions, to add a stock option program component and to provide management with more flexibility in setting the participation levels and allocation among compensation components. Beginning with the 2013 cycle, the company's Chief Executive Officer (or, in certain circumstances the Compensation Committee) determines

annually what percentage of LTCP participation each level of participant (e.g., manager, director, senior director, etc.) receives and the components of each participant's award, which can include time-based RSUs, stock options and performance-based awards granted under the LTIP. The Compensation Committee determines the form of the LTIP award. For the cycle that covers the period from January 1, 2013 through December 31, 2015 (Cycle 8), executive officers received 25% of their LTCP award in the form of time-based RSUs that vest at the end of the cycle, 25% in the form of stock options that vest ratably over three-years and have a seven-year term and 50% under the LTIP in the form of performance-based RSUs that vest contingent upon the company's achievement of goals during the 2013-2015 cycle as established by the Compensation Committee. Employees at the director, senior director and vice president levels received 50% of their LTCP award in the form of time-based RSUs and 50% in the form of performance-based RSUs under the LTIP. Employees at or below the senior manager level received 100% of their participation in the form of time-based RSUs.

The following LTCP cycles were active for all or some portion of the three years ended December 31, 2013:

- *RSU Cycle 4:* Time-based RSUs granted on January 1, 2009, which vested on January 1, 2012, and performance-based RSUs covering the period from January 1, 2009 to January 1, 2012 granted on January 1, 2009, which vested at a payout level of 31% on January 1, 2012;
- *Cycle 5:* Time-based RSUs granted on November 1, 2010, which vested on January 1, 2013, and a long-term performance-based incentive covering the period from January 1, 2010 through December 31, 2012, which was paid out in cash at the 100% level in first quarter 2013;
- *Cycle 6*:* Time-based RSUs granted on January 1, 2011, which vested on January 1, 2014, and performance-based RSUs covering the period from January 1, 2011 through December 31, 2013 granted on January 18, 2013, which vested at a payout level of 71% on January 1, 2014;
- *Cycle 7*:* Time-based RSUs granted on January 1, 2012, which vest on January 1, 2015, and performance-based RSUs covering the period from January 1, 2012 through December 31, 2014 granted on January 18, 2013.
- *Cycle 8:* Time-based RSUs granted on January 18, 2013, which vest on January 18, 2016, stock options granted on January 18, 2013 and vest ratably over a three-year period and have a seven-year term, and performance-based RSUs covering the period from January 1, 2013 through December 31, 2015 granted on January 18, 2013.

* In January 2013, subsequent to the start of Cycles 6 and 7, it was determined that the LTIP component of such cycles would be paid out in equity and, therefore, performance-based RSUs were immediately granted on January 18, 2013. As the determination was made after December 31, 2012, these cycles were accounted for as cash awards during 2011 and 2012 and as equity awards in 2013.

The below table summarizes our LTCP and other share-based compensation expense for 2013, 2012 and 2011, in thousands:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Time-based awards	\$ 4,641	\$ 4,761	\$4,852
Performance-based awards	7,260 a	8,204 b	3,120 c
Total LTCP	11,901	12,965	7,972
Other share-based compensation	4,039	1,702	1,990
Total compensation expense	<u>\$15,940</u>	<u>\$14,667</u>	<u>\$9,962</u>

a) Included in 2013 is a charge of \$1.7 million to increase the accrual rate for Cycle 6 from the previously estimated payout of 50% to the actual payout of 71%. The increase in the incentive payout from 50% to 71% was driven by the company's success toward achieving the goal for Cycle 6. Also included in 2013 is a

charge of \$4.8 million to increase the accrual rate for Cycle 7 from the previously estimated payout of zero to 65%. The increase in the incentive payout from zero to 65% was driven by the company's success toward achieving the goals for Cycle 7.

- b) Included in 2012 is a charge of \$4.4 million to increase the accrual rate for Cycle 5 from the previously estimated payout of 50% to the actual payout of 100%. The increase in the incentive payout from 50% to 100% was driven by the company's success in achieving a number of key goals, including the execution of strategic patent sales and the signing of new or amended 4G patent license agreements, after we had reduced the accrual rate to 50% in 2011.
- c) Included in 2011 is a charge of \$1.3 million to increase the accrual rate for the performance-based RSU grant under RSU Cycle 4 from 0% to 31% based on the final payout associated with this grant. In 2011, performance-based cash incentive cost of \$1.8 million is net of a reduction of \$5.7 million to decrease the accrual rates for Cycle 5 and Cycle 6 from 100% to 50%. This reduction was driven by the impact of our strategic alternatives review process on the timing of license agreements and includes a \$1.9 million adjustment to amounts accrued through December 31, 2010.

At December 31, 2013, accrued compensation expense associated with the LTCP's performance-based incentives was based on estimated payouts of 71%, 65% and 0% for Cycle 6, Cycle 7 and Cycle 8, respectively. Under the LTCP, 100% achievement of the goals set by the Compensation Committee of the Board of Directors results in a 100% payout of the performance-based incentive target amounts.

For each 1% change above or below 100% achievement, the payout is adjusted by 2.5 percentage points, with a maximum payout under the current program of 200% for all performance-based incentive awards, a maximum payout of 225% for performance-based cash cycles that began prior to 2010 and no payout for performance that falls below 80% achievement. The following table provides examples of the performance-based incentive payout that would be earned based on various levels of goal achievement:

Performance-Based Incentive Payout Scenarios Under LTCP

<u>Goal Achievement</u>	<u>Payout</u>
less than 80%	—%
80%	50%
100%	100%
120%	150%
140% or greater (current program maximum)	200%
150% or greater (maximum for cycles that began prior to 2010)	225%

If we had assumed that goal achievement for Cycle 7 would be 100% or less than 80%, we would have accrued \$2.6 million more or \$4.8 million less, respectively, of related compensation expense through December 31, 2013.

If we had assumed that goal achievement for Cycle 8 would be either 100% or 80%, we would have accrued \$2.0 million more or \$1.0 million less, respectively, of related compensation expense through December 31, 2013.

For LTCP RSU cycles that began prior to 2010, executives received 50% of their RSU grant as performance-based RSUs and 50% as time-based RSUs, and employees at or above the manager level received 25% of their RSU grant as performance-based RSUs and 75% as time-based RSUs.

For performance-based RSU cycles that began prior to 2010, 100% achievement of the goals set by the Compensation Committee of the Board of Directors resulted in a 100% payout of the performance-based RSU

target amounts, and for each 1% change above or below 100% achievement, the performance-based RSU payout was adjusted by 4 percentage points, with a maximum payout of 300%. For performance that fell below 80% achievement, no payout occurred. The following table provides examples of the performance-based RSU payout that would have been earned based on various levels of goal achievement:

Performance-Based RSU Payout Scenarios for Cycles that began Prior to 2010

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

Income Taxes

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

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

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

During fourth quarter 2009, we completed a study to assess the company’s ability to utilize foreign tax credit carryovers into the tax year 2006. As a result of the study, we amended our United States federal income tax returns for the periods 1999 — 2005 to reclassify \$29.3 million of foreign tax payments we made during those periods from deductions to foreign tax credits. We also amended our federal tax returns for the periods 2006 — 2008 to utilize the resulting tax credits. When we completed the study, we established a basis to support amending the returns and estimated that the maximum incremental benefit would be \$19.1 million. We recognized a net benefit of \$16.4 million after establishing a \$2.7 million reserve for related tax contingencies. In 2011, we recorded an additional tax benefit of \$8.3 million to eliminate this and other tax contingencies and recognize interest income on the associated refund.

Between 2006 and 2013, we paid approximately \$169.1 million in foreign taxes for which we have claimed foreign tax credits against our U.S. tax obligations. It is possible that as a result of tax treaty procedures, the U.S. government may reach an agreement with the related foreign governments that will result in a partial refund of foreign taxes paid with a related reduction in our foreign tax credits. Due to both foreign currency fluctuations and differences in the interest rate charged by the U.S. government compared to the interest rates, if any, used by the foreign governments, any such agreement could result in interest expense and/or foreign currency gain or loss.

New Accounting Guidance

Accounting Standards Updates: Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued amendments to guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The amendments require entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013; however, early adoption is permitted. We do not expect this guidance to have a material impact on our results of operations or financial position.

Legal Proceedings

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

On April 4, 2011, we completed an offering of \$230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the "Notes"). The net proceeds from the offering were approximately \$222.0 million, after deducting the initial purchaser's discount and offering expenses. A portion of the net proceeds of the offering were used to fund the cost of the convertible note hedge transactions entered into in connection with the offering of the Notes. Refer to Note 6, "Obligations," in the Notes to Condensed Consolidated Financial Statements included in Part II, Item 8, of this Form 10-K for a more detailed discussion of the Notes.

On June 18, 2012, we announced that certain of our subsidiaries had entered into a definitive agreement to sell approximately 1,700 patents to Intel Corporation for \$375.0 million in cash. Upon the closing of the transaction in third quarter 2012, we received \$375.0 million of cash and recorded this amount as revenue. Driven by this transaction, we made an estimated federal tax payment of approximately \$104.0 million in fourth quarter 2012.

We have used and expect to continue to use the net proceeds discussed above for general corporate purposes, which may include, among other things: acquisitions of intellectual property-related assets or businesses or securities in such businesses, capital expenditures, payment of cash dividends, funding of our existing stock repurchase program and working capital.

Cash, cash equivalents and short-term investments

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>Increase / (Decrease)</u>
Cash and cash equivalents	\$497,714	\$349,843	\$147,871
Short-term investments	200,737	227,436	(26,699)
Total cash and cash equivalents and short-term investments . . .	<u>\$698,451</u>	<u>\$577,279</u>	<u>\$121,172</u>

The increase in cash, cash equivalents and short-term investments was primarily attributable to \$218.2 million of cash provided by operating activities, which was partially offset by the cost of repurchasing of common stock of \$29.1 million, dividend payments of \$12.4 million and \$63.7 million in capital investments, including capitalized patent costs and patent acquisitions.

Cash flows from operations

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

	<u>For the Year Ended December 31,</u>		<u>Increase / (Decrease)</u>
	<u>2013</u>	<u>2012</u>	
Cash flows provided by operating activities	<u>\$218,175</u>	<u>\$177,608</u>	<u>\$40,567</u>

The positive operating cash flow during 2013 was derived principally from cash receipts of \$441.0 million from patent license and technology solutions agreements. We received \$374.9 million of per-unit royalty payments, including past patent royalties, current royalties and prepayments, from existing customers and \$42.2 million of fixed-fee payments. Cash receipts from our technology solutions agreements totaled \$19.9 million, primarily related to royalties and other license fees associated with our SlimChip modem core. We also received \$4.0 million of patent sales payments from a 2012 patent sale. 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, and non-cash compensation) of \$191.3 million, cash payments for short-term and long-term incentive compensation of \$17.3 million, cash payments related to the VERP of \$12.6 million and cash payments for foreign source withholding taxes of \$23.3 million.

Cash used in operating activities during 2012 was derived principally from cash receipts of \$472.7 million from patent sales and patent license and technology solutions agreements. We received \$380.0 million of patent sales payments, \$67.3 million of per-unit royalty payments, including past patent royalties, current royalties, and prepayments from existing customers and new licensees, and \$8.0 million of fixed-fee payments. Cash receipts from our technology solutions agreements totaled \$17.4 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 \$200.6 million, cash payments for short-term and long-term incentive compensation of \$10.3 million, estimated federal tax payments of \$110.5 million and cash payments for foreign source withholding taxes of \$3.6 million.

Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our

liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and/or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at December 31, 2013 and December 31, 2012 (in thousands) as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>Increase /</u> <u>(Decrease)</u>
Current assets	\$857,514	\$814,347	\$ 43,167
Less: current liabilities	<u>126,438</u>	<u>172,913</u>	<u>(46,475)</u>
Working capital	731,076	641,434	89,642
Subtract:			
Cash and cash equivalents	497,714	349,843	147,871
Short-term investments	200,737	227,436	(26,699)
Add:			
Current deferred revenue	<u>60,176</u>	<u>106,305</u>	<u>(46,129)</u>
Adjusted working capital	<u>\$ 92,801</u>	<u>\$170,460</u>	<u>\$ (77,659)</u>

The \$77.7 million decrease in adjusted working capital in 2013 compared to 2012 is primarily attributable to a \$77.0 million decrease in accounts receivable from patent license, patent sale and technology solutions agreements and decreases in deferred tax assets, as well as increases in accounts payable, dividend payable and taxes payable. These changes were partially offset by net decreases in accrued compensation and other accrued expenses of \$24.5 million, primarily attributable to cash payments for short and long-term compensation as discussed above and accrued repositioning payments related to the VERP.

Cash used in or provided by investing and financing activities

We used net cash in investing activities of \$38.3 million in 2013 and generated \$63.0 million in 2012. We sold \$25.3 million and \$110.4 million of short-term marketable securities, net of purchases in 2013 and 2012, respectively. This decrease in net sales was driven by higher cash needs in 2012 primarily associated with our share repurchase program and cash dividends. Investment costs associated with capitalized patent costs and acquisition of patent costs increased to \$59.1 million in 2013 from \$43.8 million in 2012, primarily due to an increased investment in patent acquisitions in 2013.

Net cash used in financing activities decreased by \$201.0 million in 2013 primarily due to a decrease in repurchases of common stock of \$123.6 million and a decrease in dividend payments of \$70.7 million, which was partially offset by proceeds from non-controlling interests of \$7.7 million.

Other

Our combined short-term and long-term deferred revenue balance at December 31, 2013 was approximately \$304.0 million, an increase of \$35.9 million from December 31, 2012. We have no material obligations associated with such deferred revenue. The increase in deferred revenue was primarily due to a gross increase in deferred revenue of \$209.9 million, primarily associated with new prepayments, which was partially offset by \$174.0 million of deferred revenue recognized. This deferred revenue recognized was comprised of \$67.7 million of amortized fixed-fee royalty payments, \$51.6 million related to the technology solutions agreement arbitration award and \$54.7 million in per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees).

Based on current license agreements, we expect the amortization of fixed-fee royalty payments to reduce the December 31, 2013 deferred revenue balance of \$304.0 million by \$60.2 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.

Contractual Obligations

On April 4, 2011, InterDigital entered into an indenture (the “Indenture”), by and between the company and The Bank of New York Mellon Trust Company, N.A., as trustee, pursuant to which the \$230.0 million in Notes were issued. The Notes bear interest at a rate of 2.50% per year, payable in cash on March 15 and September 15 of each year, commencing September 15, 2011. The Notes will mature on March 15, 2016, unless earlier converted or repurchased.

For more information on the Notes, see Note 6, “*Obligations*,” in the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Form 10-K.

The following table summarizes our contractual obligations as of December 31, 2013 (in millions):

	Payments Due by Period				
	Total	Less Than 1 year	1-3 Years	3-5 Years	Thereafter
2.50% Senior Convertible Notes due 2016	\$230.0	\$ —	\$230.0	\$ —	\$ —
Contractual interest payments on Notes	13.0	5.8	7.2	—	—
Operating lease obligations	16.3	2.7	4.7	4.2	4.7
Purchase obligations(a)	26.7	26.7	—	—	—
Total contractual obligations	<u>\$286.0</u>	<u>\$35.2</u>	<u>\$241.9</u>	<u>\$4.2</u>	<u>\$4.7</u>

(a) Purchase obligations consist of agreements to purchase goods and services that are legally binding on us, as well as accounts payable.

Off-Balance Sheet Arrangements

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

RESULTS OF OPERATIONS

2013 Compared with 2012

Revenues

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

	For the Year Ended December 31,		(Decrease)/Increase	
	2013	2012		
Per-unit royalty revenue	\$122.7	\$115.3	\$ 7.4	6%
Fixed-fee amortized royalty revenue	67.7	135.1	(67.4)	(50)%
Current patent royalties	190.4	250.4	(60.0)	(24)%
Past patent royalties	73.8	26.2	47.6	182%
Total patent licensing royalties	264.2	276.6	(12.4)	(4)%
Patent sales	—	384.0	(384.0)	(100)%
Technology solutions revenue(a)	61.2	2.5	58.7	2,348%
Total revenue	<u>\$325.4</u>	<u>\$663.1</u>	<u>\$(337.7)</u>	<u>(51)%</u>

(a) The 2013 amount includes \$53.3 million of past technology solutions revenue related to the Intel arbitration.

The \$337.7 million decrease in total revenue was primarily attributable to the \$384.0 million decrease in patent sales revenue and a \$60.0 million decrease in current patent royalties. These decreases were partially offset by increases to past patent royalties of \$47.6 million and technology solutions revenue of \$58.7 million, each primarily related to the previously discussed arbitration awards. The decrease in patent sales was due to the 2012 sales of patents to Intel Corporation and Nufront Mobile Communications Technology Co. Ltd. The majority of the current patent royalties decrease was attributable to a fixed-fee amortized royalty revenue decrease primarily due to the expiration of the 3G portion of our patent license agreement with Samsung at the end of 2012, which was partially offset by the addition of fixed-fee amortized royalty revenue from the Sony patent license agreement signed in fourth quarter 2012. Additionally, per-unit royalty revenue increased \$7.4 million primarily due to the inclusion of certain products as a result of the combination of the Pegatron and Apple arbitration awards.

In 2013 and 2012, 60% and 72% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In 2013 and 2012, the following customers accounted for 10% or more of our total revenues:

	For the Year Ended December 31,	
	2013	2012
Pegatron Corporation(a)	30%	< 10%
Intel Mobile Communications GmbH(b)	18%	< 10%
Sony Corporation of America	12%	< 10%
Samsung Electronics Company, Ltd.	—%	15%
Intel Corporation	—%	57%

(a) 2013 revenues include \$71.4 million of past patent royalties.

(b) 2013 revenues include \$53.3 million of past technology solutions revenue.

Operating Expenses

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

	For the Year Ended December 31,		Increase/(Decrease)	
	2013	2012		
Patent administration and licensing	\$143.0	\$126.3	\$ 16.7	13%
Development	63.3	67.9	(4.6)	(7)%
Selling, general and administrative	32.7	37.4	(4.7)	(13)%
Repositioning	1.5	12.5	(11.0)	(88)%
Total operating expenses	<u>\$240.5</u>	<u>\$244.1</u>	<u>\$ (3.6)</u>	<u>(1)%</u>

Operating expenses decreased 1% to \$240.5 million in 2013 from \$244.1 million in 2012. Not including \$1.5 million and \$12.5 million in repositioning charges in 2013 and 2012, respectively, operating expenses would have increased 3%. The \$3.6 million decrease in total operating expenses was primarily due to increases/ (decreases) in the following items (in millions):

	<u>Increase/ (Decrease)</u>
Cost of patent sales	\$(16.7)
Personnel-related costs	(4.7)
Long-term compensation	(1.1)
Other	1.4
Consulting services	2.5
Patent maintenance and evaluation	4.1
Depreciation and amortization	7.0
Intellectual property enforcement and non-patent litigation	14.9
Total decrease in operating expenses not including repositioning charges	<u>7.4</u>
Repositioning charge	<u>(11.0)</u>
Total decrease in operating expenses	<u>\$ (3.6)</u>

The \$16.7 million decrease in costs from patent sales primarily related to the patent sale to Intel Corporation in 2012. Included in this amount during 2012 was the remaining net book value of patents sold, as well as commissions and legal and accounting services fees paid in conjunction with the sales. Personnel-related costs decreased \$4.7 million primarily due to decreased personnel levels as a result of the VERP initiated in third quarter 2012. The decrease in long-term compensation expense was attributable to lower personnel levels as a result of the VERP and lower accruals rates on our active cycles as compared to 2012. The increase in consulting services resulted from the transition from internal labor to outsourced, in part as a result of the VERP. Patent maintenance and evaluation costs increased by \$4.1 million primarily related to due diligence associated with both patent acquisition and patent sale opportunities. Patent amortization increased \$7.0 million primarily due to patent acquisitions made during the past two years. Intellectual property enforcement and non-patent litigation costs increased \$14.9 million primarily due to costs associated with the USITC actions and various arbitrations with our existing licensees. This increase in intellectual property enforcement was partially offset by a decrease in non-patent litigation costs due to lower activity in the previously discussed arbitration proceeding related to one of our technology solutions agreements.

Patent administration and licensing expense: The increase in patent administration and licensing expense primarily resulted from the above-noted increases in intellectual property enforcement, patent amortization and patent maintenance and evaluation, partially offset by decreases in costs related to patent sales.

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

Selling, general and administrative expense: The decrease in selling, general and administrative expense was primarily attributable to the above-noted decreases in personnel-related costs and long-term compensation, partially offset by increases in consulting services.

Repositioning expense: As part of our ongoing expense management, we initiated the VERP in September 2012. Approximately 60 employees elected to participate in the VERP across five locations. We incurred charges of \$1.5 million and \$12.5 million in 2013 and 2012, respectively.

Other (Expense) Income

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

	For the Year Ended December 31,		(Decrease)/Increase	
	2013	2012		
Interest expense	\$(15.5)	\$(14.9)	\$ (0.6)	4%
Other	(22.1)	(0.2)	(21.9)	10,950%
Interest and investment income	14.3	4.7	9.6	204%
	<u>\$(23.3)</u>	<u>\$(10.4)</u>	<u>\$(12.9)</u>	<u>124%</u>

The change in other expense primarily resulted from the recognition of a \$21.7 million investment impairment on our investment in Pantech during 2013, partially offset by an increase in investment income attributable to \$11.8 million of interest income associated with arbitration awards received during 2013.

Income Taxes

In 2013, our effective tax rate was approximately 42.0% based on the statutory federal tax rate net of discrete federal and state taxes. The increase in the effective tax rate resulted from the impact of additional state tax expense, resulting, in part, from our income mix related to the increase in technology solutions revenue, on the effective tax rate in 2013. During 2012, our effective tax rate was approximately 33.5% based on the statutory federal tax rate net of discrete foreign taxes and a \$6.7 million benefit related to the reversal of a valuation allowance against deferred taxes.

2012 Compared with 2011

Revenues

The following table compares 2012 revenues to 2011 revenues (in millions):

	For the Year Ended December 31,		Increase/(Decrease)	
	2012	2011		
Fixed-fee amortized royalty revenue	\$135.1	\$135.2	\$ (0.1)	—%
Per-unit royalty revenue	115.3	146.5	(31.2)	(21)%
Current patent royalties	250.4	281.7	(31.3)	(11)%
Past patent royalties	26.2	13.6	12.6	93%
Total patent licensing royalties	276.6	295.3	(18.7)	(6)%
Patent sales	\$384.0	\$ —	384.0	100%
Technology solutions revenue	2.5	6.4	(3.9)	(61)%
Total revenue	<u>\$663.1</u>	<u>\$301.7</u>	<u>\$361.4</u>	<u>120%</u>

Total revenue increased \$361.4 million in 2012, primarily attributable to patent sales. Not including patent sales revenue, total revenue decreased \$22.6 million. This decrease was primarily attributable to a \$31.3 million decrease in current patent licensing royalties, which was partially offset by a \$12.6 million increase in past patent royalties. Per-unit royalty revenue decreased \$31.2 million, the majority of which was due to lower shipments from our Japanese per-unit licensees and our licensees with concentrations in the smartphone market. Past patent royalties totaled \$26.2 million in 2012, primarily related to the signing of new or amended license agreements and the resolution of audits of existing licensees. Past patent royalties totaled \$13.6 million in 2011, primarily related to the resolution of audits of existing licensees. The decrease in technology solutions revenue was due to lower royalties recognized in connection with our SlimChip® modem IP business.

In 2012 and 2011, 72% and 59% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In 2012 and 2011, the following customers accounted for 10% or more of our total revenues:

	For the Year Ended December 31,	
	2012	2011
Intel Corporation	57%	—%
Samsung Electronics Company, Ltd.	15%	34%
BlackBerry Limited	< 10%	14%
HTC Corporation	< 10%	11%

Operating Expenses

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

	For the Year Ended December 31,		Increase/(Decrease)	
	2012	2011		
Patent administration and licensing	\$126.3	\$ 71.7	\$54.6	76%
Development	67.9	63.8	4.1	6%
Selling, general and administrative	37.4	31.5	5.9	19%
Repositioning	12.5	—	12.5	—%
Total operating expenses	<u>\$244.1</u>	<u>\$167.0</u>	<u>\$77.1</u>	<u>46%</u>

Operating expenses increased 46% to \$244.1 million in 2012 from \$167.0 million in 2011. Not including \$12.5 million in repositioning charges in 2012, operating expenses would have increased 39%. The \$77.1 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in millions):

	Increase/ (Decrease)
Intellectual property enforcement and non-patent litigation	\$31.2
Cost of patent sales	16.7
Personnel-related costs	6.8
Long-term compensation	5.0
Litigation contingency	3.2
Depreciation and amortization	2.6
Patent maintenance and evaluation	1.4
Other	(0.8)
Strategic alternatives evaluation process costs	(1.5)
Total increase in operating expenses not including	<u>\$64.6</u>
Repositioning Charge	<u>12.5</u>
Total increase in operating expenses	<u>\$77.1</u>

Intellectual property enforcement and non-patent litigation costs increased \$31.2 million primarily due to costs associated with the USITC actions initiated in second half 2011 and January 2013, the arbitration proceeding related to one of our technology solutions agreements, and various arbitrations with our existing licensees. We recognized \$16.7 million of expense associated with patent sales. Included in this amount was the remaining net book value of patents sold, as well as commissions and legal and accounting services fees paid in conjunction with the sales. Personnel-related costs grew \$6.8 million primarily due to increased personnel levels

and merit increases. Long-term compensation increased \$5.0 million, primarily due to a \$4.4 million charge to increase the accrual rate on our LTCP cycle ended December 31, 2012, and a net \$4.4 million reduction to the accrual rates on our active cycles in 2011. This increase was partially offset by lower accrual rates on the remaining two active cycles under the LTCP in 2012 as compared to 2011. In 2012, we recorded a litigation contingency related to our Huawei China proceedings. Patent amortization increased \$3.1 million due to increases in the number of patent applications filed in recent years and patent acquisitions made during 2012, and was partially offset by decreases in depreciation of \$0.5 million. The increase in patent maintenance and patent evaluation costs was primarily related to due diligence associated with both patent acquisition and patent sale opportunities. Costs associated with our strategic alternatives evaluation process decreased \$1.5 million due to the company exiting the process in first quarter 2012.

Patent administration and licensing expense: The increase in patent administration and licensing expense primarily resulted from the above-noted increases in intellectual property enforcement, cost of patent sales, personnel-related costs, patent amortization and patent maintenance and evaluation.

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

Selling, general and administrative expense: The increase in selling, general and administrative expense was primarily attributable to the above-noted increases in non-patent litigation, personnel-related costs and long-term compensation. These increases were partially offset by the above-noted decrease in costs associated with the strategic alternatives process.

Repositioning expense: As part of our ongoing expense management, we initiated a voluntary early retirement program (“VERP”) in September 2012. Approximately 60 employees elected to participate in the VERP across five locations. We incurred a charge of \$12.5 million in 2012.

Other (Expense) Income

The following table compares 2012 other (expense) income to 2011 other (expense) income (in millions):

	For the Year Ended December 31,		(Decrease)/Increase	
	2012	2011		
Interest expense	\$(14.9)	\$(10.9)	\$(4.0)	37%
Other	(0.2)	(1.8)	1.6	(89)%
Interest and investment income	4.7	2.6	2.1	81%
	<u>\$(10.4)</u>	<u>\$(10.1)</u>	<u>\$(0.3)</u>	<u>3%</u>

The change between periods primarily resulted from the recognition of an additional \$3.7 million of interest expense associated with the Notes, due to the Notes being outstanding for the full year in 2012 compared to only nine months in 2011. This change was partially offset by higher returns on our investment balances in 2012 and a decrease in other expense due to a \$1.6 million charge for investment impairments recorded in 2011.

Income Taxes

In 2012, our effective tax rate was approximately 33.5% based on the statutory federal tax rate net of discrete foreign taxes and a \$6.7 million benefit related to the reversal of a valuation allowance against deferred taxes. During 2011, our effective tax rate was approximately 28.2% based on the statutory federal tax rate net of discrete foreign taxes, a \$6.8 million benefit related to the reversal of a previously accrued liability for tax contingencies and its related interest and \$1.5 million of after-tax interest income related to a tax refund.

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

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include certain information in “Part I, Item 1. Business” and “Part II, Item 7. 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,” “believe,” “could,” “would,” “should,” “if,” “may,” “might,” “future,” “target,” “goal,” “trend,” “seek to,” “will continue,” “predict,” “likely,” “in the event,” variations of any such words or similar expressions contained herein are intended to identify such forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K include, without limitation, statements regarding:

(i) Our objective to continue to be a leading designer and developer of technology solutions and intellectual property for the wireless industry and to monetize those solutions and intellectual property through a combination of licensing, sales and other revenue opportunities;

(ii) Our plans for executing on our business strategy, including our plans to source innovative technologies related to wireless, establish and grow our patent-based revenue, pursue commercial opportunities for our advanced platforms and solutions, and maintain a collaborative relationship with key industry players;

(iii) Our belief that our portfolio includes a number of patents and patent applications that are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards;

(iv) Our belief that companies making, importing, using or selling products compliant with standards covered by our patent portfolio require a license under our patents and will require a license under patents that may issue from our pending patent applications;

(v) Our belief that the size and growth rate of our patent portfolio enable us to sell patent assets that are not essential to our core licensing programs as a sustainable revenue stream, as well as to execute patent swaps that can strengthen our overall portfolio;

(vi) The predicted increases in worldwide mobile device shipments, including shipments of handsets, mobile PCs and tablets, over the next several years;

(vii) The types of licensing arrangements and various royalty structure models that we anticipate using under our future license agreements;

(viii) The possible outcome of audits of our license agreements when underreporting or underpayment is revealed;

(ix) Our belief that our facilities are suitable and adequate for our present purposes and our needs in the near future;

(x) Our intention to appeal the Guangdong Province High Court’s decision regarding the setting of FRAND royalties with respect to InterDigital’s Chinese essential patents to the Supreme People’s Court in Beijing;

(xi) Our plan to continue to pay a quarterly cash dividend on our common stock at the rate set forth in our current dividend policy;

(xii) Our current plans to preserve a significant portion of our cash, cash equivalents and short-term investments to finance our business in the near future;

(xiii) Our belief that we have the ability to obtain additional liquidity through debt and equity financings;

(xiv) Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations and existing stock repurchase and dividend programs in the next twelve months;

(xv) The potential effects of new accounting standards on our financial statements or results of operations;

(xvi) The expected amortization of fixed-fee royalty payments over the next twelve months to reduce our deferred revenue balance;

(xvii) The expected timing, outcome and impact of our various litigation, arbitration and administrative matters; and

(xviii) Our belief that it is more likely than not that the company will successfully sustain its separate company reporting in connection with our New York State audit described in Note 11 to the Consolidated Financial Statements.

Although the forward-looking statements in this Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties. We caution readers that actual results and outcomes could differ materially from those expressed in or anticipated by such forward-looking statements due to a variety of factors, including, without limitation, the following:

(i) unanticipated difficulties or delays related to the further development of our technologies;

(ii) the failure of the markets for our technologies to materialize to the extent or at the rate that we expect;

(iii) changes in the company's plans, strategy or initiatives;

(iv) the challenges related to entering into new and renewed patent license agreements and unanticipated delays, difficulties or acceleration in the negotiation and execution of patent license agreements;

(v) our ability to leverage our strategic relationships and secure new patent license and technology solutions agreements on acceptable terms;

(vi) the impact of current trends in the industry that could result in reductions in and/or caps on royalty rates under new patent license agreements;

(vii) changes in the market share and sales performance of our primary licensees, delays in product shipments of our licensees, delays in the timely receipt and final reviews of quarterly royalty reports from our licensees, delays in payments from our licensees and related matters;

(viii) the timing and/or outcome of our various litigation, arbitration or administrative proceedings, including any awards or judgments relating to such proceedings, additional legal proceedings, changes in the schedules or costs associated with legal proceedings or adverse rulings in such legal proceedings;

(ix) the impact of potential patent legislation, USPTO rule changes and international patent rule changes on our patent prosecution and licensing strategies;

(x) the timing and/or outcome of any state or federal tax examinations or audits, changes in tax laws and the resulting impact on our tax assets and liabilities;

(xi) the effects of any dispositions, acquisitions or other strategic transactions by the company;

(xii) decreased liquidity in the capital markets; and

(xiii) unanticipated increases in the company's cash needs or decreases in available cash.

You should carefully consider these factors as well as the risks and uncertainties outlined in greater detail in Part I, Item 1A, in this Form 10-K before making any investment decision with respect to our common stock. These factors, individually or in the aggregate, may cause our actual results to differ materially from our expected and historical results. You should understand that it is not possible to predict or identify all such factors. In addition, you should not place undue reliance on the forward-looking statements contained herein, which are made only as of the date of this 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Cash Equivalents and Investments

The primary objectives of our investment activities are to preserve principal and maintain liquidity while at the same time capturing a market rate of return. To achieve these objectives, we maintain our portfolio of cash and cash equivalents, and short-term and long-term investments in a variety of securities, including government obligations, corporate bonds and commercial paper.

Interest Rate Risk — We invest our cash in a number of diversified high quality investment-grade fixed and floating rate securities with a fair value of \$698.5 million at December 31, 2013. Our exposure to interest rate risks is not significant due to the short average maturity, quality and diversification of our holdings. We do not hold any derivative, derivative commodity instruments or other similar financial instruments in our portfolio. The risk associated with fluctuating interest rates is generally limited to our investment portfolio. We believe that a hypothetical 10% change in period-end interest rates would not have a significant impact on our results of operations or cash flows.

The following table provides information about our interest-bearing securities that are sensitive to changes in interest rates as of December 31, 2013. The table presents principal cash flows, weighted-average yield at cost and contractual maturity dates. Additionally, we have assumed that these securities are similar enough within the specified categories to aggregate these securities for presentation purposes.

	Interest Rate Sensitivity Principal Amount by Expected Maturity Average Interest Rates (in millions)						
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
Money market and demand							
accounts	\$465.7	\$ —	\$ —	\$ —	\$ —	\$ —	\$465.7
Cash equivalents	\$ 32.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 32.0
Short-term investments	\$189.5	\$5.3	\$4.7	\$0.9	\$ —	\$0.4	\$200.8
Interest rate	0.2%	1.0%	0.6%	2.3%	—%	0.8%	0.1%

Cash and cash equivalents and available-for-sale securities are recorded at fair value.

Bank Liquidity Risk — As of December 31, 2013 we had approximately \$465.7 million in operating accounts and money market funds that are held with domestic and international financial institutions. The majority of these balances are held with domestic financial institutions. While we monitor daily cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be lost or become inaccessible if the underlying financial institutions fail or if they are unable to meet the liquidity requirements of their depositors. Notwithstanding, we have not incurred any losses and have had full access to our operating accounts to date.

Foreign Currency Exchange Rate Risk — We are exposed to risk from fluctuations in currencies, which might change over time as our business practices evolve, that could impact our operating results, liquidity and

financial condition. We operate and invest globally. Adverse movements in currency exchange rates might negatively affect our business due to a number of situations. Currently, our international licensing agreements are typically made in U.S. dollars and are generally not subject to foreign currency exchange rate risk. We do not engage in foreign exchange hedging transactions at this time.

Between 2006 and 2013, we paid approximately \$169.1 million in foreign taxes for which we have claimed foreign tax credits against our U.S. tax obligations. It is possible that as a result of tax treaty procedures, the U.S. government may reach an agreement with the related foreign governments that will result in a partial refund of foreign taxes paid with a related reduction in our foreign tax credits. Due to both foreign currency fluctuations and differences in the interest rate charged by the U.S. government compared to the interest rates, if any, used by the foreign governments, any such agreement could result in interest expense and/or foreign currency gain or loss.

Investment Risk — We are exposed to market risk as it relates to changes in the market value of our short-term and long-term investments in addition to the liquidity and creditworthiness of the underlying issuers of our investments. We hold a diversified investment portfolio, which includes, fixed and floating-rate, investment-grade marketable securities, mortgage and asset-backed securities and U.S. government and other securities. The instruments included in our portfolio meet high credit quality standards, as specified in our investment policy guidelines. This policy also limits our amount of credit exposure to any one issue, issuer and type of instrument. Given that the guidelines of our investment policy prohibit us from investing in anything but highly rated instruments, our investments are not subject to significant fluctuations in fair value due to the volatility of the credit markets and prevailing interest rates for such securities. Our marketable securities, consisting of government obligations, corporate bonds and commercial paper, are classified as available-for-sale with a fair value of \$200.8 million as of December 31, 2013.

Equity Risk — We are exposed to changes in the market-traded price of our common stock as it influences the calculation of earnings per share. In connection with the offering of the Notes, we entered into convertible note hedge transactions with an affiliate of the initial purchaser (the “option counterparty”). We also sold warrants to the option counterparty. These transactions have been accounted for as an adjustment to our shareholders’ equity. The convertible note hedge transactions are expected to reduce the potential equity dilution upon conversion of the Notes. The warrants along with any shares issuable upon conversion of the Notes will have a dilutive effect on our earnings per share to the extent that the average market price of our common stock for a given reporting period exceeds the applicable strike price or conversion price of the warrants or convertible Notes, respectively.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

	<u>PAGE NUMBER</u>
CONSOLIDATED FINANCIAL STATEMENTS:	
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SCHEDULES:	
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All other schedules are omitted because they are either not required or applicable or equivalent information has been included in the financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of InterDigital, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of InterDigital, Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Annual Report on Internal Control Over Financial Reporting" appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 24, 2014

INTERDIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	<u>DECEMBER 31,</u> <u>2013</u>	<u>DECEMBER 31,</u> <u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 497,714	\$ 349,843
Short-term investments	200,737	227,436
Accounts receivable, less allowances of \$1,750	92,830	169,874
Deferred tax assets	26,197	36,997
Prepaid and other current assets	40,036	30,197
Total current assets	<u>857,514</u>	<u>814,347</u>
PROPERTY AND EQUIPMENT, NET	9,535	7,824
PATENTS, NET	206,371	177,557
DEFERRED TAX ASSETS	36,626	30,687
OTHER NON-CURRENT ASSETS	3,137	26,194
	<u>255,669</u>	<u>242,262</u>
TOTAL ASSETS	<u><u>\$1,113,183</u></u>	<u><u>\$1,056,609</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	24,504	9,600
Accrued compensation and related expenses	15,403	20,661
Deferred revenue	60,176	106,305
Taxes payable	7,056	3,960
Dividend payable	4,031	—
Other accrued expenses	15,268	32,387
Total current liabilities	<u>126,438</u>	<u>172,913</u>
LONG-TERM DEBT	208,813	200,391
LONG-TERM DEFERRED REVENUE	243,864	161,820
OTHER LONG-TERM LIABILITIES	248	2,780
TOTAL LIABILITIES	<u>579,363</u>	<u>537,904</u>
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, 69,614 and 69,459 shares issued and 40,288 and 41,050 shares outstanding	696	695
Additional paid-in capital	598,325	579,852
Retained earnings	680,718	659,235
Accumulated other comprehensive income (loss)	(14)	864
	<u>1,279,725</u>	<u>1,240,646</u>
Treasury stock, 29,326 and 28,409 shares of common held at cost	751,075	721,941
Total InterDigital, Inc. shareholders' equity	<u>528,650</u>	<u>518,705</u>
Noncontrolling interest	5,170	—
Total equity	<u>533,820</u>	<u>518,705</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$1,113,183</u></u>	<u><u>\$1,056,609</u></u>

The accompanying notes are an integral part of these statements.

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

	<u>FOR THE YEAR ENDED DECEMBER 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES			
Patent licensing royalties	\$264,174	\$ 276,547	\$295,372
Patent sales	—	384,000	—
Technology solutions	61,187	2,516	6,370
	<u>325,361</u>	<u>663,063</u>	<u>301,742</u>
OPERATING EXPENSES:			
Patent administration and licensing	143,037	126,284	71,736
Development	63,330	67,862	63,763
Selling, general and administrative	32,694	37,351	31,486
Repositioning	1,544	12,536	—
	<u>240,605</u>	<u>244,033</u>	<u>166,985</u>
Income from operations	84,756	419,030	134,757
OTHER EXPENSE (NET)	<u>(23,237)</u>	<u>(10,396)</u>	<u>(10,149)</u>
Income before income taxes	61,519	408,634	124,608
INCOME TAX PROVISION	<u>(25,836)</u>	<u>(136,830)</u>	<u>(35,140)</u>
NET INCOME	<u>\$ 35,683</u>	<u>\$ 271,804</u>	<u>\$ 89,468</u>
Net loss attributable to noncontrolling interest	(2,482)	—	—
NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC.	<u>\$ 38,165</u>	<u>\$ 271,804</u>	<u>\$ 89,468</u>
NET INCOME PER COMMON SHARE — BASIC	<u>\$ 0.93</u>	<u>\$ 6.31</u>	<u>\$ 1.97</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	<u>41,115</u>	<u>43,070</u>	<u>45,411</u>
NET INCOME PER COMMON SHARE — DILUTED	<u>\$ 0.92</u>	<u>\$ 6.26</u>	<u>\$ 1.94</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	<u>41,424</u>	<u>43,396</u>	<u>46,014</u>
CASH DIVIDENDS DECLARED PER COMMON SHARE	<u>\$ 0.40</u>	<u>\$ 1.90</u>	<u>\$ 0.40</u>

The accompanying notes are an integral part of these statements.

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

	<u>For the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income	\$35,683	\$271,804	\$89,468
Unrealized (loss) gain investments, net of tax	(878)	1,303	(550)
Comprehensive income	<u>\$34,805</u>	<u>\$273,107</u>	<u>\$88,918</u>
Comprehensive loss attributable to noncontrolling interest	(2,482)	—	—
Total comprehensive income attributable to InterDigital, Inc.	<u>\$37,287</u>	<u>\$273,107</u>	<u>\$88,918</u>

The accompanying notes are an integral part of these statements.

INTERDIGITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except per share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
BALANCE, DECEMBER 31, 2010	68,602	\$686	\$525,767	\$395,799	\$ 111	23,570	\$(569,247)	\$ —	\$ 353,116
Net income	—	—	—	89,468	—	—	—	—	89,468
Net change in unrealized gain on short-term investments	—	—	—	—	(550)	—	—	—	(550)
Dividends declared	—	—	347	(18,540)	—	—	—	—	(18,193)
Exercise of Common Stock options	333	3	4,494	—	—	—	—	—	4,497
Issuance of Restricted Common Stock, net	183	2	(385)	—	—	—	—	—	(383)
Tax benefit from exercise of stock options	—	—	5,131	—	—	—	—	—	5,131
Amortization of unearned compensation	—	—	8,115	—	—	—	—	—	8,115
Convertible note hedge transactions, net of tax	—	—	(27,519)	—	—	—	—	—	(27,519)
Warrant transactions	—	—	31,740	—	—	—	—	—	31,740
Equity component of the Notes, net of tax	—	—	27,760	—	—	—	—	—	27,760
Deferred financing costs allocated to equity	—	—	(1,500)	—	—	—	—	—	(1,500)
BALANCE, DECEMBER 31, 2011	69,118	\$691	\$573,950	\$466,727	\$ (439)	23,570	\$(569,247)	\$ —	\$ 471,682
Net income	—	—	—	271,804	—	—	—	—	271,804
Net change in unrealized gain on short-term investments	—	—	—	—	1,303	—	—	—	1,303
Dividends Declared	—	—	789	(79,296)	—	—	—	—	(78,507)
Exercise of Common Stock options	132	2	2,109	—	—	—	—	—	2,111
Issuance of Restricted Common Stock, net	209	2	(4,389)	—	—	—	—	—	(4,387)
Tax benefit from exercise of stock options	—	—	898	—	—	—	—	—	898
Amortization of unearned compensation	—	—	6,495	—	—	—	—	—	6,495
Repurchase of Common Stock	—	—	—	—	—	4,839	(152,694)	—	(152,694)
BALANCE, DECEMBER 31, 2012	69,459	\$695	\$579,852	\$659,235	\$ 864	28,409	\$(721,941)	\$ —	\$ 518,705
Net income attributable to InterDigital, Inc.	—	—	—	38,165	—	—	—	—	38,165
Proceeds from noncontrolling interests	—	—	—	—	—	—	—	7,652	7,652
Net (loss) income attributable to noncontrolling interest	—	—	—	—	—	—	—	(2,482)	(2,482)
Net change in unrealized gain on short-term investments	—	—	—	—	(878)	—	—	—	(878)
Dividends Declared	—	—	297	(16,682)	—	—	—	—	(16,385)
Exercise of Common Stock options	49	—	1,032	—	—	—	—	—	1,032
Issuance of Common Stock, net	106	1	(2,459)	—	—	—	—	—	(2,458)
Tax benefit from exercise of stock options	—	—	815	—	—	—	—	—	815
Amortization of unearned compensation	—	—	15,940	—	—	—	—	—	15,940
Repurchase of Common Stock	—	—	—	—	—	917	(29,134)	—	(29,134)
Reclassifications of share-based compensation	—	—	2,848	—	—	—	—	—	2,848
BALANCE, DECEMBER 31, 2013	69,614	\$696	\$598,325	\$680,718	\$ (14)	29,326	\$(751,075)	\$ 5,170	\$ 533,820

The accompanying notes are an integral part of these statements

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

	FOR THE YEAR ENDED DECEMBER 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 35,683	\$ 271,804	\$ 89,468
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	33,385	26,248	23,805
Amortization of deferred financing fees and accretion of debt discount	9,726	9,165	6,544
Deferred revenue recognized	(174,014)	(223,419)	(235,513)
Increase in deferred revenue	209,930	174,604	56,575
Deferred income taxes	4,861	40,416	(1,210)
Share-based compensation	15,940	6,495	8,115
Impairment of long-term investment	21,720	—	1,616
Non-cash cost of patent sales	—	10,654	—
Other	424	90	(238)
(Increase) decrease in assets:			
Receivables	77,044	(141,795)	5,553
Deferred charges and other assets	(9,753)	(21,651)	21,025
Increase (decrease) in liabilities:			
Accounts payable	14,655	2,453	(571)
Accrued compensation and other expenses	(24,522)	21,849	(2,322)
Accrued taxes payable and other tax contingencies	3,096	695	(7,185)
Net cash provided by (used in) operating activities	<u>218,175</u>	<u>177,608</u>	<u>(34,338)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(417,728)	(331,828)	(713,683)
Sales of short-term investments	443,074	442,182	703,538
Purchases of property and equipment	(4,591)	(3,621)	(3,835)
Capitalized patent costs	(34,057)	(28,317)	(27,172)
Acquisition of patents	(25,013)	(15,450)	—
Net cash (used in) provided by investing activities	<u>(38,315)</u>	<u>62,966</u>	<u>(41,152)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from exercise of stock options	1,032	2,111	4,497
Payments on long-term debt, including capital lease obligations	—	(180)	(288)
Proceeds from issuance of convertible senior notes	—	—	230,000
Purchase of convertible bond hedge	—	—	(42,665)
Proceeds from issuance of warrants	—	—	31,740
Payments of debt issuance costs	—	—	(8,015)
Proceeds from non-controlling interests	7,652	—	—
Dividends paid	(12,354)	(83,077)	(18,150)
Tax benefit from share-based compensation	815	898	5,131
Repurchase of common stock	(29,134)	(152,694)	—
Net cash (used in) provided by financing activities	<u>(31,989)</u>	<u>(232,942)</u>	<u>202,250</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	147,871	7,632	126,760
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	349,843	342,211	215,451
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 497,714</u>	<u>\$ 349,843</u>	<u>\$ 342,211</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest Paid	5,750	5,754	2,600
Income taxes paid, including foreign withholding taxes	24,961	116,871	36,593
Non-cash investing and financing activities:			
Dividend payable	4,031	—	4,570
Non-cash acquisition of patents	—	28,900	—
Accrued capitalized patent costs	(452)	(286)	(105)
Accrued purchases of property, plant and equipment	—	—	(4)

The accompanying notes are an integral part of these statements.

INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

1. BACKGROUND

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

Repositioning

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include all of our accounts and all entities which we have a controlling interest, which are required to be consolidated in accordance with the Generally Accepted Accounting Principles in the United States (“GAAP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of an entity and therefore required to consolidate, we apply a qualitative approach that determines whether we have both the power to direct the economically significant activities of the entity and the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. These considerations impact the way we account for our existing collaborative relationships and other arrangements. We continuously assess whether we are the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in us consolidating or deconsolidating our partner(s) to collaborations and other arrangements.

Use of Estimates

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, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. If different assumptions were made or different conditions had existed, our financial results could have been materially different.

Cash and Cash Equivalents

We classify all highly liquid investment securities with original maturities of three months or less at date of purchase as cash equivalents. Our investments are comprised of mutual and exchange traded funds, commercial paper, United States and municipal government obligations and corporate securities. Management determines the appropriate classification of our investments at the time of acquisition and re-evaluates such determination at each balance sheet date.

Cash and cash equivalents at December 31, 2013 and 2012 consisted of the following (in thousands):

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Money market and demand accounts	\$465,722	\$261,899
Commercial paper	31,992	87,944
	<u>\$497,714</u>	<u>\$349,843</u>

Short-Term Investments

At December 31, 2013 and 2012, all marketable securities have been classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported net-of-tax as a separate component of shareholders' equity. None of our marketable securities are deemed impaired as of December 31, 2013, as substantially all of our investments are investment grade government and corporate debt securities that have maturities of less than 3 years, and we have both the ability and intent to hold the investments until maturity. Net unrealized loss on short-term investments was less than \$0.1 million at December 31, 2013. Realized gains and losses for 2013, 2012 and 2011 were as follows (in thousands):

<u>Year</u>	<u>Gains</u>	<u>Losses</u>	<u>Net</u>
2013	\$166	\$(678)	\$(512)
2012	\$ 14	\$(249)	\$(235)
2011	\$ 37	\$(274)	\$(237)

Short-term investments as of December 31, 2013 and 2012 consisted of the following (in thousands):

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Commercial paper	\$160,486	\$ 62,924
U.S. government agency instruments	31,688	50,560
Corporate bonds and asset backed securities	8,563	13,270
Mutual and exchange traded funds	—	100,682
	<u>\$200,737</u>	<u>\$227,436</u>

At December 31, 2013 and 2012, \$189.5 million and \$207.4 million, respectively, of our short-term investments had contractual maturities within one year. The remaining portions of our short-term investments had contractual maturities primarily within two to five years.

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 December 31, 2013, five licensees comprised 96% of our net accounts receivable balance. At December 31, 2012, four licensees represented 96% of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

Fair Value Measurements

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 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 December 31, 2013 and December 31, 2012 (in thousands):

	Fair Value as of December 31, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$467,120</u>	<u>\$231,331</u>	<u>\$—</u>	<u>\$698,451</u>

(a) Included within cash and cash equivalents.

(b) Includes \$32.0 million of commercial paper that is included within cash and cash equivalents.

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

(a) Included within cash and cash equivalents.

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

The carrying amount of long-term debt reported in the consolidated balance sheet as of December 31, 2013 and December 31, 2012 was \$208.8 million and \$200.4 million, respectively. Using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources, we determined the fair value of the Notes (as defined in Note 6, *Obligations*) to be \$234.0 million and \$245.2 million as of December 31, 2013 and December 31, 2012, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are provided using the straight-line method. The estimated useful lives for computer equipment, computer software, engineering and test equipment and furniture and fixtures are generally three to five years. Leasehold improvements are amortized over the lesser of their estimated useful lives or their respective lease terms, which are generally five to ten years. Buildings are being depreciated over twenty-five years. Expenditures for major improvements and betterments are capitalized, while minor repairs and maintenance are charged to expense as incurred. Leases meeting certain capital lease criteria are capitalized and the net present value of the related lease payments is recorded as a liability. Amortization of capital leased assets is recorded using the straight-line method over the lesser of the estimated useful lives or the lease terms.

Upon the retirement or disposition of property, plant and equipment, the related cost and accumulated depreciation or amortization are removed, and a gain or loss is recorded.

Internal-Use Software Costs

We capitalize costs associated with software developed for internal use that are incurred during the software development stage. Such costs are limited to expenses incurred after management authorizes and commits to a computer software project, believes that it is more likely than not that the project will be completed, the software will be used to perform the intended function with an estimated service life of two years or more, and the completion of conceptual formulation, design and testing of possible software project alternatives (the preliminary design stage). Costs incurred after final acceptance testing has been successfully completed are expensed. Capitalized computer software costs are amortized over their estimated useful life of three years.

All computer software costs capitalized to date relate to the purchase, development and implementation of engineering, accounting and other enterprise software.

Other-than-Temporary Impairments

We review our investment portfolio during each reporting period to determine whether there are identified events or circumstances that would indicate there is a decline in the fair value that is considered to be other-than-temporary. For non-public investments, if there are no identified events or circumstances that would have a significant adverse effect on the fair value of the investment, then the fair value is not estimated. If an investment is deemed to have experienced an other-than-temporary decline below its cost basis, we reduce the carrying amount of the investment to its quoted or estimated fair value, as applicable, and establish a new cost basis for the investment. For cost method investments we charge the impairment to *Other (Expense) Income* line of our Consolidated Statements of Income.

Investments in Other Entities

We may make strategic investments in companies that have developed or are developing technologies that are complementary to our business. We account for our investments using either the cost or equity method of accounting. Under the cost method, we do not adjust our investment balance when the investee reports profit or loss but monitor the investment for an other-than-temporary decline in value. On a quarterly basis, we monitor

our investment's financial position and performance to assess whether there are any triggering events or indicators present that would be indicative of an other-than-temporary impairment of our investment. 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. Under the equity method of accounting, we initially record our investment in the stock of an investee at cost, and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee after the date of acquisition. The amount of the adjustment is included in the determination of net income, and such amount reflects adjustments similar to those made in preparing consolidated statements including adjustments to eliminate intercompany gains and losses, and to amortize, if appropriate, any difference between our cost and underlying equity in net assets of the investee at the date of investment. The investment is also adjusted to reflect our share of changes in the investee's capital. Dividends received from an investee reduce the carrying amount of the investment. When there are a series of operating losses by the investee or when other factors indicate that a decrease in value of the investment has occurred which is other than temporary, we recognize an impairment equal to the difference between the fair value and the carrying amount of our investment. The carrying costs of our investments are included within *Other Non-Current Assets* on our Consolidated Balance Sheets.

In September 2009, we entered into a worldwide patent licensing agreement with Pantech Co., Ltd. ("Pantech") (formally known separately as Pantech Co., Ltd. and Pantech & Curitel Communications, Inc.). In exchange for granting Pantech the license, we received cash consideration and a minority equity interest in both Pantech Co., Ltd. and Pantech & Curitel Communications, Inc. Simultaneous with the execution of the patent license agreement, we executed a stock agreement to acquire a minority stake in Pantech using the Korean Won provided by Pantech with no participation at the board level or in management. Given that there are no observable inputs relevant to our investment in Pantech, we assessed pertinent risk factors, and reviewed a third-party valuation that used the discounted cash flow method, and incorporated illiquidity discounts in order to assign a fair market value to our investment. After consideration of the aforementioned factors, we valued our non-controlling equity interest in Pantech at \$21.7 million. Due to the fact that we do not have significant influence over Pantech, we are accounting for this investment using the cost method of accounting. During 2013, we reassessed the carrying value of our investment in Pantech 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 \$21.7 million impairment charge is included in *Other Expense* on our Consolidated Statements of Income.

During 2007, we made a \$5.0 million investment for a non-controlling interest in Kineto Wireless ("Kineto"). Due to the fact that we do not have significant influence over Kineto, we are accounting for this investment using the cost method of accounting. In first quarter 2008, we wrote down this investment by \$0.7 million based on a lower valuation of Kineto. Early in second quarter 2008, we participated in a new round of financing that included several other investors, investing an additional \$0.7 million in Kineto. This second investment both maintained our ownership position and preserved certain liquidation preferences. During 2009, we reassessed our investment in Kineto and concluded that, given their financial position at the time, it was necessary to record an impairment of \$3.9 million, which reduced our carrying amount of our investment in Kineto to approximately \$1.0 million at December 31, 2009. During 2010, we reassessed our investment in Kineto and concluded that there was no evidence of an other-than-temporary impairment. As of December 31, 2010, the carrying amount of our investment in Kineto was \$1.0 million. During 2011, we reassessed our investment in Kineto and concluded that given their financial position at the time, it was necessary to record an impairment of \$1.0 million which reduced the carrying amount of our investment to zero as of December 31, 2011.

On December 17, 2009, we announced a multi-faceted collaboration agreement with Attila Technologies LLC ("Attila"). We will collaborate on the development and marketing of bandwidth aggregation technologies

and related multi-network innovations. In addition, we paid approximately \$0.7 million to acquire a 7% minority stake. No other amounts were paid or are payable to Attila for the period ended December 31, 2009. Certain terms of the agreement afford us the ability to exercise significant influence over Attila; therefore we are accounting for this investment using the equity method of accounting. During 2010, we reassessed our investment in Attila and concluded that there was no evidence of an other-than-temporary impairment. As of December 31, 2010, the carrying amount of our investment in Attila was \$0.7 million. During 2011, we reassessed our investment in Attila and concluded that given their financial position at the time, it was necessary to record an impairment of \$0.7 million which reduced our carrying amount of the investment to zero as of December 31, 2011.

Patents

We capitalize external costs, such as filing fees and associated attorney fees, incurred to obtain issued patents and patent license rights. We expense costs associated with maintaining and defending patents subsequent to their issuance in the period incurred. We amortize capitalized patent costs for internally generated patents on a straight-line basis over 10 years, which represents the estimated useful lives of the patents. The ten year estimated useful life for internally generated patents is based on our assessment of such factors as: the integrated nature of the portfolios being licensed, the overall makeup of the portfolio over time, and the length of license agreements for such patents. The estimated useful lives of acquired patents and patent rights, however, have been and will continue to be based on separate analysis related to each acquisition and may differ from the estimated useful lives of internally generated patents. The average estimated useful life of acquired patents thus far has been 10 years. We assess the potential impairment to all capitalized net patent costs when events or changes in circumstances indicate that the carrying amount of our patent portfolio may not be recoverable.

Patents consisted of the following (in thousands, except for useful life data):

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Weighted average estimated useful life (years)	10.2	10.3
Gross patents	\$ 358,793	\$ 300,174
Accumulated amortization	<u>(152,422)</u>	<u>(122,617)</u>
Patents, net	<u>\$ 206,371</u>	<u>\$ 177,557</u>

Amortization expense related to capitalized patent costs was \$29.8 million, \$22.7 million and \$19.6 million in 2013, 2012 and 2011, respectively. These amounts are recorded within *Patent administration and licensing* line of our Consolidated Statements of Income.

The estimated aggregate amortization expense for the next five years related to our patents balance as of December 31, 2013 is as follows (in thousands):

2014	\$32,350
2015	31,519
2016	30,094
2017	27,460
2018	22,766

Intangible Assets

We capitalize the cost of technology solutions and platforms we acquire or license from third parties when they have a future benefit and the development of these solutions and platforms is substantially complete at the time they are acquired or licensed.

Revenue Recognition

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

We establish a receivable for payments expected to be received within twelve months from the balance sheet date based on the terms in the license. Our reporting of such payments often results in an increase to both accounts receivable and deferred revenue. Deferred revenue associated with fixed-fee royalty payments is classified on the balance sheet as short-term when it is scheduled to be amortized within twelve months from the balance sheet date. All other deferred revenue is classified as long term, as amounts to be recognized over the next twelve months are not known.

Patent License Agreements

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

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

Fixed-Fee Royalty Payments: These are up-front, non-refundable royalty payments that fulfill the licensee’s obligations to us under a patent license agreement for a specified time period or for the term of the agreement for specified products, under certain patents or patent claims, for sales in certain countries, or a

combination thereof — in each case for a specified time period (including for the life of the patents licensed under the agreement). We recognize revenues related to Fixed-Fee Royalty Payments on a straight-line basis over the effective term of the license. We utilize the straight-line method because we cannot reliably predict in which periods, within the term of a license, the licensee will benefit from the use of our patented inventions.

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

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

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

The exhaustion of Prepayments and Current Royalty Payments are often calculated based on related per-unit sales of covered products. From time to time, licensees will not report revenues in the proper period, most often due to legal disputes. When this occurs, the timing and comparability of royalty revenue could be affected.

In cases where we receive objective, verifiable evidence that a licensee has discontinued sales of products covered under a patent license agreement with us, we recognize any related deferred revenue balance in the period that we receive such evidence.

Patent Sales

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

Technology Solutions and Engineering Services

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

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

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

Deferred Charges

From time to time, we use sales agents to assist us in our licensing activities. In such cases, we may pay a commission. The commission rate varies from agreement to agreement. Commissions are normally paid shortly after our receipt of cash payments associated with the patent license agreements. We defer recognition of commission expense related to both prepayments and fixed-fee royalty payments and amortize these expenses in proportion to our recognition of the related revenue. In 2013, 2012 and 2011, we paid cash commissions of less than \$0.1 million, \$4.7 million and \$0.1 million, respectively.

Incremental direct costs incurred related to acquisition or origination of a customer contract in a transaction that results in the deferral of revenue may be either expensed as incurred or capitalized. The only eligible costs for deferral are those costs directly related to a particular revenue arrangement. We capitalize those direct costs incurred for the acquisition of a contract through the date of signing, and amortize them on a straight-line basis over the life of the patent license agreement. We paid approximately \$0.6 million of direct contract origination costs in 2009 in relation to our patent licensing agreement with Pantech. There were no direct contract origination costs incurred during 2013, 2012, or 2011.

Incremental direct costs incurred related to a debt financing transaction may be capitalized. In connection with our Notes offering, discussed in detail within Note 6, *Obligations*, the company incurred \$8.0 million of directly related costs in 2011. 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. There were no debt issuance costs incurred in 2013 or 2012.

Deferred charges are recorded in our Consolidated Balance Sheets within the following captions (in thousands):

	December 31,	
	2013	2012
Prepaid and other current assets		
Deferred commission expense	\$ 290	\$ 289
Deferred contract origination costs	79	79
Deferred financing costs	1,303	1,303
Other non-current assets		
Deferred commission expense	750	1,061
Deferred contract origination costs	158	237
Deferred financing costs	1,629	2,932

Commission expense was approximately \$0.3 million, \$5.0 million and \$0.4 million in 2013, 2012 and 2011, respectively. Commission expense is included within the *Patent administration and licensing* line of our Consolidated Statements of Income. Deferred contract origination expense recognized in 2013, 2012 and 2011 was less than \$0.1 million in each period and is included within the *Patent administration and licensing* line of our Consolidated Statements of Income. Deferred financing expense was \$1.3 million in 2013, \$1.3 million in 2012, and \$1.0 million in 2011. Deferred financing expense is included within the *Other (Expense) Income* line of our Consolidated Statements of Income.

Research and Development

Research and development expenditures are expensed in the period incurred, except certain software development costs which are capitalized between the point in time that technological feasibility of the software is established and when the product is available for general release to customers. We did not have any such capitalized software costs in any period presented. Research, development and other related costs were approximately \$63.3 million, \$67.9 million and \$63.8 million in 2013, 2012 and 2011, respectively.

Compensation Programs

We account for compensation costs associated with share-based transactions based on the fair value of the instruments issued, net of any estimated award forfeitures. At December 31, 2013, 2012 and 2011, we have estimated the forfeiture rates for outstanding RSUs to be between 0% and 25% over their lives of one to three years, depending upon the type of grant and the specific terms of the award issued.

In 2006, we adopted the short-cut method to establish the historical additional paid-in-capital pool (“APIC Pool”) related to the tax effects of employee share-based compensation. Any positive balance would be available to absorb tax shortfalls (which occur when the tax deductions resulting from share-based compensation are less than the related book expense) recognized subsequent to the adoption of the stock-based compensation guidance. We did not incur any net tax shortfalls in 2013, 2012, or 2011.

In all periods, our policy has been to set the value of RSU and restricted stock awards equal to the value of our underlying common stock on the date of measurement. For grants with graded vesting, we amortize the associated unrecognized compensation cost using an accelerated method. For grants made that cliff vest, we expect to amortize the associated unrecognized compensation cost at December 31, 2013 on a straight-line basis over a three-year period.

Impairment of Long-Lived Assets

We evaluate long-lived and intangible assets for impairment when factors indicate that the carrying value of an asset may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, we review whether we will be able to realize our long-lived assets by analyzing the projected undiscounted cash flows in measuring whether the asset is recoverable. We did not have any long-lived asset impairments in 2013, 2012 or 2011.

Income Taxes

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

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

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

During fourth quarter 2009, we completed a study to assess the company’s ability to utilize foreign tax credit carryovers into the tax year 2006. As a result of the study, we amended our United States federal income tax returns for the periods 1999 — 2005 to reclassify \$29.3 million of foreign tax payments we made during those periods from deductions to foreign tax credits. We also amended our federal tax returns for the periods 2006 — 2008 to utilize the resulting tax credits. When we completed the study, we established a basis to support amending the returns and estimated that the maximum incremental benefit would be \$19.1 million. We recognized a net benefit of \$16.4 million after establishing a \$2.7 million reserve for related tax contingencies. In 2011, we recorded an additional tax benefit of \$8.3 million to eliminate this and other tax contingencies and recognize interest income on the associated refund.

Between 2006 and 2013, we paid approximately \$169.1 million in foreign taxes for which we have claimed foreign tax credits against our U.S. tax obligations. It is possible that as a result of tax treaty procedures, the U.S. government may reach an agreement with the related foreign governments that will result in a partial refund of foreign taxes paid with a related reduction in our foreign tax credits. Due to both foreign currency fluctuations and differences in the interest rate charged by the U.S. government compared to the interest rates, if any, used by the foreign governments, any such agreement could result in interest expense and/or foreign currency gain or loss.

Net Income Per Common 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 table reconciles the numerator and the denominator of the basic and diluted net income per share computation (in thousands, except for per share data):

	For the Year Ended December 31,					
	2013		2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator:						
Net income applicable to common shareholders	\$38,165	\$38,165	\$271,804	\$271,804	\$89,468	\$89,468
Denominator:						
Weighted-average shares outstanding: Basic ..	<u>41,115</u>	41,115	<u>43,070</u>	43,070	<u>45,411</u>	45,411
Dilutive effect of stock options, RSUs and convertible securities		<u>309</u>		<u>326</u>		<u>603</u>
Weighted-average shares outstanding:						
Diluted		<u>41,424</u>		<u>43,396</u>		<u>46,014</u>
Earnings Per Share:						
Net income: Basic	<u>\$ 0.93</u>	0.93	<u>\$ 6.31</u>	6.31	<u>\$ 1.97</u>	1.97
Dilutive effect of stock options, RSUs and convertible securities		<u>(0.01)</u>		<u>(0.05)</u>		<u>(0.03)</u>
Net income: Diluted		<u>\$ 0.92</u>		<u>\$ 6.26</u>		<u>\$ 1.94</u>

For the years ended December 31, 2013, 2012 and 2011, options to purchase 0.1 million, zero and zero shares of common stock, respectively, were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

For the years ended December 31, 2013, 2012 and 2011, 4.0 million, 4.0 million and 3.9 million shares of common stock issuable under convertible securities were excluded from the computation of diluted EPS because their effect would have been anti-dilutive. For each of the years ended December 31, 2013, 2012 and 2011, 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.

New Accounting Guidance

Accounting Standards Updates: Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued amendments to guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The amendments require entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013; however, early adoption is permitted. We do not expect this guidance to have a material impact on our results of operations or financial position.

3. SIGNIFICANT EVENTS

Huawei Settlement Agreement

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing dispute. The agreement is based on an expedited process leading to a license on terms set by the arbitration panel, with the arbitration process expected to be complete in 2014 or early 2015.

Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties, including the two USITC investigations and related U.S. district court proceedings as they relate to Huawei, and including withdrawal by Huawei of its various antitrust complaints, but excluding the action filed by Huawei in China to set a FRAND rate for the licensing of InterDigital's Chinese standards-essential patents. The terms of the settlement agreement permit InterDigital to further appeal, through a petition for retrial in the Chinese Supreme People's Court, this Chinese court decision relating to InterDigital's Chinese standards-essential patents.

Pegatron and Apple Arbitration Awards

In 2007, we entered into a worldwide, non-transferable, non-exclusive, fixed-fee royalty-bearing patent license agreement with Apple (the "2007 Apple PLA"). In 2008, we entered into a patent license agreement with Pegatron (the "2008 Pegatron PLA") that covers Pegatron and its affiliates. Under the terms of the 2008 Pegatron PLA, we granted Pegatron a non-exclusive, non-transferable, worldwide royalty-bearing license covering the sale of certain products designed to operate in accordance with 2G and 3G wireless standards.

In second quarter and fourth quarter 2013, we received arbitration awards in separate proceedings we initiated against Pegatron and Apple, respectively. Taken together, these arbitration awards clarified that Pegatron owes us royalties on certain products it produces for Apple. The Pegatron arbitration award confirmed that, to the extent that Pegatron manufactures products for Apple that are not licensed under the 2007 Apple PLA, those products are covered by the 2008 Pegatron PLA and are royalty bearing under that agreement. The Apple arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. As a result of these two arbitration awards, we recognized \$96.1 million of revenue associated with sales of Apple products under the 2008 Pegatron PLA in 2013, \$71.4 million of which was recognized as past patent royalties revenue and \$24.7 million of which was recognized as per-unit royalties.

Technology Solutions Agreement Arbitration Award

We were engaged in an arbitration relating to a contractual dispute concerning the scope of royalty obligations and the scope of the licenses granted under our technology solutions agreement with Intel Mobile Communications GmbH. The arbitration hearing took place in late June 2012, and the arbitration award was issued on August 13, 2013. As a result of the award, in third quarter 2013, we recognized related revenue of \$51.6 million that had been deferred pending the resolution of the arbitration.

4. GEOGRAPHIC / CUSTOMER CONCENTRATION

We have one reportable segment. During 2013, the majority of our revenue was derived from a limited number of licensees based outside of the United States, primarily in Asia. These revenues were paid in U.S. dollars and were not subject to any substantial foreign exchange transaction risk. The table below lists the countries of the headquarters of our licensees and customers and the total revenue derived from each country or region for the periods indicated (in thousands):

	<u>For the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Taiwan	128,551	40,394	43,993
United States	108,728	406,950	13,719
Canada	36,148	40,667	54,728
Japan	27,494	39,558	61,594
Korea	15,334	118,078	118,078
Germany	4,539	3,470	5,439
Other Europe	3,004	4,700	3,461
China	1,563	9,246	688
Other Asia	—	—	42
Total	<u>\$325,361</u>	<u>\$663,063</u>	<u>\$301,742</u>

During 2013, 2012 and 2011, the following licensees or customers accounted for 10% or more of total revenues:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Pegatron Corporation(a)	30%	< 10%	< 10%
Intel Mobile Communications GmbH(b)	18%	< 10%	< 10%
Sony Corporation of America	12%	< 10%	—%
BlackBerry Limited	< 10%	< 10%	14%
HTC Corporation	< 10%	< 10%	11%
Samsung Electronics Company, Ltd.	—%	15%	34%
Intel Corporation	—%	57%	—%

(a) 2013 revenues include \$71.4 million of past patent royalties.

(b) 2013 revenues include \$53.3 million of past technology solutions revenue.

At December 31, 2013, 2012 and 2011, we held \$215.9 million, \$185.4 million and \$146.0 million, respectively, or nearly 100% in each year, of our property and equipment and patents in the United States net of accumulated depreciation and amortization. At each of December 31, 2013, 2012 and 2011, we also held less than \$0.1 million of property and equipment, net of accumulated depreciation, in Canada. During 2013, we opened a small office in the United Kingdom and held less than \$0.1 million of property and equipment, net of accumulated depreciation, in the United Kingdom at December 31, 2013.

5. PROPERTY AND EQUIPMENT

	December 31,	
	2013	2012
Computer equipment and software	\$ 25,368	\$ 28,143
Engineering and test equipment	11,631	11,604
Building and improvements	7,902	7,800
Leasehold improvements	6,477	4,655
Furniture and fixtures	1,166	1,578
Land	695	695
Property and equipment, gross	<u>53,239</u>	<u>54,475</u>
Less: accumulated depreciation	<u>(43,704)</u>	<u>(46,651)</u>
Property and equipment, net	<u>\$ 9,535</u>	<u>\$ 7,824</u>

Depreciation expense was \$3.6 million, \$3.6 million and \$4.2 million in 2013, 2012 and 2011, respectively. Depreciation expense included depreciation of computer software costs of \$1.0 million, \$1.0 million and \$1.2 million in 2013, 2012 and 2011, respectively. Accumulated depreciation related to computer software costs was \$12.7 million and \$15.7 million at December 31, 2013 and 2012, respectively. The net book value of our computer software was \$2.5 million and \$1.7 million at December 31, 2013 and 2012, respectively.

6. OBLIGATIONS

	December 31,	
	2013	2012
2.50% Senior Convertible Notes due 2016	\$230,000	\$230,000
Unamortized interest discount	<u>(21,187)</u>	<u>(29,609)</u>
Total debt obligations	208,813	200,391
Less: Current portion	<u>—</u>	<u>—</u>
Long-term debt obligations	<u>\$208,813</u>	<u>\$200,391</u>

There were no capital leases remaining at December 31, 2013 and December 31, 2012.

Maturities of principal of the long-term debt obligations of the company as of December 31, 2013 are as follows (in thousands):

2014	\$ —
2015	—
2016	230,000
2017	—
2018	—
Thereafter	<u>—</u>
	<u>\$230,000</u>

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, commencing September 15, 2011. 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 dividend paid 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 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 provision was exercised on March 30, 2011, the March 29 convertible note hedge and warrant contracts were reclassified to equity, as the settlement terms of the company's note hedge and warrant contracts both provide for net share settlement. There was no material net change in the value of these convertible note hedges and warrants during the one day they were classified as derivatives and the equity components of these instruments will not be adjusted for subsequent changes in fair value.

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

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

The following table presents the amount of interest cost recognized for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 related to the contractual interest coupon, accretion of the debt discount and the amortization of financing costs (in thousands).

	<u>For the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractual coupon interest	\$ 5,750	\$ 5,750	\$ 4,313
Accretion of debt discount	8,423	7,862	5,567
Amortization of financing costs	1,303	1,303	977
Total	<u>\$15,476</u>	<u>\$14,915</u>	<u>\$10,857</u>

7. COMMITMENTS

Leases

We have entered into various operating lease agreements. Total rent expense, primarily for office space, was \$3.3 million, \$3.4 million and \$3.4 million in 2013, 2012 and 2011, respectively. Minimum future rental payments for operating leases as of December 31, 2013 are as follows (in thousands):

2014	\$2,700
2015	2,437
2016	2,301
2017	2,193
2018	2,047
Thereafter	4,719

8. LITIGATION AND LEGAL PROCEEDINGS

Samsung, Nokia, Huawei 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 are now 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 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 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, which, if denied, would ensure that InterDigital would be permitted to appeal the order to the Federal Circuit. That petition for review remains pending before the USITC.

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, 2014. 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, 2014, 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, which, if denied, would ensure that InterDigital would be permitted to appeal the order to the Federal Circuit. That petition for review remains pending before the USITC.

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 it would not support the motion in the form of a motion to terminate. Samsung withdrew the motion to terminate and, on January 9, 2014, Samsung moved for partial summary determination of no violation of Section 337 as to the ’970 Patent in view of the USITC’s determination in the 337-TA-800 investigation that the asserted claims of the ’970 patent are not valid. On January 10, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission’s final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the ’970 Patent. On January 15, 2014, the ALJ issued an initial determination finding that the ALJ is bound by the Commission’s determination in the 337-TA-800 investigation and granting Samsung’s motion. On January 27, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the ’970 Patent, and on February 11, 2014, the USITC denied this petition. InterDigital is now permitted to appeal the order terminating the 337-TA-868 investigation to the Federal Circuit.

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing dispute. The agreement is based on an expedited process leading to a license on terms set by the arbitration panel, with the arbitration process expected to be complete in 2014 or early 2015. 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.

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

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

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. The court has not yet ruled on InterDigital's motion.

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 FRAND-related counterclaims.

Huawei Complaint to European Commission

On May 23, 2012, Huawei lodged a complaint with the European Commission alleging that InterDigital was acting in breach of Article 102 of the Treaty on the Functioning of the European Union (the "TFEU"). Huawei alleged that InterDigital has a dominant position with respect to the alleged market for the licensing of its 3G standards-essential patents. Huawei further alleged that InterDigital was acting in abuse of its alleged dominant position by allegedly seeking to force Huawei to agree to unfair purchase or selling prices and in applying dissimilar conditions to equivalent transactions contrary to Article 102 of the TFEU. The European Commission had not yet indicated whether or not it would initiate proceedings against InterDigital as a result of the complaint and, in January 2014, as a result of the confidential settlement agreement mentioned above, Huawei contacted the European Commission and requested the withdrawal of the complaint.

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People's Court in China on December 5, 2011. The first complaint names as

defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.). This first complaint alleges that InterDigital had a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. Huawei sought relief in the amount of 20.0 million RMB (approximately 3.2 million USD based on the 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 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 intends to appeal the Guangdong Province High Court's decision regarding the setting of FRAND royalties with respect to InterDigital's Chinese essential patents to the Supreme People's Court in Beijing.

InterDigital learned that Huawei filed earlier 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.

Investigation by National Development and Reform Commission of China

On September 23, 2013, counsel for InterDigital was informed by China's National Development and Reform Commission ("NDRC") that the NDRC had initiated a formal investigation into whether InterDigital has violated China's Anti-Monopoly Law with respect to practices related to the licensing of InterDigital's standards-essential patents to Chinese companies. Companies found to violate the Anti-Monopoly Law may be subject to a cease and desist order, fines, and disgorgement of any illegal gains. The Company continues to cooperate with the NDRC's investigation and, on February 10, 2014, submitted a proposed commitments request to NDRC that could form the predicate for suspension of NDRC's investigation under a procedure provided for under the Anti-Monopoly Law.

Nokia, Huawei 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 United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). On September 14, 2012, the Federal Circuit granted LG's motion

to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing *en banc*. 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. Responses to LG's petition are due on March 19, 2014. 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, '406, and '332 patents are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues.

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

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

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

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

The ALJ held an evidentiary hearing from February 12-21, 2013. The parties submitted initial post-hearing briefs on March 8, 2013 and reply post-hearing briefs on March 22, 2013. The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Specifically, the ALJ found infringement with respect to claims 1-9 of the '970 patent, but not as to the other asserted claims of the '970 patent, or any of the other asserted patents. In addition, the ALJ found that the asserted claims of the '970 patent, U.S. Patent No. 7,536,013, and U.S. Patent No. 7,970,127 were invalid in light of the prior art. The ALJ further found that InterDigital had established a licensing-based domestic industry. With respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is

not precluded from seeking injunctive relief based on any alleged FRAND commitments. Further, the ALJ found that the 337-TA-800 Respondents had not shown that they are licensed under the asserted patents. On July 10, 2013, the ALJ issued a Recommended Determination on Remedy, concluding that if a violation is found by the Commission, the ALJ recommends the issuance of a Limited Exclusion Order as to all 337-TA-800 Respondents, and cease and desist orders as to 337-TA-800 Respondents Nokia and Huawei.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that InterDigital's U.S. Patent No. 7,706,830, U.S. Patent No. 8,009,636, U.S. Patent No. 7,502,406 and U.S. Patent No. 7,706,332 were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of "Articles protected by the patent." Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the Commission to issue its Final Determination, in view of the federal government shutdown, from November 13, 2013 to December 19, 2013.

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

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. 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 ALJ 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. Samsung's motion remains pending.

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.

LG Arbitration

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

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.

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

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

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

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

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

Commission determined to review the claim construction of the patent claim terms “synchronize” and “access signal” and also determined to review the ALJ’s validity determinations. On review, the Commission modified the ALJ’s claim construction of “access signal” and took no position with regard to the claim term “synchronize” or the validity determinations. The Commission determined not to review the remaining issues decided in the Initial Determination.

On November 30, 2009, InterDigital filed with the Federal Circuit a petition for review of certain rulings by the USITC. In the appeal, neither the construction of the term “synchronize” nor the issue of validity can be raised because the Commission took no position on these issues in its Final Determination. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Federal Circuit on January 4, 2010. In its appeal, InterDigital seeks reversal of the Commission’s claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the Commission’s determination of no Section 337 violation and a remand for further proceedings before the Commission. InterDigital is not appealing the Commission’s determination of non-infringement with respect to U.S. Patent Nos. 6,973,579 and 7,117,004. On August 1, 2012, the Federal Circuit issued its decision in the appeal, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission’s finding of non-infringement. The Federal Circuit adopted InterDigital’s interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia’s argument that InterDigital did not satisfy the domestic industry requirement. On September 17, 2012, Nokia filed a combined petition for rehearing by the panel or en banc with the Federal Circuit. On January 10, 2013, the Federal Circuit denied Nokia’s petition.

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

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

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

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

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

- take additional briefing and make findings on whether the accused Nokia handsets meet the “generated using a same code” limitation or “the message being transmitted only subsequent to the subscriber unit receiving the indication” limitation in the asserted claims of the ‘966 patent, and whether the accused Nokia handsets meet the “generated using a same code” limitation or the “function of a same code” limitation in the asserted claims of the ‘847 patent;
- take additional briefing and make findings on whether the 3GPP standard supports a finding that the pilot signal (P-CPICH) satisfies the claim limitation “synchronized to a pilot signal” as recited in the asserted claims of the ‘847 patent by synchronizing to either the P-SCH or S-SCH signals under the Commission’s construction of that claim limitation, as well as, regarding the asserted claims of the ‘847 patent, whether the PRACH Message is transmitted during the power ramp up process; and
- take evidence and/or briefing and make findings regarding (i) whether Nokia’s currently imported products infringe the asserted patents; (ii) whether the chips in the currently imported products are licensed; (iii) whether the issue of the standard-essential nature of the ‘847 and ‘966 patents is contested; (iv) whether there is “patent hold-up” or “reverse patent hold-up”; and (v) the statutory public interest factors.

The ALJ requested the parties submit by February 24, 2014 briefing regarding their respective positions, including proposed procedural schedules, for the limited proceedings they respectively contend are necessary in view of the Commission’s order 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.

Nokia Delaware Proceeding

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

On December 10, 2007, pursuant to a joint request by the parties, the Delaware District Court entered an order staying the proceedings pending the full and final resolution of USITC Proceeding (337-TA-613). Specifically, the full and final resolution of USITC Proceeding (337-TA-613) includes any initial or final determinations of the ALJ overseeing the proceeding, the USITC and any appeals therefrom and any remand proceedings thereafter. Pursuant to the order, the parties and their affiliates are generally prohibited from

initiating against the other parties, in any forum, any claims or counterclaims that are the same as the claims and counterclaims pending in the Nokia Delaware Proceeding, and should any of the same or similar claims or counterclaims be initiated by a party, the other parties may seek dissolution of the stay.

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

Nokia Arbitration Concerning Presentations

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

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

Other

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.

Technology Solutions Agreement Arbitration Award

Our wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.) and InterDigital Technology Corporation were engaged in an arbitration relating to a contractual dispute concerning the scope of royalty obligations and the scope of the licenses granted under one of our technology solutions agreements. The arbitration hearing took place in late June 2012, and the arbitration award was issued on August 13, 2013. As a result of the award, in third quarter 2013 InterDigital recognized related revenue of \$51.6 million that had been deferred pending the resolution of the arbitration.

Pegatron Arbitration Award

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

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

Arbitration with Apple Inc. Regarding Scope of 2007 Patent License Agreement

On October 10, 2013, a three-member tribunal constituted by the American Arbitration Association's International Centre for Dispute Resolution issued an arbitration award in a proceeding initiated by our wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. to resolve a dispute surrounding our 2007 patent license agreement with Apple Inc. (the "Apple PLA"). The arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. On October 30, 2013, InterDigital Technology Corporation and IPR Licensing, Inc. filed a petition to confirm the arbitration award in the United States District Court for the Northern District of California. On December 11, 2013, Apple responded to InterDigital's petition to confirm the award, stating that it did not oppose confirmation of the award, and on December 17, 2013, InterDigital filed a reply in support of its petition to confirm the arbitration award. A hearing is scheduled on InterDigital's petition for April 4, 2014.

9. RELATED PARTY TRANSACTIONS

On December 17, 2009, we announced a multi-faceted collaboration agreement with Attila, a company in which we have a direct investment. Under the agreement, we collaborate on the development and marketing of bandwidth aggregation technologies and related multi-network innovations. In addition, we paid approximately \$0.7 million in 2009 to acquire a 7% minority stake in Attila. In 2013, 2012 and 2011, we paid zero, zero and \$0.4 million, respectively, to Attila in relation to the collaboration agreement previously discussed.

In February 2013, we entered into an R&D collaboration agreement with BIO-key International, Inc. ("BIO-key"), and made a direct investment in the company. The R&D collaboration will target advanced Cloud security and identity and access management solutions for the mobile market. As part of the agreement, we acquired approximately 4.0 million shares of BIO-key which were initially valued at \$0.5 million. In 2013, we paid less than \$0.1 million to BIO-key in relation to the collaboration agreement previously discussed.

On September 17, 2013, InterDigital announced that it had entered into a development agreement with a wholly owned subsidiary of DDD Group plc ("DDD") regarding its next generation HD and UHD video processing technologies. Under the terms of the development agreement, DDD and InterDigital will collaborate to combine DDD's new image processing techniques with InterDigital's user adaptive video streaming technology to explore the feasibility of the combined solution for applications in streaming video to mobile devices and Smart TVs. As part of the agreement, we acquired approximately 7.0 million shares of DDD which were initially valued at \$0.9 million. In 2013, we paid zero to DDD in relation to the development agreement previously discussed.

10. COMPENSATION PLANS AND PROGRAMS

Stock Plans

On June 4, 2009, the company's shareholders adopted and approved the 2009 Stock Incentive Plan (the "2009 Plan"), under which current or prospective officers and employees and non-employee directors, consultants and advisors can receive share-based awards such as RSUs, restricted stock, stock options and other stock awards. As of this date, no further grants were permitted under any previously existing stock plans (the "Pre-existing Plans"). We issue the share-based awards authorized under the 2009 Plan through a variety of compensation programs.

The following table summarizes changes in the number of equity instruments available for grant (in thousands) under the 2009 Plan for the current year:

	<u>Available for Grant</u>
Balance at December 31, 2012	3,427
RSUs granted(a)	(1,458)
Options granted	(86)
Options expired and RSUs canceled	<u>122</u>
Balance at December 31, 2013	<u><u>2,005</u></u>

(a) RSUs granted include time-based RSUs, performance-based RSUs and dividend equivalents.

Stock Options

We have outstanding non-qualified stock options that were granted under the Pre-existing Plans to non-employee directors, officers and employees of the company and other specified groups, depending on the plan. No further grants are allowed under the Pre-existing Plans. In 2009, our shareholders approved the 2009 Plan, which allows for the granting of incentive and non-qualified stock options, as well as other securities. The 2009 Plan authorizes the issuance of up to approximately 3.0 million shares of common stock. The administrator of the 2009 Plan, initially the Compensation Committee of the Board of Directors, determines the number of options to be granted. In 2013, both incentive and non-qualified stock options were granted pursuant to the Long-Term Compensation Program (“LTCP”) under the 2009 Plan. Under the terms of the 2009 Plan, the exercise price per share of each option, other than in the event of options granted in connection with a merger or other acquisition, cannot be less than 100% of the fair market value of a share of common stock on the date of grant. Under all of the plans, options are generally exercisable for a period of between 7 to 10 years from the date of grant and may vest on the grant date, another specified date or over a period of time.

Information with respect to current year stock option activity under the above plans is summarized as follows (in thousands, except per share amounts):

	<u>Outstanding Options</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2012	210	\$13.39
Granted	86	44.24
Canceled	(2)	19.61
Exercised	<u>(49)</u>	<u>21.11</u>
Balance at December 31, 2013	<u><u>245</u></u>	<u><u>\$22.61</u></u>

The weighted average remaining contractual life of our outstanding options was 19.3 years as of December 31, 2013. We currently have approximately 0.1 million options outstanding that have an indefinite contractual life. These options were granted between 1983 and 1986 under a Pre-existing Plan. For purposes of calculating the weighted average remaining contractual life, these options were assigned an original life in excess of 50 years. The majority of these options have an exercise price between \$8.25 and \$11.63. The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$1.0 million, \$2.8 million and \$12.1 million, respectively. The total intrinsic value of our options outstanding at December 31, 2013 was \$3.0 million. In 2013, we recorded cash received from the exercise of options of \$1.0 million and tax benefits from option exercises and RSU vestings of \$0.8 million. Upon option exercise, we issued new shares of stock.

At both December 31, 2013 and 2012, we had approximately 0.2 million options outstanding that had exercise prices less than the fair market value of our stock at each balance sheet date. These options would have generated cash proceeds to the company of \$1.7 million and \$2.8 million, respectively, if they had been fully exercised on those dates.

RSUs and Restricted Stock

Under the 2009 Plan, we may issue up to approximately 3.0 million RSUs and/or shares of restricted stock to current or prospective officers and employees and non-employee directors, consultants and advisors. No further grants are allowed under the Pre-existing Plans. Any cancellations of outstanding RSUs that were granted under the 2009 Plan or Pre-existing Plans will increase the number of RSUs and/or shares of restricted stock available for grant under the 2009 Plan. The RSUs vest over periods generally ranging from 0 to 3 years from the date of the grant. During 2013 and 2012, we granted approximately 0.9 million and 0.2 million RSUs, respectively, under the 2009 Plan. We have issued less than 0.1 million shares of restricted stock under the 2009 Plan.

At December 31, 2013 and 2012, we had unrecognized compensation cost related to share-based awards of \$11.2 million and \$6.1 million, respectively. For grants made prior to 2010 with graded vesting, we amortize the unrecognized compensation cost at December 31, 2013 over a weighted average period of less than one year using an accelerated method. For grants made in 2013, 2012 and 2011 that cliff vest, we expect to amortize the associated unrecognized compensation cost at December 31, 2013 on a straight-line basis over a three-year period.

We grant RSUs as an element of compensation to all of our employees under the LTCP.

Under all LTCP cycles that began after 2009, all time-based RSU awards vest at the end of the respective three-year LTCP cycle. Under the LTCP cycles that began between 2010 and 2012, for employees below manager level, 100% of their LTCP award is in the form of time-based RSUs, and for all employees at or above the manager level, 25% of their total LTCP award is in the form of time-based RSUs and the remaining 75% in the form of a performance-based award that is paid out at the end of the respective three-year cycle in cash, equity or any combination thereof pursuant to the Long-Term Incentive Plan (“LTIP”) component of the LTCP. Where the LTIP allocation has not been determined at the beginning of the cycle, as in the case of Cycles 5, 6, and 7 (as defined below), the allocation was assumed to be 100% cash for accounting purposes. In January 2013, subsequent to the start of Cycles 6 and 7, it was determined that the LTIP component of such cycles would be paid out in equity and, therefore, performance-based RSUs were granted on January 18, 2013. The terms of the current LTCP are discussed further below.

For LTCP cycles that began prior to 2010, RSU awards vested over three years according to the following schedules:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Time-Based Awards			
- Employees below manager level (represents 100% of the total award)	33%	33%	34%
- Managers and technical equivalents (represents 75% of the total award)	33%	33%	34%
- Senior Officers (represents 50% of the total award)	—%	—%	100%
Performance-Based Awards			
- Managers and technical equivalents (remaining 25% of the total award)	—%	—%	100%
- Senior officers (remaining 50% of the total award)	—%	—%	100%

Vesting of performance-based RSU awards is subject to attainment of specific goals established by the Compensation Committee of the Board of Directors. Depending upon performance against these goals, the payout range for performance-based RSU awards under LTCP cycles that began prior to 2010 could have been anywhere from 0 to 3 times the value of the award. For cycles that began after 2009, the payout range for performance-based RSU awards can be anywhere from 0 to 2 times the value of the award.

Information with respect to current RSU activity is summarized as follows (in thousands, except per share amounts):

	Number of Unvested RSUs	Weighted Average Per Share Grant Date Fair Value
Balance at December 31, 2012	253	\$38.09
Granted*	604	44.10
Forfeited*	(39)	43.12
Vested*	<u>(163)</u>	<u>42.33</u>
Balance at December 31, 2013	<u>655</u>	<u>\$42.04</u>

* These numbers include less than 0.1 million RSUs credited on unvested RSUs as dividend equivalents. Dividend equivalents accrue with respect to unvested RSUs when and as cash dividends are paid on the company's common stock, and vest if and when the underlying RSUs vest.

The total vest date fair value of the RSUs that vested in 2013, 2012 and 2011 was \$6.5 million, \$12.9 million and \$8.0 million, respectively. The weighted average per share grant date fair value in 2013, 2012 and 2011 was \$42.34, \$39.35 and \$42.17, respectively.

Other RSU Grants

We also grant RSUs to all non-management Board members and, in special circumstances, management personnel outside of the LTCP. Grants of this type are supplemental to any awards granted to management personnel through the LTCP.

Compensation Programs

We use a variety of compensation programs to both attract and retain employees and more closely align employee compensation with company performance. These programs include both cash and share-based components, as discussed further below. We issue new shares of our common stock to satisfy our obligations under the share-based components of these programs from the 2009 Plan discussed above. However, our Board of Directors has the right to authorize the issuance of treasury shares to satisfy such obligations in the future. We recognized \$7.3 million, \$8.2 million and \$3.1 million of compensation expense in 2013, 2012 and 2011, respectively, related to the performance-based incentive component of our LTCP, discussed in greater detail below. The majority of the share-based compensation expense, for all years, relates to RSU awards granted under our LTCP. The 2013 amount includes charges of \$1.7 million and \$4.8 million, respectively, to adjust the accrual rates for Cycles 6 and 7 (as defined below) to 71% and 65%, respectively. The 2012 amount includes a charge of \$4.4 million to adjust the accrual rate for Cycle 5 (as defined below) to 100%. The 2011 amount includes a credit of \$5.7 million to reduce the accrual rates for the performance-based incentive under Cycles 5 and 6 (each as defined below) from 100% to 50%, based on revised expectations for a lower payout. The \$5.7 million adjustment represents a reduction to the accrual established for LTCP Cycles 5 and 6 in 2010 and 2011, respectively. The 2011 amount includes a charge of \$1.3 million to increase the accrual rate for LTCP Cash Cycle 3 (as defined below) from the previously estimated payout of 50% to the actual payout of 86%. We also recognized share-based compensation expense of \$15.9 million, \$6.5 million and \$8.1 million in 2013, 2012 and 2011, respectively.

Long-Term Compensation Program

Prior to 2010, the LTCP, which consists of overlapping cycles that are generally three years in length, was designed to alternate annually between equity and cash cycles, with equity cycles including both time-based and performance-based components and cash cycles consisting entirely of a performance-based cash incentive. Under the equity cycles, executives received 50% of their awards in the form of performance-based RSUs, and 50% in the form of time-based RSUs that vested in full at the end of the respective three-year cycle. Employees at or above the manager level received 25% of their equity awards in the form of performance-based RSUs, and 75% in the form of time-based RSUs that vested in full at the end of the three-year cycle. All performance-based RSUs vested, if at all, based on the company's achievement of certain goals established by the Compensation Committee of our Board of Directors for the three-year cycle. For cycles that began prior to 2010, payouts under the performance-based RSU cycles were capped at 300% and payouts under performance-based cash incentive cycles were capped at 225%. Prior to 2010, employees below the manager level did not participate in the LTCP, but did receive RSU grants under a separate program. The following cycles are relevant to our financial statements for the years ended 2011 and 2012:

- *Cash Cycle 3:* A long-term performance-based cash incentive covering the performance period January 1, 2008 through December 31, 2010; and
- *RSU Cycle 4:* Time-based RSUs granted on January 1, 2009, which vested on January 1, 2012; and performance-based RSUs covering the performance period from January 1, 2009 through December 31, 2011 granted on January 1, 2009, which vested at a payout level of 31% on January 1, 2012.

In fourth quarter 2010, the LTCP was amended to, among other things, increase the relative proportion of performance-based compensation for both executives and managers, extend participation to all employees, and eliminate alternating annual RSU and cash cycles.

Under the terms of the LTCP as amended in 2010, effective beginning with the cycle that began on January 1, 2010, all employees below manager level received 100% of their LTCP participation in the form of time-based RSUs that vest in full at the end of the respective three-year cycle. Executives and employees at or above the manager level received 25% of their LTCP award in the form of time-based RSUs that vest in full at the end of the respective three-year cycle and the remaining 75% in the form of performance-based awards granted under the LTIP component of the LTCP. The LTIP performance-based awards that are applicable to both executives and managers may be paid out in the form of cash or equity, or any combination thereof at the end of the respective three-year cycle. The form of the LTIP award will be determined by the Compensation Committee of our Board of Directors, in its sole discretion, for each three-year cycle. The following cycles were initiated under the LTCP between 2010 and 2012:

- *Cycle 5:* Time-based RSUs granted on November 1, 2010, which vested on January 1, 2013; and a long-term performance-based incentive covering the performance period from January 1, 2010 through December 31, 2012, which was paid out in cash at the 100% level in first quarter 2013;
- *Cycle 6:* Time-based RSUs granted on January 1, 2011, which vested on January 1, 2014; and performance-based RSUs covering the performance period from January 1, 2011 through December 31, 2013, granted on January 18, 2013, which vested at a payout level of 71% on January 1, 2014; and
- *Cycle 7:* Time-based RSUs granted on January 1, 2012, which vest on January 1, 2015; and performance-based RSUs covering the performance period from January 1, 2012 through December 31, 2014, granted on January 18, 2013, which vest, if at all, on January 1, 2015.

In January 2013, the LTCP was further amended to adjust the program participation levels to reflect current market conditions, to add a stock option program component and to provide management with more flexibility in setting the participation levels and allocation among compensation components. Beginning with the 2013 cycle, the company's Chief Executive Officer (or, in certain circumstances the Compensation Committee) determines annually what percentage of LTCP participation each level of participant (e.g., manager, director, senior director,

etc.) receives and the components of each participant’s award, which can include time-based RSUs, stock options and performance-based awards granted under the LTIP. The Compensation Committee determines the form of the LTIP award. For the cycle that covers the performance period from January 1, 2013 through December 31, 2015 (Cycle 8), executive officers received 25% of their LTCP award in the form of time-based RSUs that vest at the end of the cycle, 25% in the form of stock options that vest ratably over three-years and have a seven-year term, and 50% under the LTIP in the form of performance-based RSUs that vest contingent upon the company’s achievement of goals during the 2013-2015 cycle as established by the Compensation Committee. Employees at the director, senior director and vice president levels received 50% of their LTCP award in the form of time-based RSUs and 50% in the form of performance-based RSUs. Employees at or below the senior manager level received 100% of their participation in the form of time-based RSUs. All time-based and performance-based RSU awards under Cycle 8 were granted on January 18, 2013 and have a vest date of January 18, 2016.

Payouts of performance-based awards granted under the LTCP as amended and restated in January 2013 are determined by the Compensation Committee in its sole discretion, based on the company’s achievement of one of more performance goals, previously established and approved by the Compensation Committee, during the respective cycle period. Payouts may exceed or be less than target, depending on the level of the company’s achievement of the performance goal(s). No payout may be made under the LTIP if the company fails to achieve the minimum level of performance for the applicable cycle, and the payout for any particular cycle is capped at 200% of target.

401(k) and Profit-Sharing

We have a 401(k) plan (“Savings Plan”) wherein employees can elect to defer compensation within federal limits. The company matches a portion of employee contributions. The company’s contribution expense was approximately \$1.0 million for each of 2013, 2012 and 2011. At its discretion, the company may also make a profit-sharing contribution to our employees’ 401(k) accounts. In fourth quarter 2009, the Compensation Committee of the Board of Directors determined that it would not elect to make a profit-sharing contribution to each employee in 2010 or the foreseeable future.

11. TAXES

Our income tax provision consists of the following components for 2013, 2012 and 2011 (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current			
Federal	\$ (6,093)	\$ 93,441	\$ 30,990
State	225	44	131
Foreign source withholding tax	23,269	4,173	5,453
	<u>17,401</u>	<u>97,658</u>	<u>36,574</u>
Deferred			
Federal	(18,727)	22,209	(21,621)
State	2,614	(4,494)	(416)
Foreign source withholding tax	24,548	21,457	20,603
	<u>8,435</u>	<u>39,172</u>	<u>(1,434)</u>
Total	<u>\$ 25,836</u>	<u>\$136,830</u>	<u>\$ 35,140</u>

The deferred tax assets and liabilities are comprised of the following components at December 31, 2013 and 2012 (in thousands):

	2013			
	Federal	State	Foreign	Total
Net operating losses	\$ —	\$ 70,602	\$ —	\$ 70,602
Deferred revenue, net	8,564	56	4,189	12,809
Foreign tax credits	—	—	—	—
Stock compensation	7,606	1,088	—	8,694
Patent amortization	16,424	—	—	16,424
Depreciation	1,295	169	—	1,464
Other-than-temporary impairment	9,815	301	—	10,116
Other accrued liabilities	1,044	44	—	1,088
Other employee benefits	4,497	517	—	5,014
	49,245	72,777	4,189	126,211
Less: valuation allowance	—	(70,492)	—	(70,492)
Net deferred tax asset	<u>\$49,245</u>	<u>\$ 2,285</u>	<u>\$4,189</u>	<u>\$ 55,719</u>

	2012			
	Federal	State	Foreign	Total
Net operating losses	\$ —	\$ 68,640	\$ —	\$ 68,640
Deferred revenue, net	24,691	2,030	5,467	32,188
Foreign tax credits	—	—	—	—
Stock compensation	6,709	951	—	7,660
Patent amortization	13,215	7	—	13,222
Depreciation	1,202	199	—	1,401
Other accrued liabilities	1,662	302	—	1,964
Other-than-temporary impairment	2,212	414	—	2,626
Other employee benefits	4,096	735	—	4,831
	53,787	73,278	5,467	132,532
Less: valuation allowance	—	(68,378)	—	(68,378)
Net deferred tax asset	<u>\$53,787</u>	<u>\$ 4,900</u>	<u>\$5,467</u>	<u>\$ 64,154</u>

The following is a reconciliation of income taxes at the federal statutory rate with income taxes recorded by the company for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Tax at U.S. statutory rate	\$21,538	\$143,022	\$43,612
Foreign withholding tax, with no U.S. foreign tax credit	—	—	—
State tax provision	2,536	(4,466)	(330)
Change in federal and state valuation allowance	261	(2,225)	(313)
Adjustment to tax credits	—	—	—
Adjustments to uncertain tax positions	—	—	(6,775)
Permanent differences	2,153	211	119
Other	(652)	288	(1,173)
Total tax provision	<u>\$25,836</u>	<u>\$136,830</u>	<u>\$35,140</u>

Valuation Allowances and Net Operating Losses

We establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the assets to offset future taxes. We believe it is more likely than not that the majority of our state deferred tax assets will not be utilized; therefore and we have maintained a near full valuation allowance against our state deferred tax assets as of December 31, 2013.

We recognize excess tax benefits associated with share-based compensation to shareholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with and without approach excluding any indirect effects of the excess tax deductions. Under the approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the company. During 2013, 2012 and 2011, we realized \$0.8 million, \$0.9 million and \$5.1 million, respectively, of such excess tax benefits for federal purposes, and accordingly recorded a corresponding credit to additional paid-in capital. As of December 31, 2013 and 2012, we had \$12.2 million and \$12.1 million, respectively, of state unrealized tax benefits associated with share-based compensation. These state tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

Uncertain Income Tax Positions

As of each of December 31, 2013, 2012 and 2011, the company had zero unrecognized tax benefits. The total amount of unrecognized tax benefits could increase within the next twelve months for a number of reasons including audit settlements, tax examination activities and the recognition and measurement considerations under this guidance.

As of January 1, 2009, we had unrecognized tax benefits of \$4.4 million, primarily related to NOL carryforwards. During 2009, we received a settlement offer from the Internal Revenue Service related to our 2006 Internal Revenue Service audit and we reclassified \$0.6 million from the reserve to offset our current receivable. In 2011, we settled the 2006 Internal Revenue Service audit and recognized the remaining tax benefit of \$3.8 million.

During 2009, we established a reserve of \$2.7 million related to the recognition of a \$19.1 million gross benefit for amending tax returns for the periods 1999 — 2005 to switch foreign tax payments made during that period from a deduction to a foreign tax credits. In 2011, we recorded an additional tax benefit of \$8.3 million to eliminate this tax contingency and recognize interest income on the associated refund. As of December 31, 2013, our reserve was zero. We do not expect a material change in this estimate in the next twelve months, although a change is possible.

The following is a roll forward of our total gross unrecognized tax benefits, which if reversed would impact the effective tax rate, for the fiscal years 2011 through 2013 (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance as of January 1	\$ —	\$ —	\$ 6,459
Tax positions related to current year:			
Additions	—	—	—
Reductions	—	—	—
Tax positions related to prior years:			
Additions	—	—	—
Reductions	—	—	(6,459)
Settlements	—	—	—
Lapses in statutes of limitations	—	—	—
Balance as of December 31	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Our policy is to recognize interest and or penalties related to income tax matters in income tax expense. Because we had zero unrecognized tax benefits as of each of December 31, 2013, 2012 and 2011, we also had zero accrued interest as of the same dates.

The company and its subsidiaries are subject to United States federal income tax, foreign income and withholding taxes and income taxes from multiple state jurisdictions. Our federal income tax returns for 2007 to the present are currently open and will not close until the respective statutes of limitations have expired. The statutes of limitations generally expire three years following the filing of the return or in some cases three years following the utilization or expiration of net operating loss carry forwards. The statute of limitations applicable to our open federal returns will expire at the end of 2014. Specific tax treaty procedures remain open for certain jurisdictions for 2006 and 2007. Many of our subsidiaries have filed state income tax returns on a separate company basis. To the extent these subsidiaries have unexpired net operating losses, their related state income tax returns remain open. These returns have been open for varying periods, some exceeding ten years.

Currently the company is under audit by the U.S. Internal Revenue Service for the tax year ended December 31, 2011. To date, there have not been any identified issues. The company is also under audit by the State of New York for tax years 2002 through 2008. The State is claiming that prior to 2007 the company should have reported its returns as a combined report instead of as a separate entity as the company had filed. The company has reviewed the findings of the State and believes that it is more likely than not that the company will successfully sustain its separate company reporting and thus has not accrued any tax, interest or penalty exposure under the accounting for uncertain income tax position guidance.

Foreign Taxes

We pay foreign source withholding taxes on patent license royalties and state taxes when applicable. We apply foreign source withholding tax payments against our United States federal income tax obligations to the extent we have foreign source income to support these credits. In 2013, 2012 and 2011, we paid \$23.3 million, \$3.6 million and \$5.5 million in foreign source withholding taxes, respectively, and applied these payments as credits against our United States federal tax obligation. We previously accrued approximately \$4.0 million of the 2013 foreign source withholding payments and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes. At December 31, 2013, we accrued \$7.1 million of foreign source withholding taxes payable associated with expected royalty payments from licensees and recorded corresponding deferred tax assets related to the expected foreign tax credits that will result from these payments.

Between 1999 and 2005 we paid approximately \$29.3 million of foreign taxes. During this period we were in a net operating loss position for U.S. federal income tax purposes and elected to deduct these foreign tax payments as expenses on our United States federal income tax returns rather than take them as foreign tax credits. We elected this strategy because: a) we had no United States cash tax obligations at the time and b) net operating losses can be carried forward significantly longer than foreign tax credits. We utilized most of our net operating losses in 2006 and began to generate United States cash tax obligations. At that time, we began to treat our foreign tax payments as foreign tax credits on our United States federal income tax return.

During fourth quarter 2009, we completed a study to assess the company's ability to utilize foreign tax credit carryovers into the tax year 2006. As a result of the study, we amended our United States federal income tax returns for the periods 1999 — 2005 to reclassify \$29.3 million of foreign tax payments we made during those periods from deductions to foreign tax credits. We also amended our federal tax returns for the periods 2006 — 2008 to utilize the resulting tax credits. When we completed the study, we established a basis to support amending the returns and estimated that the maximum incremental benefit would be \$19.1 million. We recognized a net benefit of \$16.4 million after establishing a \$2.7 million reserve for related tax contingencies. In 2011, we recorded an additional tax benefit of \$8.3 million to eliminate this and other tax contingencies and recognize interest income on the associated refund.

Between 2006 and 2013, we paid approximately \$169.1 million in foreign taxes for which we have claimed foreign tax credits against our U.S. tax obligations. It is possible that as a result of tax treaty procedures, the U.S. government may reach an agreement with the related foreign governments that will result in a partial refund of foreign taxes paid with a related reduction in our foreign tax credits. Due to both foreign currency fluctuations and differences in the interest rate charged by the U.S. government compared to the interest rates, if any, used by the foreign governments, any such agreement could result in interest expense and/or foreign currency gain or loss.

12. EQUITY TRANSACTIONS

Repurchase of Common Stock

In March 2009, our Board of Directors authorized a 100.0 million share repurchase program (the “2009 Repurchase Program”). The company repurchased shares under the 2009 Repurchase Program through pre-arranged trading plans and completed the program in second quarter 2012.

In May 2012, our Board of Directors authorized a new 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”). The company may repurchase shares under the 2012 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below summarizes share repurchases made under the 2009 and 2012 Repurchase Programs in 2013, 2012, and 2011, in millions.

Period	2009 Repurchase Program		2012 Repurchase Program		Total Both Programs	
	# of Shares	Value	# of Shares	Value	# of Shares	Value
2013	—	\$ —	0.9	\$ 29.1	0.9	\$ 29.1
2012	2.3	75.0	2.6	77.7	4.9	152.7
2011	—	—	—	—	—	—
Prior to 2011	1.0	25.0	—	—	1.0	25.0
Total	<u>3.3</u>	<u>\$100.0</u>	<u>3.5</u>	<u>\$106.8</u>	<u>6.8</u>	<u>\$206.8</u>

From January 1, 2014 through February 23, 2014, we did not make any share repurchases under the 2012 Repurchase Program.

Dividends

Prior to 2011, we had not paid any cash dividends on our shares of common stock. In fourth quarter 2010, our Board of Directors approved the company's initial dividend policy and declared the first quarterly cash dividend of \$0.10 per share. On December 5, 2012, we announced that our Board of Directors had declared a special cash dividend of \$1.50 per share on InterDigital common stock. The dividend was payable on December 28, 2012 to stockholders of record as of the close of business on December 17, 2012. Cash dividends on outstanding common stock declared in 2013 and 2012 were as follows (in thousands, except per share data):

	<u>Per Share</u>	<u>Total</u>	<u>Cumulative by Fiscal Year</u>
2013			
First quarter	\$0.10	\$ 4,115	\$ 4,115
Second quarter	0.10	4,118	8,233
Third quarter	0.10	4,119	12,352
Fourth quarter	0.10	4,031	16,383
	<u>\$0.40</u>	<u>\$16,383</u>	
2012			
First quarter	\$0.10	\$ 4,469	\$ 4,469
Second quarter	0.10	4,348	8,817
Third quarter	0.10	4,095	12,912
Fourth quarter	1.60	65,643	78,555
	<u>\$1.90</u>	<u>\$78,555</u>	

We currently expect to continue to pay dividends comparable to our regular quarterly \$0.10 cash dividends in the future; however, continued payment of cash dividends and changes in the company's dividend policy will depend on the company's earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

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 \$64.0909 per share, also subject to adjustment, as updated. The warrants become exercisable in tranches starting in June 2016. In consideration for the warrants issued on March 29, 2011 and March 30, 2011, the company received \$27.6 million and \$4.1 million, respectively, on April 4, 2011.

13. SELECTED QUARTERLY RESULTS (UNAUDITED)

The table below presents quarterly data for the years ended December 31, 2013 and 2012:

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	<u>(In thousands, except per share amounts, unaudited)</u>			
2013				
Revenues(a)	\$ 47,363	\$67,692	\$110,623	\$99,683
Net income applicable to InterDigital, Inc.'s common shareholders(b)	\$(12,269)	\$ 9,238	\$ 26,660	\$14,536
Net income per common share — basic	\$ (0.30)	\$ 0.22	\$ 0.65	\$ 0.35
Net income per common share — diluted	\$ (0.30)	\$ 0.22	\$ 0.64	\$ 0.35
2012				
Revenues(c)	\$ 69,305	\$71,871	\$434,010	\$87,877
Net income applicable to InterDigital, Inc.'s common shareholders(d)	\$ 10,930	\$ 9,673	\$235,669	\$15,532
Net income per common share — basic	\$ 0.24	\$ 0.22	\$ 5.61	\$ 0.38
Net income per common share — diluted	\$ 0.24	\$ 0.22	\$ 5.56	\$ 0.38

- (a) In second quarter 2013, we recognized \$23.5 million of past patent royalties as a result of an arbitration award. In third quarter 2013, we recognized \$51.6 million of revenue that had been deferred pending the resolution of an arbitration relating to one of our technology solutions agreements. In fourth quarter 2013, we recognized \$36.4 million of past patent royalties primarily as a result of an arbitration award.
- (b) In first quarter 2013, we incurred a repositioning charge of \$1.5 million related to our remaining VERP participants. In first quarter 2013 and fourth quarter 2013, we recorded charges of \$6.7 million and \$15.0 million, respectively, related to impairments on our investment in other entities.
- (c) In third quarter 2012, our revenues included \$375.0 million related to a patent sale to Intel Corporation.
- (d) In third quarter 2012, we recognized \$16.5 million of expense associated with the Intel patent sale. In fourth quarter 2012, we incurred \$12.5 million of repositioning charges. In fourth quarter 2012, our income tax provision included a benefit of \$4.5 million related to the release of valuation allowances on deferred tax assets, which we expect to utilize in future periods.

14. VARIABLE INTEREST ENTITIES

Convida Wireless

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

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

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 twelve months ended December 31, 2013, we have allocated approximately \$2.5 million of Convida Wireless's net loss for the same period to noncontrolling interests held by other parties.

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

	<u>DECEMBER 31,</u> <u>2013</u>
ASSETS	
Cash	\$8,905
Patents, Net	151
LIABILITIES	
Other Accrued Expenses	\$ 95

Signal Trust for Wireless Innovation

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

The more than 500 patents and patent applications being 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 Signal Trust on our financial statements was immaterial as of December 31, 2013.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

Item 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The company's Chief Executive Officer and its Chief 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 of December 31, 2013. 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 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 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2013. Management based this assessment on criteria for effective internal control over financial reporting described in "*Internal Control — Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Based on this assessment, management determined that, as of December 31, 2013, the company maintained effective internal control over financial reporting at a reasonable assurance level.

The effectiveness of the company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report that appears under Part II, Item 8, of this Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during fourth quarter 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is incorporated by reference to the information following the captions “Election of Directors,” “EXECUTIVE OFFICERS,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Code of Ethics,” “Nominating and Corporate Governance Committee” and “Audit Committee” in the definitive proxy statement to be filed pursuant to Regulation 14A in connection with our 2014 annual meeting of shareholders not later than 120 days after the end of the fiscal year covered by this Annual Report on form 10-K (the “Proxy Statement”).

Item 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to the information following the captions “EXECUTIVE COMPENSATION” and “DIRECTOR COMPENSATION” in the Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference to the information following the captions “EQUITY COMPENSATION PLAN INFORMATION” and “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” in the Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated by reference to the information following the captions “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” and “Director Independence” in the Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference to the information following the captions “Fees Paid to Independent Registered Public Accounting Firm” and “Audit Committee Pre-Approval Policy for Audit and Non-Audit Services of Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this Form 10-K:

(1) Financial Statements.

The information required by this item begins on Page 71.

(2) Financial Statement Schedules.

The following financial statement schedule of InterDigital is included herewith and should be read in conjunction with the Financial Statements included in this Item 15.

Valuation and Qualifying Accounts

	<u>Balance Beginning of Period</u>	<u>Increase/ (Decrease)</u>	<u>Reversal of Valuation Allowance</u>	<u>Balance End of Period</u>
2013 valuation allowance for deferred tax assets	\$68,378	\$ 2,114(a)	\$ —	\$70,492
2012 valuation allowance for deferred tax assets	\$78,497	\$(5,624)(a)	\$(4,495)(b)	\$68,378
2011 valuation allowance for deferred tax assets	\$64,034	\$14,463(a)	\$ —	\$78,497
2013 reserve for uncollectible accounts . . .	\$ 1,750	\$ —	\$ —	\$ 1,750
2012 reserve for uncollectible accounts . . .	\$ 1,750	\$ —	\$ —	\$ 1,750
2011 reserve for uncollectible accounts . . .	\$ 1,750	\$ —	\$ —	\$ 1,750

(a) The increase was primarily necessary to maintain a full, or near full, valuation allowance against our state deferred tax assets and did not result in additional tax expense.

(b) The decrease relates to the reversal of valuation allowances against state and federal deferred tax assets and net operating losses.

(3) Exhibits.

See Item 15(b) below.

(b)	<u>Exhibit Number</u>	<u>Exhibit Description</u>
	*3.1	Amended and Restated Articles of Incorporation of InterDigital, Inc. (“InterDigital”) (Exhibit 3.1 to InterDigital’s Current Report on Form 8-K dated June 7, 2011).
	*3.2	Amended and Restated Bylaws of InterDigital (Exhibit 3.2 to InterDigital’s Current Report on Form 8-K dated June 7, 2011).
	*4.1	Indenture, dated April 4, 2011, between InterDigital and The Bank of New York Mellon Trust Company, N.A., as trustee (Exhibit 4.1 to InterDigital’s Current Report on Form 8-K dated April 4, 2011).
	*4.2	Form of 2.50% Senior Convertible Note due 2016 (Exhibit 4.2 to InterDigital’s Current Report on Form 8-K dated April 4, 2011).
	*4.3	Specimen Stock Certificate of InterDigital (Exhibit 4.3 to InterDigital’s Current Report on Form 8-K dated April 4, 2011).

**Exhibit
Number**

Exhibit Description

Real Estate Leases

- *10.1 Agreement of Lease dated November 25, 1996 by and between InterDigital and We're Associates Company (Exhibit 10.42 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2000).
- *10.2 Third Modification to Lease Agreement effective June 1, 2006 by and between InterDigital and Huntington Quadrangle 2, LLC (successor to We're Associates Company). (Exhibit 10.18 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2006).
- *10.3 Fourth Modification of Lease Agreement effective November 1, 2012 by and between InterDigital and Huntington Quadrangle 2, LLC (Exhibit 10.4 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2012).
- *10.4 Lease Agreement effective March 1, 2012 by and between InterDigital and Musref Bellevue Parkway, LP (Exhibit 10.5 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2012).

Benefit Plans

- †*10.5 Non-Qualified Stock Option Plan, as amended (Exhibit 10.4 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1991).
- †*10.6 Amendment to Non-Qualified Stock Option Plan (Exhibit 10.31 to InterDigital's Quarterly Report on Form 10-Q dated August 14, 2000).
- †*10.7 Amendment to Non-Qualified Stock Option Plan, effective October 24, 2001 (Exhibit 10.6 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2001).
- †*10.8 1999 Restricted Stock Plan, as amended April 13, 2000 (Exhibit 10.43 to InterDigital's Quarterly Report on Form 10-Q dated August 14, 2000).
- †*10.9 1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement (Awarded to Independent Directors Upon Re-Election) (Exhibit 10.62 to InterDigital's Quarterly Report on Form 10-Q dated November 9, 2004).
- †*10.10 1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement (Annual Award to Independent Directors) (Exhibit 10.63 to InterDigital's Quarterly Report on Form 10-Q dated November 9, 2004).
- †*10.11 1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement (Periodically Awarded to Members of the Board of Directors) (Exhibit 10.64 to InterDigital's Quarterly Report on Form 10-Q dated November 9, 2004).
- †*10.12 1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement (Awarded to Independent Directors Upon Re-Election) (Exhibit 10.62 to InterDigital's Quarterly Report on Form 10-Q dated August 9, 2005).
- †*10.13 1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement (Annual Award to Independent Directors) (Exhibit 10.63 to InterDigital's Quarterly Report on Form 10-Q dated August 9, 2005).
- †*10.14 1999 Restricted Stock Plan, Form of Restricted Stock Unit Award Agreement (Exhibit 10.86 to InterDigital's Quarterly Report on Form 10-Q dated November 9, 2006).
- †*10.15 1999 Restricted Stock Plan, Form of Restricted Stock Unit Award Agreement, as amended December 14, 2006 (Exhibit 10.58 to Inter Digital's Annual Report on Form 10-K for the year ended December 31, 2006).

<u>Exhibit Number</u>	<u>Exhibit Description</u>
†*10.16	2000 Stock Award and Incentive Plan (Exhibit 10.28 to InterDigital’s Quarterly Report on Form 10-Q dated August 14, 2000).
†*10.17	2000 Stock Award and Incentive Plan, as amended June 1, 2005 (Exhibit 10.74 to InterDigital’s Quarterly Report on Form 10-Q dated August 9, 2005).
†*10.18	2000 Stock Award and Incentive Plan, Form of Option Agreement (Inventor Awards) (Exhibit 10.68 to InterDigital’s Quarterly Report on Form 10-Q dated November 9, 2004).
†*10.19	2009 Stock Incentive Plan (Exhibit 99.1 to InterDigital’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission (“SEC”) on June 4, 2009 (File No. 333-159743)). Amendment to 2009 Stock Incentive Plan, effective as of June 12, 2013 (Exhibit 10.1 to InterDigital’s Quarterly Report on Form 10-Q dated July 26, 2013).
†*10.20	2009 Stock Incentive Plan, Term Sheet and Standard Terms and Conditions for Restricted Stock Units (Discretionary Award) (Exhibit 10.2 to InterDigital’s Current Report on Form 8-K dated January 28, 2013).
†*10.21	2009 Stock Incentive Plan, Term Sheet and Standard Terms and Conditions for Restricted Stock Units (LTCP Time-Based Award) (Exhibit 10.3 to InterDigital’s Current Report on Form 8-K dated January 28, 2013).
†*10.22	2009 Stock Incentive Plan, Term Sheet and Standard Terms and Conditions for Restricted Stock Units (LTCP Performance-Based Award) (Exhibit 10.4 to InterDigital’s Current Report on Form 8-K dated January 28, 2013).
†*10.23	2009 Stock Incentive Plan, Term Sheet and Standard Terms and Conditions for Stock Options (LTCP Award) (Exhibit 10.5 to InterDigital’s Current Report on Form 8-K dated January 28, 2013).
†*10.24	2009 Stock Incentive Plan, Term Sheet for Restricted Stock Units (Non-Employee Directors) (Exhibit 10.3 to InterDigital’s Quarterly Report on Form 10-Q dated July 26, 2013).
†*10.25	2009 Stock Incentive Plan, Standard Terms and Conditions for Restricted Stock Units (Non-Employee Directors) (Exhibit 10.4 to InterDigital’s Quarterly Report on Form 10-Q dated July 26, 2013).
†*10.26	Short-Term Incentive Plan, as amended October 2010 (Exhibit 10.2 to InterDigital’s Quarterly Report on Form 10-Q dated October 29, 2010).
†*10.27	Short-Term Incentive Plan, as amended May 2012 (Exhibit 10.2 to InterDigital’s Quarterly Report on Form 10-Q dated July 27, 2012).
†*10.28	Long-Term Compensation Program, as amended October 2010 (Exhibit 10.1 to InterDigital’s Quarterly Report on Form 10-Q dated October 29, 2010).
†*10.29	Long-Term Compensation Program, as amended August 2011 (Exhibit 10.1 to InterDigital’s Quarterly Report on Form 10-Q dated October 28, 2011).
†*10.30	Long-Term Compensation Program, as amended December 2011 (Exhibit 10.38 to InterDigital’s Annual Report on Form 10-K for the year ended December 31, 2011).
†*10.31	Long-Term Compensation Program, as amended May 2012 (Exhibit 10.3 to InterDigital’s Quarterly Report on Form 10-Q dated July 27, 2012).
†*10.32	Long-Term Compensation Program, as amended September 2012 (Exhibit 10.1 to InterDigital’s Quarterly Report on Form 10-Q dated October 25, 2012).

<u>Exhibit Number</u>	<u>Exhibit Description</u>
†*10.33	Amended and Restated Long-Term Compensation Program (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated January 28, 2013).
†*10.34	Compensation Program for Outside Directors (2011 — 2012 Board Term) (Exhibit 10.2 to InterDigital's Quarterly Report on Form 10-Q dated October 28, 2011).
†*10.35	Compensation Program for Outside Directors (as amended September 2012) (Exhibit 10.2 to InterDigital's Quarterly Report on Form 10-Q dated October 25, 2012).
†*10.36	Designated Employee Incentive Separation Pay Plan and Summary Plan Description (Exhibit 10.3 to InterDigital's Quarterly Report on Form 10-Q dated October 25, 2012).
†*10.37	Deferred Compensation Plan (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated June 18, 2013).

Employment-Related Agreements

†*10.38	Indemnity Agreement dated as of March 19, 2003 by and between InterDigital and Howard E. Goldberg (pursuant to Instruction 2 to Item 601 of Regulation S-K, the Indemnity Agreements, which are substantially identical in all material respects, except as to the parties thereto and the dates, between the company and the following individuals, were not filed: Gilbert F. Amelio, Jeffrey K. Belk, Richard J. Brezski, Steven T. Clontz, Edward B. Kamins, John A. Kritzmacher, Scott A. McQuilkin, William J. Merritt, James J. Nolan, Jean F. Rankin, Robert S. Roath and Lawrence F. Shay) (Exhibit 10.47 to InterDigital's Quarterly Report on Form 10-Q dated May 15, 2003).
†*10.39	Assignment and Assumption of Indemnity Agreement dated as of July 2, 2007, by and between InterDigital Communications Corporation, InterDigital and Bruce G. Bernstein (pursuant to Instruction 2 to Item 601 of Regulation S-K, the Indemnity Agreements, which are substantially identical in all material respects, except as to the parties thereto, between InterDigital Communications Corporation, InterDigital, Inc. and the following individuals, were not filed: Richard J. Brezski, Steven T. Clontz, Edward B. Kamins, William J. Merritt, James J. Nolan, Robert S. Roath and Lawrence F. Shay) (Exhibit 10.90 to InterDigital's Quarterly Report on Form 10-Q dated August 9, 2007).
†*10.40	Employment Agreement dated March 14, 2013 between InterDigital and William J. Merritt (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated March 19, 2013).
†*10.41	Employment Agreement dated March 14, 2013 between InterDigital and Richard Brezski (Exhibit 10.2 to InterDigital's Current Report on Form 8-K dated March 19, 2013).
†*10.42	Employment Agreement dated March 14, 2013 between InterDigital and Scott McQuilkin (Exhibit 10.4 to InterDigital's Current Report on Form 8-K dated March 19, 2013).
†*10.43	Employment Agreement dated March 14, 2013 between InterDigital and James Nolan (Exhibit 10.5 to InterDigital's Current Report on Form 8-K dated March 19, 2013).
†*10.44	Employment Agreement dated March 14, 2013 between InterDigital and Lawrence F. Shay (Exhibit 10.6 to InterDigital's Current Report on Form 8-K dated March 19, 2013).

Other Material Contracts

*10.45	Bond Hedge Transaction Confirmation, dated March 29, 2011, by and between InterDigital and Barclays Bank PLC, through its agent, Barclays Capital Inc. (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated April 4, 2011).
*10.46	Bond Hedge Transaction Confirmation, dated March 30, 2011, by and between InterDigital and Barclays Bank PLC, through its agent, Barclays Capital Inc. (Exhibit 10.2 to InterDigital's Current Report on Form 8-K dated April 4, 2011).

<u>Exhibit Number</u>	<u>Exhibit Description</u>
*10.47	Warrant Transaction Confirmation, dated March 29, 2011, by and between InterDigital and Barclays Bank PLC, through its agent, Barclays Capital Inc. (Exhibit 10.3 to InterDigital's Current Report on Form 8-K dated April 4, 2011).
*10.48	Warrant Transaction Confirmation, dated March 30, 2011, by and between InterDigital and Barclays Bank PLC, through its agent, Barclays Capital Inc. (Exhibit 10.4 to InterDigital's Current Report on Form 8-K dated April 4, 2011).
21	Subsidiaries of InterDigital.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. +
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. +
101	The following financial information from InterDigital's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 24, 2014, formatted in eXtensible Business Reporting Language:(i) Consolidated Balance Sheets at December 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011, (iii) Consolidated Shareholders' Equity and Comprehensive Income for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, and (v) Notes to Consolidated Financial Statements.

* Incorporated by reference to the previous filing indicated.

† Management contract or compensatory plan or arrangement.

+ 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 24, 2014

By: /s/ William J. Merritt
William J. Merritt
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 24, 2014

/s/ Steven T. Clontz
Steven T. Clontz,
Chairman of the Board of Directors

Date: February 24, 2014

/s/ Gilbert F. Amelio
Gilbert F. Amelio,
Director

Date: February 24, 2014

/s/ Jeffrey K. Belk
Jeffrey K. Belk,
Director

Date: February 24, 2014

/s/ Edward B. Kamins
Edward B. Kamins,
Director

Date: February 24, 2014

/s/ John A. Kritzmacher
John A. Kritzmacher,
Director

Date: February 24, 2014

/s/ Jean F. Rankin
Jean F. Rankin,
Director

Date: February 24, 2014

/s/ Robert S. Roath
Robert S. Roath,
Director

Date: February 24, 2014

/s/ William J. Merritt
William J. Merritt,
Director, President and Chief Executive Officer
(Principal Executive Officer)

Date: February 24, 2014

/s/ Richard J. Brezski
Richard J. Brezski,
Chief Financial Officer
(Principal Financial Officer)

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INTERDIGITAL

InterDigital, Inc.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS To Be Held June 12, 2014

TO THE SHAREHOLDERS OF INTERDIGITAL, INC.:

Our 2014 annual meeting of shareholders will be held on Thursday, June 12, 2014, at 11:00 a.m. Eastern Time, at the DoubleTree by Hilton Hotel Wilmington, 4727 Concord Pike, Wilmington, Delaware 19803. At the annual meeting, the holders of our outstanding common stock will act on the following matters:

1. Election of the eight director nominees named in the proxy statement, each for a term of one year;
2. Re-approval of the material terms of the company's 2009 Stock Incentive Plan;
3. Advisory resolution to approve executive compensation;
4. Ratification of the appointment of our independent registered public accounting firm for the year ending December 31, 2014; and
5. Such other business as may properly come before the annual meeting.

We are pleased to be using the Securities and Exchange Commission rules that allow companies to furnish proxy materials to their shareholders primarily over the Internet. We believe that this process expedites shareholders' receipt of the proxy materials, lowers the costs of the annual meeting and helps to conserve natural resources. On or about April 28, 2014, we began mailing our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access our 2014 proxy statement and 2013 annual report and how to vote online. The Notice also includes instructions on how to request a paper copy of the proxy materials, including the notice of annual meeting, proxy statement, annual report and proxy card.

All holders of record of shares of our common stock (NASDAQ: IDCC) at the close of business on April 15, 2014 are entitled to vote at the annual meeting and at any postponements or adjournments of the annual meeting. Shareholders are cordially invited to attend the annual meeting in person; however, regardless of whether you plan to attend the annual meeting in person, please cast your vote as instructed in the Notice as promptly as possible. Alternatively, if you wish to receive paper copies of your proxy materials, including the proxy card, please follow the instructions in the Notice. Once you receive paper copies of your proxy materials, please complete, sign, date and promptly return the proxy card in the postage-prepaid return envelope provided, or follow the instructions set forth on the proxy card to vote your shares over the Internet or by telephone. Your prompt response is necessary to ensure that your shares are represented at the annual meeting. Voting by Internet, telephone or mail will not affect your right to vote in person if you decide to attend the annual meeting. If you are a shareholder who holds stock in a brokerage account (a "street name" holder), you will receive instructions from the holder of record that you must follow in order for your shares to be voted. Certain of these institutions offer Internet and telephone voting.

IF YOU PLAN TO ATTEND THE ANNUAL MEETING:

Registration will begin at 9:30 a.m., and seating will begin at 10:30 a.m. Each shareholder will need to bring an admission ticket and valid picture identification, such as a driver's license or passport, for admission to the annual meeting. Street name holders will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the annual meeting, and all cellular phones must be silenced during the annual meeting. We realize that many cellular phones have built-in digital cameras, and, while these phones may be brought into the annual meeting, the camera function may not be used at any time.

By Order of the Board of Directors,



JANNIE K. LAU

Executive Vice President, General Counsel and Secretary

April 28, 2014
Wilmington, Delaware

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INTERDIGITAL, INC.
200 Bellevue Parkway, Suite 300
Wilmington, Delaware 19809-3727

PROXY STATEMENT

This proxy statement contains information relating to our annual meeting of shareholders to be held on Thursday, June 12, 2014, beginning at 11:00 a.m. Eastern Time, at the DoubleTree by Hilton Hotel Wilmington, 4727 Concord Pike, Wilmington, Delaware 19803, and at any postponements or adjournments of the annual meeting. Your proxy for the annual meeting is being solicited by our board of directors.

INTERNET AVAILABILITY OF PROXY MATERIALS

As permitted by Securities and Exchange Commission (“SEC”) rules, we are making this proxy statement and our annual report available to our shareholders primarily via the Internet, rather than mailing printed copies of these materials to each shareholder. We believe that this process will expedite shareholders’ receipt of the proxy materials, lower the costs of the annual meeting and help to conserve natural resources. On or about April 28, 2014, we began mailing to each shareholder (other than those who previously requested electronic delivery of all materials or previously elected to receive delivery of a paper copy of the proxy materials) a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access and review the proxy materials, including our proxy statement and our annual report, on the Internet and how to access an electronic proxy card to vote on the Internet or by telephone. The Notice also contains instructions on how to receive a paper copy of the proxy materials. If you receive a Notice by mail, you will not receive a printed copy of the proxy materials unless you request one. If you receive a Notice by mail and would like to receive a printed copy of our proxy materials, please follow the instructions included in the Notice.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on June 12, 2014: The proxy statement and annual report to shareholders are available at <http://ir.interdigital.com/annuals.cfm>

ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the annual meeting?

At our annual meeting, shareholders will act upon the matters outlined in the notice of meeting provided with this proxy statement, including: the election of directors; the re-approval of the material terms of the company’s 2009 Stock Incentive Plan; the advisory resolution to approve executive compensation; the ratification of the appointment of our independent registered public accounting firm; and such other business as may properly come before the annual meeting. In addition, management will report on the performance of the company’s business and respond to questions from shareholders.

Who may attend the annual meeting?

Subject to space availability, all shareholders as of April 15, 2014, the record date, or their duly appointed proxies, may attend the annual meeting. Registration will begin at 9:30 a.m., and seating will begin at 10:30 a.m. If you plan to attend the annual meeting, please note that you will need to bring your admission ticket and valid picture identification, such as a driver’s license or passport. Cameras, recording devices and other electronic devices will not be permitted at the annual meeting, and all cellular phones must be silenced during the annual meeting. We realize that many cellular phones have built-in digital cameras, and, while these phones may be brought into the annual meeting, the camera function may not be used at any time.

Please also note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

Who is entitled to vote at the annual meeting?

Only shareholders of record at the close of business on April 15, 2014, the record date, are entitled to receive notice of and to vote at the annual meeting. If you were a shareholder on that date, you will be entitled to vote all of the shares that you held on that date at the annual meeting, or any postponements or adjournments of the annual meeting. There were 40,453,401 shares of our common stock outstanding on the record date.

What are the voting rights of the holders of the company's common stock?

Each share of our common stock outstanding on the record date will be entitled to one vote on each director nominee and one vote on each other matter considered at the annual meeting.

What constitutes a quorum?

A quorum is the minimum number of our shares of common stock that must be represented at a duly called meeting in person or by proxy in order to conduct business legally at the annual meeting. For the annual meeting, the presence, in person or by proxy, of the holders of a majority of the shares entitled to vote will be considered a quorum. If you are a registered shareholder, you must vote by Internet or telephone or, if you requested a paper copy of the proxy materials, by mail, or attend the annual meeting in person and vote, in order to be counted in the determination of a quorum. If you are a street name shareholder, your broker or other nominee will vote your shares pursuant to your instructions, and such shares will count in the determination of a quorum. If you do not provide any specific voting instructions to your broker or other nominee, your shares will still count for purposes of attaining a quorum.

How do I vote?

If you are a registered shareholder, you may vote by Internet or telephone by following the instructions in the Notice. If you requested a paper copy of the proxy materials, you also may submit your proxy by mail by following the instructions included with your proxy card. The deadline for submitting your proxy by Internet or telephone is 11:59 p.m. Eastern Time on June 11, 2014. The designated proxy will vote according to your instructions. You may also attend the annual meeting and vote in person.

If you are a street name shareholder, your broker or nominee firm is the legal, registered owner of the shares and it may provide you with a Notice. Follow the instructions on the Notice to access our proxy materials and vote or to request a paper or email copy of our proxy materials. If you receive these materials in paper form, the materials include a voting instruction card so that you can instruct your broker or nominee how to vote your shares. Please check your Notice or voting instruction card or contact your broker or other nominee to determine whether you will be able to deliver your voting instructions by Internet or telephone. If you are a street name shareholder and you want to vote at the annual meeting, you will need to obtain a signed proxy from the broker or nominee that holds your shares, because the broker or nominee is the legal, registered owner of the shares.

If you own shares through a retirement or savings plan or other similar plan, you may submit your voting instructions by Internet, telephone or mail by following the instructions included with your voting instruction card. The deadline for submitting your voting instructions by Internet or telephone is 11:59 p.m. Eastern Time on June 9, 2014. The trustee or administrator of the plan will vote according to your instructions and the rules of the plan.

If you sign and submit your proxy without specifying how you would like your shares voted, your shares will be voted in accordance with the board's recommendations specified below under "What are the board's recommendations?" and in accordance with the discretion of the proxy holders with respect to any other matters that may be voted upon at the annual meeting.

Can I change my vote after I return my proxy or voting instruction card?

If you are a registered shareholder, you may revoke or change your vote at any time before the proxy is voted by filing with our Secretary either a written notice of revocation or a duly executed proxy bearing a later date. If you attend the annual meeting in person, you may ask the judge of elections to suspend your proxy holder's power to vote, and you may submit another proxy or vote by ballot. Your attendance at the annual meeting will not by itself revoke a previously granted proxy.

If your shares are held in street name or you hold shares through a retirement or savings plan or other similar plan, please check your voting instruction card or contact your broker, nominee, trustee or administrator to determine whether you will be able to revoke or change your vote.

Will my vote be confidential?

It is our policy to maintain the confidentiality of proxy cards, ballots and voting tabulations that identify individual shareholders except as might be necessary to meet any applicable legal requirements and, in the case of any contested proxy solicitation, as might be necessary to allow proper parties to verify proxies presented by any person and the results of the voting.

What are the board's recommendations?

The board recommends that you vote:

- ***For*** election of each of the director nominees named in this proxy statement (see proposal 1);
- ***For*** the re-approval of the material terms of the company's 2009 Stock Incentive Plan (see proposal 2);
- ***For*** the advisory resolution to approve executive compensation (see proposal 3); and
- ***For*** ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2014 (see proposal 4).

What vote is required to approve each proposal?

Election of directors. We have adopted majority voting in uncontested director elections. Accordingly, under our articles of incorporation and bylaws, director nominees must receive the affirmative vote of a majority of the votes cast in order to be elected. A majority of the votes cast means that the number of votes cast "for" a director nominee must exceed the number of votes cast "against" that nominee. Abstentions, while included for purposes of attaining a quorum, will have no effect on the outcome of director elections. Under Pennsylvania law and our articles of incorporation and bylaws, an incumbent director who does not receive the votes required to be re-elected remains in office until his or her successor is elected and qualified, thereby continuing as a "holdover" director. Under the director resignation policy in our corporate governance principles, a director who is not re-elected must tender his or her resignation to the nominating and corporate governance committee, which will make a recommendation to the board as to whether or not the resignation offer should be accepted. In deciding whether to accept the resignation offer, the board will consider the recommendation of the nominating and corporate governance committee as well as any additional information and factors that the board believes to be relevant. The board will act on the nominating and corporate governance committee's recommendation within ninety (90) days following certification of the election results.

Re-approval of the material terms of the company's 2009 Stock Incentive Plan. The affirmative vote of a majority of the votes cast is required for re-approval. Abstentions, while included for purposes of attaining a quorum, will have no effect on the outcome of the proposal.

Advisory resolution to approve executive compensation. The affirmative vote of a majority of the votes cast is required for approval. Because the vote is advisory, it will not be binding on the board or the company. Abstentions, while included for purposes of attaining a quorum, will have no effect on the outcome of the proposal.

Ratification of the appointment of PricewaterhouseCoopers LLP. The affirmative vote of a majority of the votes cast is required for ratification. Abstentions, while included for purposes of attaining a quorum, will have no effect on the outcome of the proposal. Ratification of the appointment of our independent registered public accounting firm is not legally required; the board asks shareholders to ratify the appointment as a matter of good corporate governance. If shareholders do not ratify the appointment, the audit committee will consider whether it is appropriate to select another independent registered public accounting firm in future years.

What is a “broker non-vote”?

If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some proposals if you do not provide voting instructions. “Broker non-votes” are shares that a broker or nominee does not vote because it has not received voting instructions and does not have discretionary authority to vote (or does not exercise that authority). For the annual meeting, if you do not provide specific voting instructions, your broker or nominee may not exercise voting discretion with respect to: proposal 1, the election of directors, proposal 2, the re-approval of the material terms of the company’s 2009 Stock Incentive Plan, or proposal 3, the approval of the advisory resolution on executive compensation. Broker non-votes will have no effect on the outcome of proposal 1, proposal 2 or proposal 3. If you do not provide specific voting instructions, your broker or nominee may exercise voting discretion with respect to proposal 4, the ratification of the appointment of the company’s independent registered public accounting firm.

GOVERNANCE OF THE COMPANY

Where can I find information about the governance of the company?

The company has adopted corporate governance principles that, along with the charters of the board committees, provide the framework for the governance of the company. The nominating and corporate governance committee is responsible for annually reviewing the principles and recommending any proposed changes to the board for approval. A copy of our corporate governance principles is posted on our website at <http://ir.interdigital.com> under the heading “Corporate Governance – CG Documents,” along with the charters of our board committees and other information about our governance practices. We will provide to any person without charge a copy of any of these documents upon written request to our Secretary at our principal executive offices: InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, Delaware, 19809-3727.

Code of Ethics

Does the company have a code of ethics?

We have adopted a Code of Ethics that applies to all directors, officers, employees and consultants, including our principal executive, financial and accounting officers or persons performing similar functions. The Code of Ethics is available on the company’s website at <http://ir.interdigital.com> under the heading “Corporate Governance – CG Documents.” We intend to disclose future amendments to certain provisions of the Code of Ethics, or any waiver of such provisions granted to executive officers and directors, on the website within four business days following the date of such amendment or waiver. We will provide to any person without charge a copy of our Code of Ethics upon written request to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, Delaware, 19809-3727.

Director Independence

Which directors are considered independent, and how does the board determine their independence?

Each year, prior to the annual meeting of shareholders, the board reviews and assesses the independence of its directors and makes a determination as to the independence of each director. During this review, the board considers transactions and relationships between each director or any member of his or her immediate family and our company and its subsidiaries and affiliates. As a result of this review, the board affirmatively determined that each of Dr. Gilbert F. Amelio, Messrs. Jeffrey K. Belk, Steven T. Clontz, Edward B. Kamins and John A. Kritzmacher and Ms. Jean F. Rankin are “independent” under the rules of the SEC and the listing standards of the NASDAQ Stock Market. To our knowledge, none of the independent directors or any members of their immediate family has any direct or indirect relationships with our company or its subsidiaries and affiliates, other than the director’s service as a director of the company, that would impair the independence of such director.

Board Leadership

Who is the Chairman of the Board, and are the positions of Chairman of the Board and Chief Executive Officer separated?

Mr. Clontz, who is an independent director, has served as Chairman of the Board since January 2010. The board has a general policy that the positions of Chairman of the Board and Chief Executive Officer should be held by separate persons as an aid in the board’s oversight of management. This policy is affirmed in the board’s published corporate governance principles, which state that the Chairman of the Board is an independent director. The board believes that this leadership structure is appropriate for the company at this time because of the advantages to having an independent chairman for matters such as: communications and relations between the board, the Chief Executive Officer and other senior management; reaching consensus on company strategies and

policies; and facilitating robust board, committee and Chief Executive Officer evaluation processes. The board periodically reviews its leadership structure to determine whether it is appropriate given the specific characteristics and circumstances of the company.

Board Oversight of Risk

What is the board's role in risk oversight?

The board is responsible for overseeing the major risks facing the company and the company's enterprise risk management ("ERM") efforts. The board has delegated to the audit committee primary responsibility for overseeing and monitoring these efforts. Under its charter, the audit committee is responsible for discussing with management and the company's independent registered public accounting firm significant risks and exposures relating to the company's quarterly and annual financial statements and assessing management's steps to mitigate them, and for reviewing corporate insurance coverage and other risk management programs. At least annually, the audit committee receives presentations and reports directly from the company's Executive Vice President, General Counsel and Secretary, who leads the company's day-to-day ERM efforts. The audit committee briefs the board on the company's ERM activities as part of its regular reports to the board on the activities of the committee, and the Executive Vice President, General Counsel and Secretary also periodically delivers presentations and reports to the full board as appropriate.

Board Structure and Committee Membership

What is the size of the board, and how often are directors elected?

The board currently has eight directors. All directors are subject to election for one-year terms at each annual meeting of shareholders.

How often did the board meet during 2013?

The board met 8 times during 2013. Each director is expected to attend each meeting of the board and those committees on which he or she serves. Each director attended at least 75% of the aggregate of all board meetings and meetings of committees on which the director served during 2013. We typically schedule one of the meetings of the board on the day immediately preceding or following our annual meeting of shareholders, and it is the policy of the board that directors are expected to attend our annual meeting of shareholders absent unusual circumstances. Seven directors attended the 2013 annual meeting of shareholders in person; one director was unable to attend in person, but did attend the meeting via webcast.

What are the roles of the primary board committees?

The board has standing audit, compensation, finance and investment, and nominating and corporate governance committees. Each of the audit, compensation, and nominating and corporate governance committees is composed entirely of independent directors, as determined by the board in accordance with the applicable rules of the SEC and the listing standards of the NASDAQ Stock Market. Each of the committees operates under a written charter that has been approved by the board. The table below provides information about the current membership of the committees and the number of meetings of each committee held in 2013.

<u>Name</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Finance and Investment Committee</u>	<u>Nominating and Corporate Governance Committee</u>
Gilbert F. Amelio		X		Chair
Jeffrey K. Belk	X		X	
Steven T. Clontz		X	X	
Edward B. Kamins		Chair	X	
John A. Kritzmacher	Chair			X
William J. Merritt				
Jean F. Rankin	X			X
Robert S. Roath			Chair	
Number of Meetings in 2013	9	5	7	5

Audit Committee

The audit committee assists the board in fulfilling its oversight responsibilities relating to the company's corporate accounting, its financial reporting practices, audits of its financial statements and compliance with applicable requirements regarding the maintenance of accurate books and records. Among other things, the committee:

- Reviews the company's annual and quarterly financial statements and discusses them with management and the company's independent registered public accounting firm;
- Appoints, compensates, retains, evaluates, oversees the work of and, if deemed appropriate, replaces the company's independent registered public accounting firm;
- Receives from the independent registered public accounting firm reports required by applicable SEC rules and professional standards, including reviewing and discussing with the independent registered public accounting firm the matters required to be discussed under Auditing Standard No. 16, as adopted by the Public Company Accounting Oversight Board and amended from time to time;
- Reviews the adequacy and effectiveness of our system of internal control over financial reporting and disclosure controls and procedures;
- Reviews and approves, at least annually, the management, scope, plans, budget, staffing and relevant processes and programs of the company's internal audit function;
- Establishes and oversees procedures for receiving and handling reports of potential misconduct, including violations of law or the company's Code of Ethics and complaints received by the company regarding accounting, internal accounting controls, auditing or federal securities law matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting, auditing or federal securities law matters;
- Oversees the company's other compliance policies and programs, including the implementation and effectiveness of the company's Code of Ethics; and
- Oversees and monitors the company's ERM efforts.

All of the audit committee members are financially literate. The board has determined that Mr. Kritzmacher qualifies as an audit committee financial expert within the meaning of applicable SEC regulations and that Mr. Kritzmacher acquired his expertise primarily through his prior and current experience as a chief financial officer.

Compensation Committee

The compensation committee assists the board in discharging its responsibilities relating to the compensation of the chief executive officer and other executive officers; develops, reviews and approves the principles guiding the company's compensation policies; oversees the company's compensation-related policies and programs and the level of awards to employees; and assists the board and the chairman of the board in succession planning. Among other things, the committee:

- Reviews and approves the corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers, evaluates their performance in light of such goals and objectives and, based on its evaluations and appropriate recommendations, reviews and approves the compensation of our chief executive officer and other executive officers, including approving the grant of equity awards, each on an annual basis;
- Assists the board in developing and evaluating potential candidates for executive positions and oversees and annually reviews the development of executive succession plans;
- Reviews and discusses with management the Compensation Discussion and Analysis required by SEC rules, recommends to the board whether the Compensation Discussion and Analysis should be included in the company's annual report and proxy statement and oversees the preparation of the compensation committee report required by SEC rules for inclusion in the company's annual report and proxy statement;
- Assesses the results of the company's most recent advisory vote on executive compensation, and considers and recommends to the board the frequency of the company's advisory vote on executive compensation;
- Reviews periodically compensation for non-management directors of the company and recommends changes to the board as appropriate;
- Reviews and approves compensation packages for new executive officers and severance packages for executive officers whose employment terminates with the company;
- Reviews and makes recommendations to the board with respect to the adoption or amendment of incentive and other equity-based compensation plans;
- Administers the company's equity incentive plans;
- Reviews periodically, revises as appropriate and monitors compliance by directors and executive officers with the company's stock ownership guidelines;
- Reviews and considers compensation policies and/or practices as they relate to risk management practices and/or incentives that enhance risk-taking, as the committee determines to be appropriate; and
- Is directly responsible for the appointment, compensation and oversight of the work of any consultants and other advisors retained by the committee, and assesses the independence of any consultants and other advisors (whether retained by the committee or management) that provide advice to the committee in accordance with the listing standards of the NASDAQ Stock Market and applicable law.

The compensation committee may delegate authority to the committee chairman or a sub-committee, as the committee may deem appropriate, subject to such ratification by the committee as the committee may direct. The compensation committee also may delegate to one or more officers of the company the authority to make grants

of stock options or other discretionary awards at specified levels, under specified circumstances, to eligible employees who are not executive officers of the company, subject to reporting to and such ratification by the committee as the committee may direct.

Compensation Committee Interlocks and Insider Participation

No director serving on the compensation committee during any part of 2013 was, at any time either during or before such fiscal year, an officer or employee of the company or any of its subsidiaries. In addition, none of our executive officers has served as a member of a board of directors or a compensation committee, or other committee serving an equivalent function, of any other entity, one of whose executive officers served as a member of the company's board or compensation committee.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee assists the board in identifying qualified individuals to become board and committee members, considers matters of corporate governance and assists the board in evaluating the board's effectiveness. Among other things, the committee:

- Develops and recommends to the board criteria for board membership;
- Identifies, reviews the qualifications of and recruits candidates for election to the board and to fill vacancies or new positions on the board;
- Assesses the contributions of incumbent directors in determining whether to recommend them for reelection to the board;
- Reviews candidates recommended by the company's shareholders for election to the board;
- Assesses the independence of directors, director nominees and director candidates under applicable standards, including any heightened independence requirements applicable to audit and compensation committee members, and recommends independence determinations to the board;
- Reviews annually our corporate governance principles and recommends changes to the board as appropriate;
- Recommends to the board, after consultation with the audit committee, changes to our Code of Ethics;
- Assist the board in ensuring proper attention and effective response to shareholder concerns regarding corporate governance;
- Reviews and makes recommendations to the board with respect to the board's and each committee's size, structure, composition and functions;
- Oversees the process for evaluating the board and its committees; and
- Periodically reviews the board's leadership structure and recommends changes to the board as appropriate.

The committee will consider director candidates recommended by our shareholders. Shareholders recommending candidates for consideration by the nominating and corporate governance committee should send their recommendations to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, Delaware 19809-3727. The recommendation must include the candidate's name, biographical data and qualifications and a written statement from the candidate of his or her consent to be named as a candidate and, if nominated and elected, to serve as a director. The committee may ask candidates for additional information as part of the process of assessing a shareholder-recommended director candidate. The committee evaluates director candidates recommended by shareholders based on the same criteria used to evaluate candidates from other sources.

While the board has not established a formal policy for considering diversity when evaluating director candidates, the board endeavors to have a diverse membership, viewing such diversity expansively to include differences of perspective, professional experience, education, skill and other individual qualities and attributes that contribute to board heterogeneity. As described in our corporate governance principles, the board aims to have members representing such diverse experiences at policymaking levels in business, finance and technology and other areas that are relevant to the company's global activities. The selection criteria for director candidates include the following:

- Each director should be an individual of the highest personal and professional ethics, integrity and values.
- Each director should be committed to representing the long-term interests of the company's shareholders and demonstrate a commitment to long-term service on the board.
- Each director should have an inquisitive and objective perspective, practical wisdom and mature judgment.

The committee periodically evaluates the composition of the board to assess the skills and experience that are currently represented on the board, as well as the skills and experience that the board will find valuable in the future. This evaluation of the board's composition enables the board to update the skills and experience it seeks in the board as a whole, and in individual directors, as the company's needs evolve and change over time and to assess the effectiveness of efforts at pursuing diversity.

Finance and Investment Committee

The finance and investment committee assists the board by monitoring, providing advice and recommending action with respect to the investment and financial policies and strategies and the capital structure of the company. Among other things, the committee reviews and provides guidance with respect to:

- The company's strategic plan and annual budgets;
- The company's capital structure, including the issuance of debt, equity or other securities;
- Investment policies;
- Share repurchases and shareholder distributions;
- Acquisitions, divestitures or strategic investments;
- The company's valuation model and financial analysis of significant strategic decisions;
- Significant monetary issues such as foreign currency management policies;
- Tax planning; and
- The retention of investment bankers and other financial advisors, including review of the fees and other retention terms for any such advisors.

The finance and investment committee may delegate authority to the committee chairman or a sub-committee, as the committee may deem appropriate, subject to such ratification by the committee as the committee may direct.

Communications with the Board

How can shareholders communicate with the board?

Shareholders and other parties interested in communicating directly with any individual director, including the chairman, the board as a whole or the non-management directors as a group may do so by writing to Investor Relations, InterDigital, Inc., 9710 Scranton Road, Suite 250, San Diego, California 92121, or by sending an

email to *Directors@InterDigital.com*. Our Investor Relations department reviews all such correspondence and regularly forwards to the board or specified director(s) a summary of all such correspondence and copies of all correspondence that deals with the functions of the board or its committees or that otherwise requires their attention. Directors may, at any time, review a log of all correspondence we receive that is addressed to members of the board and request copies of any such correspondence.

Communications About Accounting Matters

How can individuals report concerns relating to accounting, internal control, auditing or federal securities law matters?

Concerns relating to accounting, internal control, auditing or federal securities law matters may be submitted by writing to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, Delaware 19809-3727. All correspondence will be brought to the attention of the chairman of the audit committee and handled in accordance with procedures established by the audit committee with respect to these matters.

DIRECTOR COMPENSATION

How are directors compensated?

For board participation during 2013, our non-management directors were compensated as follows:

- Each received an annual cash retainer of \$40,000;
- The chairman of the audit committee received an annual cash retainer of \$30,000;
- The other members of the audit committee each received an annual cash retainer of \$12,000;
- The chairman of the compensation committee received an annual cash retainer of \$15,000;
- The other members of the compensation committee each received an annual cash retainer of \$7,500;
- The chairmen of the finance and investment and nominating and corporate governance committees each received an annual cash retainer of \$10,000;
- The other members of the finance and investment and nominating and corporate governance committees each received an annual cash retainer of \$5,000; and
- The chairman of the board received an additional annual cash retainer of \$50,000.

All cash retainers are generally paid quarterly in arrears and based upon service for a full year, and prorated payments are made for service of less than a full year.

The compensation program is designed to compensate each non-management director for participating in up to eight board meetings per year and up to eight meetings per year for each committee on which the non-management director serves. Additional compensation is paid to each non-management director for participating in meetings during the board term (which runs from annual meeting date to annual meeting date) in excess of these thresholds, as follows:

Each additional board meeting:	\$4,000
Each additional audit committee meeting:	\$1,200
Each additional compensation committee meeting:	\$ 750
Each additional meeting of any other committee:	\$ 500

For his or her service during the 2013-2014 board term, each non-management director received a restricted stock unit (“RSU”) award in an amount equal in value to \$150,000 (with the number of RSUs granted calculated using the 30-day historical average of the company’s stock price) that vests in full one year from the grant date. RSU awards may be deferred. An election to defer must be made in the calendar year preceding the year during which services are rendered and the compensation is earned. Unvested time-based RSUs and deferred RSUs accrue dividend equivalents, which are paid in the form of additional shares of stock at the time, and only to the extent, that the awards vest or at the end of the deferral period, as applicable.

To align the interests of non-management directors and executives with those of our shareholders, the company has adopted stock ownership guidelines. The stock ownership guidelines applicable to the non-management directors are set at a target of five times their annual cash retainer of \$40,000. Qualifying stock includes: shares of common stock, restricted stock and, on a pre-tax basis, unvested time-based RSUs. Any director who has not reached or fails to maintain the target ownership level must retain at least 50% of any after-tax shares derived from vested RSUs or exercised options until the target ownership level is met. A director may not make any disposition of shares that results in his or her holdings falling below the target ownership level without the express approval of the compensation committee. As of March 31, 2014, all of the non-management directors had reached their target ownership levels.

The company's directors are also eligible to participate in the company's nonqualified deferred compensation plan, which was implemented in 2013, by deferring receipt of their annual board fees. None of the directors elected to participate in the deferred compensation plan in 2013. For more information about the deferred compensation plan, see "Executive Compensation – Nonqualified Deferred Compensation."

2013 Non-management Director Compensation Table

The following table sets forth the compensation paid to each person who served as a non-management director of the company in 2013 for their service in 2013. Directors who also serve as employees of the company do not receive any additional compensation for their services as a director.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)(1)</u>	<u>Stock Awards \$(2)</u>	<u>Total (\$)</u>
Gilbert F. Amelio	62,333	152,078	214,411
Jeffrey K. Belk	58,667	152,078	210,745
Steven T. Clontz	105,667	152,078	257,745
Edward B. Kamins	65,833	152,078	217,911
John A. Kritzmacher	71,867	152,078	223,945
Jean F. Rankin	59,033	152,078	211,111
Robert S. Roath	50,000	152,078	202,078

- (1) Amounts reported represent the aggregate annual board, chairman of the board, committee chairman and committee membership retainers earned by each non-management director in 2013, plus any fees earned for attendance at additional meetings during the 2012-2013 board term, as described above.
- (2) Amounts shown reflect the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 for RSU awards granted pursuant to our compensation program for non-management directors in 2013. The assumptions used in valuing these RSU awards are incorporated by reference to Notes 2 and 10 to our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2013. The following table sets forth the grant date fair value of each RSU award granted to our non-management directors in 2013.

<u>Name</u>	<u>Grant Date</u>	<u>Number of Restricted Stock Units (#)</u>	<u>Grant Date Fair Value of Stock Awards (\$)</u>
Gilbert F. Amelio	6/13/2013	3,253	152,078
Jeffrey K. Belk	6/13/2013	3,253	152,078
Steven T. Clontz	6/13/2013	3,253	152,078
Edward B. Kamins	6/13/2013	3,253	152,078
John A. Kritzmacher	6/13/2013	3,253	152,078
Jean F. Rankin	6/13/2013	3,253	152,078
Robert S. Roath	6/13/2013	3,253	152,078

As of December 31, 2013, each person who served as a non-management director of the company in 2013 had the following aggregate amounts of unvested RSU awards (including accrued dividend equivalents) outstanding. None of our directors had any options outstanding as of December 31, 2013. This table does not include RSUs that, as of December 31, 2013, had vested according to their vesting schedule, but had been deferred.

<u>Name</u>	<u>Outstanding Restricted Stock Units (#)</u>
Gilbert F. Amelio	3,270
Jeffrey K. Belk	3,270
Steven T. Clontz	3,270
Edward B. Kamins	3,270
John A. Kritzmacher	3,270
Jean F. Rankin	3,270
Robert S. Roath	3,270

PROPOSALS TO BE VOTED ON

Election of Directors (Proposal 1)

Description

Which directors are nominated for election?

Dr. Gilbert F. Amelio, Messrs. Jeffrey K. Belk, Steven T. Clontz, Edward B. Kamins, John A. Kritzmacher, William J. Merritt and Robert S. Roath and Ms. Jean F. Rankin are nominated for election at the 2014 annual meeting, each to serve a one-year term until our annual meeting in 2015 and until his or her successor is elected and qualified.

Set forth below is biographical information about the nominees, each of whose current terms of office expire at the 2014 annual meeting, and other information about the skills and qualifications of our directors that contribute to the effectiveness of the board.

What are their backgrounds?

Gilbert F. Amelio, 71, has been a director of the company since March 2011. His career spans decades of executive leadership roles at leading technology companies, including Chief Executive Officer and Chairman of Apple Computer; President, Chief Executive Officer and Chairman of National Semiconductor; and President of Rockwell Communication Systems, a unit of Rockwell International. A Senior Partner at Sienna Ventures, LLC, a venture capital firm, from 2001 through December 2011, a principal of GFA, LLC, a consulting firm, since 2005 and a Partner at Alteon Capital Partners, LLC, a consulting firm, since 2009, Dr. Amelio has been involved in the leadership or funding of a broad range of technology ventures, including Jazz Technologies, Inc., a publicly traded semiconductor foundry that he founded and where he served as Chairman and Chief Executive Officer from 2005 to 2008, and Acquicor Management LLC, a former shareholder of Jazz Technologies. Acquicor Management declared bankruptcy in 2008. In 2003, AmTech, LLC, a high technology investment and consulting services firm where Dr. Amelio served as Chairman and Chief Executive Officer from 1999 to 2004, declared bankruptcy. Dr. Amelio is a pioneer in the U.S. technology industry, having started his career at AT&T Bell Laboratories and Fairchild Semiconductor. A former director and chairman of the Semiconductor Industry Association, Dr. Amelio has served on the board of governors of the Electronics Industries Association and been a member of the executive committee of the Business and Higher Education Forum. He also serves on the board of directors of Galectin Therapeutics Inc. (formerly known as Pro-Pharmaceuticals, Inc.) (since 2009) and retired from the board of directors of AT&T Inc. in 2013 after 18 years of service. The board has concluded that Dr. Amelio should serve as a director of the company because his public company board and executive leadership experience at some of the most ground-breaking companies in the technology industry during times of dramatic growth and change serves as a great asset as the company pursues the creation of significant advancements in the wireless space.

Jeffrey K. Belk, 51, has been a director of the company since March 2010. Since 2008, he has served as Managing Director of ICT Capital, LLC, focused on developing and investing in select global growth opportunities in the information and communications technologies space. In 2014, he founded Velocity Growth, a purpose-built crowdfunding services company where he serves as Executive Chairman, and Bright Light Management, which was formed to identify, evaluate and stimulate funding for early-stage, entrepreneurial projects and where Mr. Belk serves as Managing Partner. Formerly, Mr. Belk spent almost 14 years at Qualcomm Incorporated, a developer and provider of digital wireless communications products and services, where, from 2006 until his departure in early 2008, he was Qualcomm's Senior Vice President of Strategy and Market Development, focused on examining changes in the wireless ecosystem and formulating approaches to help accelerate mobile broadband adoption and growth. From 2000 through 2006, Mr. Belk served as

Qualcomm's Senior Vice President, Global Marketing, leading a team responsible for all facets of the company's corporate messaging, communications and marketing worldwide. He currently serves on the boards of directors of Peregrine Semiconductor Corp. (since 2008), the Wireless-Life Sciences Alliance and the U.C. San Diego Alumni Association. The board has concluded that Mr. Belk should serve as a director of the company because his extensive industry-specific experience in strategy and marketing makes him a valuable resource and provides him with unique insights on the challenges and opportunities facing the company in the wireless markets.

Steven T. Clontz, 63, has been a director of the company since April 1998 and was elected Chairman of the Board in January 2010. In January 2010, Mr. Clontz joined Singapore Technologies Telemedia, a Singapore-registered private limited company that is an investor/operator in the telecommunications and media sectors, as Senior Executive Vice President for North America and Europe. From January 1999 through his retirement at the end of 2009, Mr. Clontz served as President and Chief Executive Officer of StarHub, Ltd., a Singapore-based, publicly traded telecommunications and media corporation providing a full range of services over fixed, mobile and cable TV networks. He continues to serve as a non-executive director of StarHub and also serves on the board of directors of Level 3 Communications, Inc. (since 2012). Mr. Clontz previously served on the board of directors of Equinix, Inc, from 2005 to 2013, eircom Limited, from 2010 to 2011, and the executive committee of the board of directors of Global Crossing Limited, from 2004 to 2011. The board has concluded that Mr. Clontz should serve as a director of the company because he is a global telecommunications industry leader with significant industry-specific public company board and executive leadership experience whose deep knowledge of the wireless markets brings valuable insight that is needed to evolve and execute the company's strategy.

Edward B. Kamins, 65, has been a director of the company since December 2003. Mr. Kamins is the principal member of UpFront Advisors, a business consulting services firm he founded in March 2009. From July 1999 until his retirement in February 2009, Mr. Kamins served as Corporate Senior Vice President of Avnet, Inc., one of the world's largest global distributors of electronic components, enterprise computing and embedded subsystems. Mr. Kamins served as Chief Information Officer of Avnet beginning in July 2004 and accepted the newly created post of Chief Operational Excellence Officer in July 2006. He joined Avnet in 1996 as Senior Vice President of Business Development for Avnet Computer Marketing and founded and served as Group President of Avnet Applied Computing, a customized computer solutions business that grew to \$1.6 billion in global revenues. Prior to that, his sixteen-year career with Digital Equipment culminated with the position of Vice President of Channels, with responsibility for a \$1.5 billion revenue-generating North American channels business. The board has concluded that Mr. Kamins should serve as a director of the company because, as a long-time senior operational executive with forty years of experience in the high technology industry, he contributes valuable advice regarding the company's challenges and opportunities.

John A. Kritzmacher, 53, has been a director of the company since June 2009. Since 2013, Mr. Kritzmacher has served as Executive Vice President and Chief Financial Officer of John Wiley & Sons, Inc., a global provider of knowledge and knowledge-based services in the areas of research, professional development and education. From October 2012 through February 2013, Mr. Kritzmacher served as Senior Vice President Business Operations and Organizational Planning at WebMD Health Corp., a leading provider of health information services, where Mr. Kritzmacher was responsible for leading a major restructuring initiative. Previously, Mr. Kritzmacher served as Executive Vice President and Chief Financial Officer of Global Crossing Limited, a global provider of IP-based telecommunications solutions, from October 2008 to October 2011, when Global Crossing was acquired by Level 3 Communications, Inc. Prior to that, Mr. Kritzmacher rose through a variety of positions with increasing responsibility, including Senior Vice President and Corporate Controller, during his 10 years at Lucent Technologies, a provider of telecommunications systems and services, to become Chief Financial Officer in 2006. After playing a leading role in the planning and execution of Lucent's merger with Alcatel in 2006, Mr. Kritzmacher became Chief Operating Officer of the Services Business Group at Alcatel-Lucent until joining Global Crossing in 2008. Mr. Kritzmacher also served on the board of directors of Duff & Phelps Corporation from 2011 until the company's acquisition by a private equity consortium in 2013. The board has concluded that Mr. Kritzmacher should serve as a director of the company because he is a veteran of the

telecommunications and high technology industries with extensive operational and leadership experience and financial expertise. As such, Mr. Kritzmacher contributes valuable advice and guidance, especially with respect to complex financial and accounting issues, and serves as the board's audit committee financial expert.

William J. Merritt, 55, has been a director of the company since May 2005. He has also served as President and Chief Executive Officer of the company since May 2005 and as President and Chief Executive Officer of InterDigital Communications, LLC, a wholly owned subsidiary of the company, since its formation in July 2007. Mr. Merritt served as General Patent Counsel of the company from July 2001 to May 2005 and as President of InterDigital Technology Corporation, a wholly owned patent licensing subsidiary of the company, from July 2001 to January 2008. Since 2014, Mr. Merritt is a member of the board of directors of privately owned Shared Spectrum Company, a leading innovator of dynamic spectrum access and wireless spectrum intelligence technology. The board has concluded that Mr. Merritt should serve as a director of the company because, in his current and former roles, Mr. Merritt has played a vital role in managing the company's intellectual property assets and overseeing the growth of its patent licensing business. He also possesses tremendous knowledge about the company from short- and long-term strategic perspectives and from a day-to-day operational perspective and serves as a conduit between the board and management while overseeing management's efforts to realize the board's strategic goals.

Jean F. Rankin, 55, has been a director of the company since June 2010. Ms. Rankin has served as Executive Vice President, General Counsel and Secretary at LSI Corporation, a leading provider of innovative silicon, systems and software technologies for the global storage and networking markets, since 2007. In this role, she serves LSI and its board of directors as Corporate Secretary, in addition to managing the company's legal, intellectual property licensing and stock administration organizations. Ms. Rankin joined LSI in 2007 as part of the merger with Agere Systems, where she served as Executive Vice President, General Counsel and Secretary from 2000 to 2007. Prior to joining Agere in 2000, Ms. Rankin was responsible for corporate governance and corporate center legal support at Lucent Technologies, including mergers and acquisitions, securities laws, labor and employment, public relations, ERISA, investor relations and treasury. She also supervised legal support for Lucent's microelectronics business. The board has concluded that Ms. Rankin should serve as a director of the company because she has extensive experience and expertise in matters involving intellectual property licensing, the company's core business, and her current and former roles as chief legal officer and corporate secretary at other publicly traded companies enable her to contribute legal expertise and advice as to best practices in corporate governance.

Robert S. Roath, 71, has been a director of the company since May 1997. He served as Senior Vice President and Chief Financial Officer of RJR Nabisco, Inc. before his retirement in 1997. Mr. Roath is a long-time senior strategic and financial executive with diversified corporate and operating experience with various global companies, including Colgate-Palmolive, General Foods, GAF Corporation and Price Waterhouse. He has been a director of Standard Parking Corporation since its initial public offering in May 2004 and became its chairman of the board in October 2009. Mr. Roath also serves as chairman of Standard Parking's compensation committee. The board has concluded that Mr. Roath should serve as a director of the company because his achievements as an executive in operations, finance, strategy formulation, business development and mergers and acquisitions allow him to provide valuable guidance, especially with respect to the major financial policies and decisions of the company and the analysis of the business challenges and opportunities facing the company.

Vote Required and Board Recommendation

Director nominees receiving the affirmative vote of the majority of votes cast for him or her will be elected to serve as directors for the next year and until his or her successor is elected and qualified. A majority of the votes cast means that the number of votes cast "for" a director nominee must exceed the number of votes cast "against" that nominee.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE *FOR*
EACH OF THE NOMINEES.**

Re-Approval of the Material Terms of the Company's 2009 Stock Incentive Plan (Proposal 2)

Description

Our board of directors is recommending that shareholders re-approve the material terms of the company's 2009 Stock Incentive Plan (the "2009 Plan"). On April 27, 2009, the board adopted, and on June 4, 2009, the company's shareholders approved, the 2009 Plan. The 2009 Plan was amended in 2013 to permit certain deferrals of income under the plan. To allow the company to have the ability to grant certain awards that qualify as tax-deductible "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), the company is asking shareholders to re-approve the material terms of the 2009 Plan. The material terms of the 2009 Plan are described below. **Shareholders are not being asked to approve an increase in the number of shares available for grant under the 2009 Plan or any other amendment to the 2009 Plan.**

The 2009 Plan has been structured in a manner such that awards granted under it can satisfy the requirements for "performance-based" compensation within the meaning of Section 162(m) of the Code ("Section 162(m)"). In general, Section 162(m) denies a corporate tax deduction for annual compensation exceeding \$1 million paid by a publicly held company to its chief executive officer or to any other "covered employees" as determined under Section 162(m). However, compensation that is deemed to be "performance-based" under Section 162(m) is generally excluded from this limit. One of the requirements of "performance-based" compensation for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by the company's shareholders every five years. By approving the material terms of the 2009 Plan, shareholders will be approving: (i) the employees eligible to receive compensation, (ii) a description of the business criteria on which the performance goal is based and (iii) the maximum amount of compensation that can be paid to an employee under the performance goal. Each of these terms is discussed below.

Why You Should Vote For the Re-Approval of the Material Terms of the 2009 Plan

The board believes that it is in the best interests of the company and its shareholders to continue to provide for an equity incentive plan under which compensation awards made to the company's executive officers can qualify for deductibility by the company for U.S. federal income tax purposes. The board also believes the company's ability to grant performance-based awards continues to be crucial in allowing the company to effectively compete for and appropriately motivate and reward key talent. It is in the long-term interest of both the company and its shareholders to strengthen the company's ability to attract, motivate and retain employees, officers, nonemployee directors and certain other service providers and to provide additional incentive for those persons through stock ownership and other incentives to improve financial performance, increase profits and strengthen the mutuality of interest between those persons and the company's shareholders.

Promotion of Good Corporate Governance Practices

The board believes the use of stock-based incentive awards promotes best practices in corporate governance by maximizing shareholder value. By providing participants in the 2009 Plan with a stake in the company's success, the interests of the participants are aligned with those of the company's shareholders. Specific features of the 2009 Plan that are consistent with good corporate governance practices include, but are not limited to:

- options and stock appreciation rights may not be granted with exercise prices lower than the fair market value of the underlying shares on the grant date;
- there can be no repricing of options or stock appreciation rights without shareholder approval, either by canceling the award in exchange for cash or a replacement award at a lower price or by reducing the exercise price of the award, other than in connection with a change in the company's capitalization;

- “change in control” will not occur under the 2009 Plan merely upon shareholder approval of a transaction or the commencement or announcement of a tender or exchange offer for the company’s shares;
- there is no automatic right to accelerated vesting of unvested awards upon the occurrence of a change in control as the 2009 Plan leaves the treatment of awards in connection with a change in control to the administrator (i.e., the compensation committee);
- awards generally may not be transferred except by will or the laws of descent and distribution or, if approved by the administrator, to certain family members, family trusts, or family partnerships pursuant to a gift or domestic relations order; and
- the company has the authority under the 2009 Plan to cancel outstanding awards (vested or unvested) in the event the applicable plan participant engages in certain “detrimental activity,” which is defined in the 2009 Plan to include engaging in any type of disloyalty to the company, conviction of a felony, and materially breaching confidentiality and noncompetition covenants with the company.

Plan Summary

The following summary of the material terms of the 2009 Plan is qualified in its entirety by reference to the complete statement of the 2009 Plan, which is set forth in Appendix A to this Proxy Statement.

Administration

The 2009 Plan is administered by a committee of two or more directors designated by the board. Currently, the compensation committee of the board serves as administrator of the 2009 Plan. Subject to the express provisions of the 2009 Plan, the administrator is authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of the 2009 Plan. In addition, the compensation committee may delegate any or all aspects of the day-to-day administration of the 2009 Plan to one or more officers or employees of the company or any subsidiary, and/or to one or more agents.

Participants

Any person who is an employee of the company or of any subsidiary is eligible for selection by the administrator for the grant of awards under the 2009 Plan. In addition, nonemployee directors and any service providers who have been retained to provide consulting, advisory or other services to the company or to any subsidiary are eligible for the grant of awards under the 2009 Plan. The 2009 Plan allows grants of incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units, any of which may be performance-based, and for incentive bonuses. Options intending to qualify as “incentive stock options” (“ISOs”) within the meaning of Section 422 of the Code may only be granted to employees of the company or any subsidiary. Approximately 300 employees, 7 nonemployee directors and 7 consultants were eligible to participate in the 2009 Plan as of February 28, 2014.

Shares Subject to the Plan and to Awards

The aggregate number of shares of the company’s common stock issuable pursuant to the 2009 Plan may not exceed 2,114,349, plus (i) any shares that were authorized, as of June 4, 2009, for issuance under the company’s 1999 Restricted Stock Plan, 2000 Stock Award and Incentive Plan and 2002 Stock Award and Incentive Plan (collectively, the “Prior Plans”) and (ii) any shares subject to outstanding awards under the Prior Plans as of June 4, 2009 that on or after such date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent that they are exercised for or settled in vested and non-forfeitable shares), subject to adjustment upon a change in the company’s capitalization. Accordingly, as of June 4, 2009, 3,100,775 shares were initially available for issuance under the 2009 Plan. As of February 28, 2014, 2,245,569 shares remained available for issuance under the 2009 Plan, and 1,700 shares remained subject to outstanding awards under the Prior Plans.

The aggregate number of shares issued under the 2009 Plan at any time equals only the number of shares actually issued upon exercise or settlement of an award. The following shares will again be available for issuance under the 2009 Plan: (a) shares subject to awards that expire, terminate or are unexercised, forfeited or settled in cash; (b) shares subject to awards that have been retained or withheld by the company in payment of the exercise price, purchase price or tax withholding obligation of an award; (c) shares subject to awards that otherwise do not result in the issuance of shares in connection with payment or settlement of an award; and (d) shares that have been delivered to the company in payment or satisfaction of the exercise price, purchase price, or tax withholding obligation.

In each calendar year, a participant may be granted awards under the 2009 Plan denominated in shares up to his or her annual share limit. A participant's annual share limit, in any calendar year, shall equal 300,000 shares of common stock plus the amount of the participant's unused annual share limit as of the close of the previous year, which number shall be subject in each case to adjustment upon a change in the company's capitalization. In each calendar year a participant may be granted awards under the 2009 Plan denominated in cash (and not shares) up to his or her annual cash limit. A participant's annual cash limit, in any calendar year, shall equal \$1.5 million plus the amount of the participant's unused annual cash limit as of the close of the previous year.

Qualifying Performance Criteria

The administrator may establish performance criteria and level of achievement versus such criteria that will determine the number of shares to be granted, retained, vested, issued or issuable under or in settlement of or the amount payable pursuant to an award, which criteria may be based on "qualifying performance criteria" (as described below) or other standards of financial performance and/or personal performance evaluations. In addition, the administrator may specify that an award or a portion of an award is intended to satisfy the requirements for "performance-based compensation" under Section 162(m), provided that the performance criteria for such award or portion of an award that is intended by the administrator to satisfy the requirements for "performance-based compensation" under Section 162(m) will be a measure based on one or more qualifying performance criteria selected by the administrator and specified at the time the award is granted. The administrator will certify the extent to which any qualifying performance criteria has been satisfied, and the amount payable as a result thereof, prior to payment, settlement or vesting of any award that is intended to satisfy the requirements for "performance-based compensation" under 162(m) of the Code. Notwithstanding satisfaction of any performance goals, the number of shares issued under or the amount paid under an award may be reduced, but not increased, by the administrator on the basis of such further considerations as the administrator in its sole discretion may determine.

For purposes of the 2009 Plan, the term "qualifying performance criteria" means any one or more of the following performance criteria, or derivations of such performance criteria, either individually, alternatively or in any combination, applied to either the company as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the administrator: (i) net sales; (ii) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items; (iii) net income or net income per common share (basic or diluted); (iv) return on assets (gross or net), return on investment, return on capital, or return on equity; (v) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (vi) interest expense after taxes; (vii) economic value added or created; (viii) operating margin or profit margin; (ix) stock price or total shareholder return; (x) average cash balance or cash position; and (xi) strategic business criteria, consisting of one or more objectives based on meeting specified product development, strategic partnering, licensing, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures.

To the extent consistent with Section 162(m) of the Code, the administrator (i) may appropriately adjust any evaluation of performance under a qualifying performance criteria to eliminate the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the disposal of a segment of a business or related to a change in accounting principle all as determined in accordance with standards established by ASC 225-20 or other applicable or successor accounting provisions, as well as the cumulative effect of accounting changes, in each case as determined in accordance with generally accepted accounting principles or identified in the company's financial statements or notes to the financial statements, and (ii) may appropriately adjust any evaluation of performance under a qualifying performance criteria to exclude any of the following events that occurs during a performance period: (a) asset write-downs, (b) litigation, claims, judgments or settlements, (c) the effect of changes in tax law or other such laws or provisions affecting reported results, (d) accruals for reorganization and restructuring programs and (e) accruals of any amounts for payment under the 2009 Plan or any other compensation arrangement maintained by the company.

Option Awards

The administrator will establish the exercise price per share under each option, which, other than in the event of options granted in connection with a merger or other acquisition, will not be less than the fair market value of a share on the date the option is granted. The administrator will establish the term of each option, which in no case may exceed a period of ten (10) years from the date of grant. Options granted under the 2009 Plan may either be ISOs or options which are not intended to qualify as ISOs, or nonqualified stock options ("NQSOs"). The aggregate number of shares that may be issued pursuant to the exercise of ISOs granted under the 2009 Plan shall not exceed 3,000,000. As of February 28, 2014, no shares have been issued pursuant to the exercise of ISOs granted under the 2009 Plan. *The 2009 Plan prohibits repricing stock options without shareholder approval.*

Stock Appreciation Rights

A stock appreciation right provides the right to the monetary equivalent of the increase in value of a specified number of the shares over a specified period of time after the right is granted. Stock appreciation rights may be granted to participants either in tandem with or as a component of other awards granted under the 2009 Plan ("tandem SARs") or not in conjunction with other awards ("freestanding SARs"). All freestanding SARs will be granted subject to the same terms and conditions applicable to options as set forth above and in the 2009 Plan and all tandem SARs will have the same exercise price, vesting, exercisability, forfeiture and termination provisions as the award to which they relate. *The 2009 Plan prohibits repricing stock appreciation rights without shareholder approval.*

Restricted Stock and Restricted Stock Units

Restricted stock is an award or issuance of shares the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to conditions (including continued employment or performance conditions) and terms as the administrator deems appropriate. Restricted stock units are awards denominated in units of shares under which the issuance of shares is subject to conditions (including continued employment or performance conditions) and terms as the administrator deems appropriate. Participants holding shares of restricted stock granted under the 2009 Plan may exercise full voting rights with respect to those shares during the period of restriction. Participants will have no voting rights with respect to shares underlying restricted stock units unless and until such shares are reflected as issued and outstanding shares on the company's stock ledger. Participants in whose name restricted stock is granted will be entitled to receive all dividends and other distributions paid with respect to those shares, unless determined otherwise by the administrator. Shares underlying restricted stock units will be entitled to dividends or dividend equivalents only to the extent provided by the administrator.

Incentive Bonuses

Each incentive bonus will confer upon the participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period specified by the administrator. The administrator will establish the performance criteria and level of achievement versus these criteria that will determine the target and maximum amount payable under an incentive bonus, which criteria may be based on financial performance and/or personal performance evaluations.

Deferral of Gains

The administrator may permit or require a participant to defer such participant's receipt of the payment of cash or the delivery of shares that would otherwise be due to such participant by virtue of the lapse or waiver of restrictions with respect to restricted stock units. If any such deferral election is required or permitted, the administrator will, in its sole discretion, establish rules and procedures for such payment deferrals.

Settlement of Awards

Awards, may be settled in shares, cash or a combination thereof, as determined by the administrator.

Amendment and Termination

The board may amend, alter or discontinue the 2009 Plan and the administrator may amend, or alter any agreement or other document evidencing an award made under the 2009 Plan, except no such amendment may, without the approval of the shareholders of the company (other than in respect of a change in the company's capitalization): increase the maximum number of shares for which awards may be granted under the 2009 Plan; reduce the exercise price of outstanding options; extend the term of the 2009 Plan; change the class of persons eligible to be participants; otherwise amend the 2009 Plan in any manner requiring shareholder approval by law or under the NASDAQ Global Select Market listing requirements; or increase the individual maximum limits set forth in the 2009 Plan.

No amendment or alteration to the 2009 Plan or an award or award agreement may be made which would impair the rights of the holder of an award, without such holder's consent, provided that no such consent will be required if the administrator determines in its sole discretion and prior to the date of any change in control that such amendment or alteration either is required or advisable in order for the company, the 2009 Plan or the award to satisfy any law or regulation or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard.

Change in Control

Unless otherwise expressly provided in an award agreement or another contract, including an employment agreement, or under the terms of a transaction constituting a change in control (as defined in the 2009 Plan), the administrator may provide for the acceleration of the vesting and, if applicable, exercisability of any outstanding award, or the lapsing of any conditions of restrictions on or the time for payment in respect of any outstanding award, upon termination of the participant's employment following a change in control. In addition, unless otherwise expressly provided in an award agreement or another contract, including an employment agreement, or under the terms of a transaction constituting a change in control, the administrator may provide that any or all of the following will occur in connection with a change in control: (i) the substitution for the shares subject to any outstanding award, stock or other securities of the surviving corporation or any successor corporation to the company, in which event the aggregate purchase or exercise price, if any, of such award will remain the same, (ii) the conversion of any outstanding award into a right to receive cash or other property upon or following the consummation of the change in control in an amount equal to the value of the consideration to be received by holders of shares in connection with such transaction for one share, less the per share purchase or exercise price of such award, if any, multiplied by the number of shares subject to such award, and/or (iii) the cancellation of any outstanding and unexercised awards upon or following the consummation of the change in control.

Adjustments

In the event that any dividend or other distribution (whether in the form of cash, shares, other securities or other property), stock split or a combination or consolidation of the outstanding shares into a lesser number of shares, is declared with respect to the shares, the authorization limits provided in the 2009 Plan may be increased or decreased proportionately, and the shares then subject to each award may be increased or decreased proportionately without any change in the aggregate purchase price of those shares. In the event the shares will be changed into or exchanged for a different number or class of shares of stock or securities of the company or of another corporation, whether through recapitalization, reorganization, reclassification, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities of the company, issuance of warrants or other rights to purchase shares or other securities of the company, or any other similar corporate transaction or event affects the shares such that an equitable adjustment would be required in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2009 Plan, then the authorization limits provided in the 2009 Plan may be adjusted proportionately, and an equitable adjustment may be made to each share subject to an award such that no dilution or enlargement of the benefits or potential benefits occurs.

Transferability

Awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a participant other than by will or the laws of descent and distribution, and each option or stock appreciation right may be exercisable only by the participant during his or her lifetime. Notwithstanding the foregoing, to the extent permitted by the administrator, the person to whom an award is initially granted may make certain limited transfers to certain family members, family trusts, or family partnerships.

No Right to Company Employment

Nothing in the 2009 Plan or an award agreement will interfere with or limit in any way the right of the company, its subsidiaries and/or its affiliates to terminate any participant's employment, service on the board or service for the company at any time or for any reason not prohibited by law, nor will the 2009 Plan or an award itself confer upon any participant any right to continue his or her employment or service for any specified period of time. Neither an award nor any benefits arising under the 2009 Plan will constitute an employment contract with the company, any subsidiary and/or its affiliates.

Compliance with Law

The 2009 Plan, the grant, issuance, vesting, exercise and settlement of awards thereunder, and the obligation of the company to sell, issue or deliver shares under such awards, will be subject to all applicable foreign, federal, state and local laws, rules and regulations, stock exchange rules and regulations, and to such approvals by any governmental or regulatory agency as may be required. The company will not be required to issue or deliver any certificates for shares prior to the completion of any registration or qualification of such shares under any federal or state law or issuance of any ruling or regulation of any government body which the company will, in its sole discretion, determine to be necessary or advisable.

Effective Date and Termination of the 2009 Plan

The 2009 Plan became effective on June 4, 2009. The 2009 Plan will remain available for the grant of awards until the tenth anniversary of the effective date.

Federal Income Tax Treatment

The following discussion of the federal income tax consequences of the 2009 Plan is intended to be a summary of applicable federal law as currently in effect. It should not be taken as tax advice by 2009 Plan participants, who are urged to consult their individual tax advisors.

Stock Options

ISOs and NQSOs are treated differently for federal income tax purposes. ISOs are intended to comply with the requirements of Section 422 of the Code. NQSOs do not comply with such requirements.

An optionee is not taxed on the grant or exercise of an ISO. The difference between the exercise price and the fair market value of the shares on the exercise date will, however, be a preference item for purposes of the alternative minimum tax. If an optionee holds the shares acquired upon exercise of an ISO for at least two years following the option grant date and at least one year following exercise, the optionee's gain, if any, upon a subsequent disposition of such shares is long term capital gain. The measure of the gain is the difference between the proceeds received on disposition and the optionee's basis in the shares (which generally equals the exercise price). If an optionee disposes of stock acquired pursuant to exercise of an ISO before satisfying these holding periods, the optionee will recognize both ordinary income and capital gain in the year of disposition. The company is not entitled to an income tax deduction on the grant or exercise of an ISO or on the optionee's disposition of the shares after satisfying the holding period requirement described above. If the holding periods are not satisfied, the company will be entitled to a deduction in the year the optionee disposes of the shares in an amount equal to the ordinary income recognized by the optionee.

In order for an option to qualify for ISO tax treatment, the grant of the option must satisfy various other conditions more fully described in the Code. The company does not guarantee that any option will qualify for ISO tax treatment even if the option is intended to qualify for such treatment. In the event an option intended to be an ISO fails to so qualify, it will be taxed as an NQSO described below.

An optionee is not taxed on the grant of an NQSO. On exercise, the optionee recognizes ordinary income equal to the difference between the exercise price and the fair market value of the shares acquired on the date of exercise. The company is entitled to an income tax deduction in the year of exercise in the amount recognized by the optionee as ordinary income. The optionee's gain (or loss) on subsequent disposition of the shares is long term capital gain (or loss) if the shares are held for at least one year following exercise. The company does not receive a deduction for this gain.

Stock Appreciation Rights

An optionee is not taxed on the grant of a stock appreciation right. On exercise, the optionee recognizes ordinary income equal to the cash or the fair market value of any shares received. The company is entitled to an income tax deduction in the year of exercise in the amount recognized by the optionee as ordinary income.

Restricted Stock and Restricted Stock Units

Grantees of restricted stock or restricted stock units do not recognize income at the time of the grant. When the award vests or is paid, grantees generally recognize ordinary income in an amount equal to the fair market value of the stock or units at such time, and the company will receive a corresponding deduction. However, no later than 30 days after a participant receives an award of restricted stock, the participant may elect to recognize taxable ordinary income in an amount equal to the fair market value of the shares at the time of receipt. Provided that the election is made in a timely manner, when the restrictions on the shares lapse, the participant will not recognize any additional income. If the participant forfeits the shares to the company (e.g., upon the participant's termination prior to vesting), the participant may not claim a deduction with respect to the income recognized as a result of the election. Dividends paid with respect to unvested shares of restricted stock generally will be taxable as ordinary income to the participant at the time the dividends are received.

Incentive Bonuses

A participant will have taxable income at the time an incentive bonus award becomes payable, and, if the participant has timely elected deferral to a later date, such later date. At that time, the participant will recognize ordinary income equal to the value of the amount then payable.

Company Deduction and Section 162(m)

For the individual serving as the chief executive officer of the company at the end of the taxable year and for the individuals serving as officers of the company or a subsidiary at the end of such year who are among the three highest compensated officers (other than the chief executive officer and chief financial officer) for proxy reporting purposes, Section 162(m) limits the amount of compensation otherwise deductible by the company and its subsidiaries for such year to \$1,000,000 for each such individual except to the extent that such compensation is “performance-based compensation.” The compensation committee may, but is not required to, establish performance conditions and other terms with respect to grants of restricted stock, restricted stock units and incentive compensation awards in order to qualify such grants as performance-based compensation for purposes of Section 162(m).

Plan Benefits

The future benefits that will be awarded or paid under the 2009 Plan are not currently determinable. Such awards are within the discretion of the compensation committee, and the compensation committee has not determined future awards or who might receive them. Set forth below is information about time-based RSU, performance-based RSU and option awards granted in 2013 under the 2009 Plan to (i) each of the company’s named executive officers, (ii) the company’s current executive officers as a group, (iii) the company’s non-executive directors as a group, and (iv) all non-executive employees as a group.

<u>Name and Position</u>	<u>Time-Based RSUs</u>	<u>Performance- Based RSUs (1)</u>	<u>Options</u>
William J. Merritt President and Chief Executive Officer	33,486(2)	42,645	22,085
Richard J. Brezski Chief Financial Officer and Treasurer	2,829	10,923	7,362
Scott A. McQuilkin Senior Executive Vice President, Innovation	16,243(3)	19,613	11,042
James J. Nolan Executive Vice President, Research and Development	12,394(4)	15,719	8,834
Lawrence F. Shay Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel	20,657(5)	23,857	14,723
Executive Group	93,135(6)	129,965	75,825
Non-Executive Director Group	22,771	—	—
Non-Executive Officer Employee Group	167,878	434,819	—

(1) In 2013, the compensation committee approved the grant of performance-based RSU awards for three Long-Term Incentive Plan (“LTIP”) cycles under the company’s Long-Term Compensation Plan, including the two active LTIP cycles that had commenced in 2011 and 2012, respectively, to provide more upside leverage and link employee and shareholder interests by tying value to both business results and future stock price. As a result, the numbers in this column reflect grants of performance-based RSU awards for three LTIP cycles, rather than just one, as the company would expect to be the case in future years. An aggregate total of 134,023 performance-based RSUs were granted to the company’s current executive officers and its non-executive employees for the 2013-2015 LTIP cycle, while an aggregate total of 430,761 performance-based RSUs were granted for the 2011-2013 and 2012-2014 LTIP cycles. Amounts reported reflect the target awards; the maximum payout possible under the each award is 200% of target.

- (2) Includes a discretionary grant of 25,000 RSUs that was not made pursuant to a regular ongoing program.
- (3) Includes a discretionary grant of 12,000 RSUs that was not made pursuant to a regular ongoing program.
- (4) Includes a discretionary grant of 9,000 RSUs that was not made pursuant to a regular ongoing program.
- (5) Includes a discretionary grant of 15,000 RSUs that was not made pursuant to a regular ongoing program.
- (6) Includes discretionary grants to the executive officers as a group of an aggregate of 64,000 RSUs that were not made pursuant to a regular ongoing program.

Vote Required and Board Recommendation

The affirmative vote of a majority of the votes cast is required for the re-approval of the material terms of the 2009 Plan.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE *FOR*
THE RE-APPROVAL OF THE MATERIAL TERMS OF THE COMPANY'S 2009 STOCK INCENTIVE
PLAN.**

Advisory Resolution to Approve Executive Compensation (Proposal 3)

Description

We are asking shareholders to vote on an advisory resolution to approve the company's executive compensation as reported in this proxy statement. As described below in the "Compensation Discussion and Analysis" section of this proxy statement, the compensation committee has structured our executive compensation program to attract, retain and motivate talented individuals who will drive the successful execution of the company's strategic plan. We motivate our executives primarily by "paying for performance," or rewarding the accomplishment of individual performance and corporate goals through the use of performance-based compensation. As discussed in "Compensation Discussion and Analysis," individual performance and the achievement of corporate goals determine the compensation paid to our executives under our short-term incentive plan and the long-term incentive plan component of our long-term compensation program. Our executive compensation programs have a number of features designed to promote these objectives.

We urge shareholders to read the "Compensation Discussion and Analysis" below, which describes how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative below, which provide detailed information on the compensation of our named executive officers. The compensation committee and the board of directors believe that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving our goals and that the compensation of our named executive officers reported in this proxy statement reflects and supports these compensation policies and procedures.

The board of directors has adopted a policy providing for an annual advisory resolution to approve executive compensation. In accordance with Section 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as a matter of good corporate governance, we are asking shareholders to approve the following advisory resolution at the 2014 annual meeting of shareholders:

RESOLVED, that the shareholders of InterDigital, Inc. (the "company") approve, on an advisory basis, the compensation of the company's named executive officers disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in the proxy statement for the company's 2014 annual meeting of shareholders.

This advisory resolution, commonly referred to as a "say on pay" resolution, is non-binding on the board of directors. Although non-binding, the board and the compensation committee will review and consider the voting results when making future decisions regarding our executive compensation program. Unless the board modifies its policy on the frequency of future "say on pay" votes, the next "say on pay" vote will be held at the 2015 annual meeting of shareholders.

Vote Required and Board Recommendation

The affirmative vote of the majority of votes cast is required to approve this advisory resolution.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE *FOR*
THE ADVISORY RESOLUTION TO APPROVE EXECUTIVE COMPENSATION.**

**Ratification of Appointment of
Independent Registered Public Accounting Firm
(Proposal 4)**

Description

The audit committee has appointed PricewaterhouseCoopers LLP (“PwC”) as the company’s independent registered public accounting firm for the year ending December 31, 2014. PwC has served as the independent registered public accounting firm of the company since 2002.

Although ratification of the appointment of PwC is not legally required, the board is asking the shareholders to ratify the appointment as a matter of good corporate governance. If the shareholders do not ratify the appointment, the audit committee will consider whether it is appropriate to select another independent registered public accounting firm in future years. Even if the shareholders ratify the appointment, the audit committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the company and its shareholders.

Representatives from PwC are expected to be present at the annual meeting, will have the opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

Fees of Independent Registered Public Accounting Firm

Aggregate fees for professional services delivered by PwC, the company’s independent registered public accounting firm, for the fiscal years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Type of Fees		
Audit Fees(1)	\$ 899,000	\$630,000
Audit-Related Fees(2)	\$ 161,900	\$150,000
Tax Fees(3)	\$ 67,325	\$150,000
All Other Fees(4)	\$ 1,800	\$ 1,800
Total	\$1,130,025	\$931,800

- (1) *Audit Fees* consist of the aggregate fees billed by PwC for the above fiscal years for professional services rendered by PwC for the integrated audit of the company’s consolidated financial statements and the company’s internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, for review of the company’s interim consolidated quarterly financial statements included in the company’s quarterly reports on Form 10-Q and for services that are normally provided by PwC in connection with regulatory filings or engagements for the above fiscal years. For 2013, such fees also include fees billed by PwC in connection with its audit of the financial statements of Convida Wireless, the company’s joint venture with Sony Corporation of America.
- (2) *Audit-Related Fees* consist of the aggregate fees billed by PwC for the above fiscal years for assurance and related services by PwC that were reasonably related to the performance of the audit or review of the company’s financial statements and are not reported above under the caption “Audit Fees.” For 2012, such fees relate primarily to consultation concerning financial accounting and reporting standards. For 2013, such fees relate to consultation concerning financial accounting and reporting standards and field verification of royalties from certain licensees and other contract compliance reviews.
- (3) *Tax Fees* consist of the aggregate fees billed by PwC for the above fiscal years related to a foreign tax study and other technical advice related to foreign tax matters.
- (4) *All Other Fees* consist of the aggregate fees billed by PwC for the above fiscal years for certain accounting research software licensed by the company from PwC.

Audit Committee Pre-Approval Policy for Audit and Non-Audit Services of Independent Registered Public Accounting Firm

The audit committee has adopted a policy that requires the committee to pre-approve all audit and non-audit services to be performed by the company's independent registered public accounting firm. Unless a service falls within a category of services that the audit committee already has pre-approved, an engagement to provide the service requires specific pre-approval by the audit committee. Also, proposed services exceeding pre-approved cost levels require specific pre-approval.

Consistent with the rules established by the SEC, proposed services to be provided by the company's independent registered public accounting firm are evaluated by grouping the services and associated fees under one of the following four categories: *Audit Services*, *Audit-Related Services*, *Tax Services* and *All Other Services*. All proposed services for the following year are discussed and pre-approved by the audit committee, generally at a meeting or meetings that take place during the October through December time period. In order to render approval, the audit committee has available a schedule of services and fees approved by category for the current year for reference, and specific details are provided.

The audit committee has delegated pre-approval authority to its chairman for cases where services must be expedited. In cases where the audit committee chairman pre-approves a service provided by the independent registered public accounting firm, the chairman is required to report the pre-approval decisions to the audit committee at its next scheduled meeting. The company's management periodically provides the audit committee with reports of all pre-approved services and related fees by category incurred during the current fiscal year, with forecasts of any additional services anticipated during the year.

All of the services performed by PwC related to fees disclosed above were pre-approved by the audit committee.

Vote Required and Board Recommendation

The affirmative vote of the majority of votes cast at the annual meeting is required to ratify the appointment of PwC as the company's independent registered public accounting firm for the year ending December 31, 2014.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE *FOR*
RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE
COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FOR THE YEAR ENDING DECEMBER 31, 2014.**

REPORT OF THE AUDIT COMMITTEE

As more fully described in our charter, the audit committee oversees the company's financial reporting processes on behalf of the board. In fulfilling our oversight responsibilities, the audit committee has reviewed and discussed with management the company's audited consolidated financial statements for the year ended December 31, 2013, including a discussion of the acceptability and appropriateness of significant accounting principles and management's assessment of the effectiveness of the company's internal control over financial reporting. Management has represented to us that the company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States and considered appropriate in the circumstances to present fairly the company's financial position, results of operations and cash flows. The audit committee has also reviewed and discussed with PwC, the company's independent registered public accounting firm, the matters required to be discussed with the independent registered public accounting firm under applicable Public Company Accounting Oversight Board ("PCAOB") standards.

The audit committee has also received and reviewed the written disclosures and the letter from PwC required by applicable requirements of the PCAOB regarding PwC's communications with the audit committee concerning independence and has discussed with PwC their independence.

Based on the reviews and discussions with management and the independent registered public accounting firm referred to above, we recommended to the board that the audited financial statements be included in the company's annual report on Form 10-K for the year ended December 31, 2013 for filing with the SEC, and we retained PwC as the company's independent registered public accounting firm for the year ending December 31, 2014.

AUDIT COMMITTEE:

John K. Kritzmacher, Chairman
Jeffrey K. Belk
Jean F. Rankin

EXECUTIVE OFFICERS

Set forth below is certain information concerning our executive officers as of March 31, 2014:

<u>Name</u>	<u>Age</u>	<u>Position</u>
William J. Merritt	55	President and Chief Executive Officer
Richard J. Brezski	41	Chief Financial Officer and Treasurer
Jannie K. Lau	38	Executive Vice President, General Counsel and Secretary
Scott A. McQuilkin	59	Senior Executive Vice President, Innovation
James J. Nolan	53	Executive Vice President, Research and Development
Allen A. Proithis	49	Executive Vice President, Solutions Group
Lawrence F. Shay	55	Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel

There are no family relationships among the individuals serving as our directors or executive officers. Set forth below are the name, office and position held with our company and principal occupations and employment of each of our executive officers. Biographical information on Mr. Merritt is discussed under the caption “Election of Directors” above.

Richard J. Brezski is InterDigital’s Chief Financial Officer, responsible for overseeing the company’s finance, accounting, audit, tax, treasury, IT and facilities functions, including the company’s internal and external financial reporting and analysis. Mr. Brezski joined the company as Director and Controller in May 2003. Mr. Brezski was promoted to Senior Director in July 2006 and in January 2007 was appointed Chief Accounting Officer. In January 2009, Mr. Brezski was promoted to Vice President, Controller and Chief Accounting Officer, and in March 2011 he was appointed to the additional post of Treasurer. In May 2012, he was appointed Chief Financial Officer. Prior to joining InterDigital, Mr. Brezski served as an audit manager for PwC in its technology, information, communications and entertainment practice, where he provided business advisory and auditing services to product and service companies in the electronics, software and technology industries. Mr. Brezski earned a Bachelor of Science in Accountancy from Villanova University and an Executive Master of Business Administration from Hofstra University.

Jannie K. Lau is InterDigital’s Executive Vice President, General Counsel and Secretary, responsible for managing the company’s legal and human resources functions. Ms. Lau joined InterDigital in 2008 as Associate General Counsel and was promoted to Deputy General Counsel in 2010. She was appointed Executive Vice President, General Counsel and Secretary in October 2012. Prior to joining InterDigital, Ms. Lau served as securities and transactional counsel at IKON Office Solutions, Inc., then a Fortune® 500 document management solutions company. Before beginning her in-house career, she was a corporate associate at leading global law firms in New York and Boston, where she represented public and pre-IPO companies as well as private equity and venture capital fund managers. Ms. Lau serves on the Southeast Region Board of the East Central Division of the American Cancer Society and on the Board of Directors of Jobs for Delaware Graduates. She is also a past member of the Board of Directors of DELVACCA, the Delaware Valley chapter of the Association of Corporate Counsel, and the Executive Committee of the Asian Pacific American Bar Association of Pennsylvania. Ms. Lau is an honors graduate of the University of Pennsylvania Law School and holds a Bachelor of Arts in English and Comparative Literature from Columbia University.

Scott A. McQuilkin is the company’s Senior Executive Vice President, Innovation. As head of InterDigital’s Innovation group, Mr. McQuilkin is responsible for leading the organization’s technology sourcing efforts, overseeing both Innovation Labs, which pursues internally funded technology, and Innovation Partners, a sourcing model based around partnerships with leading innovators and research organizations as well as strategic acquisitions of technology and patent portfolios. Mr. McQuilkin joined the company as its Chief Financial Officer in July 2007, and was appointed Senior Executive Vice President, Strategy and Finance in May 2012, in which role he was responsible for overseeing the organization’s strategy, corporate development and finance functions. In October 2012, Mr. McQuilkin was appointed Senior Executive Vice President, Innovation.

Mr. McQuilkin served as Chief Financial Officer for GHR Systems, Inc., a provider of lending technologies and related support services, from February 2000 to August 2006, when GHR Systems was acquired by Metavante Corporation, a provider of banking and payment technology solutions and a wholly owned subsidiary of Marshall & Ilsley Corporation, a diversified financial services company. GHR Systems became a subsidiary of Metavante Corporation known as Metavante Lending Solutions, a high growth technology firm providing business process automation to the financial services industry. Until joining InterDigital in 2007, Mr. McQuilkin served as Chief Financial Officer of Metavante Lending Solutions, where he was responsible for all financial activities, including accounting, budgeting/forecasting, capital planning, cash management, strategic planning, mergers and acquisitions, tax, purchasing and payables. Mr. McQuilkin earned a Master of Business Administration from The Wharton School and a Bachelor of Science from Pennsylvania State University.

James J. Nolan is InterDigital's Executive Vice President, Research and Development. As head of Innovation Labs, Mr. Nolan is responsible for directing the development of advanced wireless and network technologies, including the incubation of advanced wireless communications solutions and the evolution of standards-based technologies, and the company's participation in wireless standards bodies. Since joining the company in 1996, Mr. Nolan has held a variety of engineering and management positions, including serving as the company's senior engineering officer since May 2006. In February 2007, Mr. Nolan's title was revised to Executive Vice President, Engineering, without a change in responsibilities. Mr. Nolan was named Executive Vice President, Research and Development, in April 2009, in connection with the company's decision to expand its technology development and licensing business and realign its SlimChip business. Since 2009, Mr. Nolan has led InterDigital's Research and Development team's next generation technology initiatives, including advanced air interface, machine-to-machine, bandwidth management technologies for WiFi®/cellular integration and dynamic spectrum management solutions. Prior to leading the company's engineering and R&D organizations, he led technology and product development of modems, protocol software and radio designs for multiple wireless standards. Mr. Nolan earned a Bachelor of Science in Electrical Engineering from the State University of New York at Buffalo, a Master of Science in Electrical Engineering from Polytechnic University and an Executive Master of Business Administration from Hofstra University.

Allen A. Proithis is InterDigital's Executive Vice President, Solutions Group. He joined the company as Vice President, Business Development and Strategic Solutions in March 2012, and was promoted to Executive Vice President, Solutions Group in January 2013. As head of InterDigital Solutions, Mr. Proithis is responsible for commercializing market-ready technologies that emerge from the company's Innovation group, as well as establishing and developing strategic business relationships and identifying potential new business opportunities. Prior to joining the company, Mr. Proithis was at TE Connectivity Ltd., a global designer and manufacturer of products that connect and protect the flow of power and data inside products, from January 2011 to October 2011 where he served as Senior Director – Strategy & Business Development, Consumer Devices division, covering the mobile, consumer electronics and PC industries. While at TE, Mr. Proithis led a global team dedicated to strategy, mergers and acquisitions and strategic marketing, and was responsible for identifying new markets, channels and growth opportunities from product idea creation to execution. Before joining TE, Mr. Proithis was the Head of Strategy & Business Development for the Handheld business unit at Hewlett-Packard Company, a technology company with a portfolio that spans printing, personal computing, software, services and IT infrastructure, from 2008 to January 2011. In this role, he drove all strategic initiatives for devices, software and services. Mr. Proithis had previously been the Director of Business Development in HP's Personal Systems Group from 2007 to 2008, during which time he was responsible for building a partnership program with major telecommunications companies. Prior to joining HP in 2004, Mr. Proithis was a Vice President with HB Associates, an executive search and management consulting firm. Earlier in his career, Mr. Proithis held a variety of management, sales and consulting roles at Computer Sciences Corporation, Convergys and Electronic Data Systems. Mr. Proithis earned a Bachelor's degree in Telecommunications from Pennsylvania State University.

Lawrence F. Shay is the company's Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel and President of InterDigital's patent holding subsidiaries. Mr. Shay is responsible for overseeing all activities pertaining to InterDigital's patent business, including management of the company's

intellectual property assets, negotiation and administration of license agreements, litigation relating to intellectual property rights and strategic patent sales and joint ventures. He joined InterDigital in November 2001 as Chief Legal Officer and served as Corporate Secretary from November 2001 to September 2004. In February 2007, Mr. Shay's title was revised to Chief Legal and Government Affairs Officer, without a change in responsibilities. Mr. Shay was appointed to his current position in January 2008. He previously served as General Counsel of U.S. Interactive, Inc., a multinational, publicly held Internet professional services corporation. From 1985 until 1999, Mr. Shay practiced corporate law with Dilworth Paxson LLP, a major Philadelphia law firm. Mr. Shay earned his Juris Doctor, with honors, from the Temple University School of Law and is a magna cum laude graduate of Saint Joseph's University, where he earned a Bachelor of Arts in Economics.

The company's executive officers are appointed to the offices set forth above to hold office until their successors are duly elected and qualified.

EXECUTIVE COMPENSATION

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on its review and discussions, has recommended to the board that the Compensation Discussion and Analysis be included in this proxy statement and the company's Annual Report on Form 10-K.

COMPENSATION COMMITTEE:

Edward B. Kamins, Chairman
Gilbert F. Amelio
Steven T. Clontz

Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis covers all material elements of the compensation awarded to, earned by or paid to the company's Named Executive Officers ("NEOs"), focusing on the principles underlying the company's executive compensation policies and decisions. The following individuals are our NEOs for fiscal 2013:

- William J. Merritt – President and Chief Executive Officer;
- Richard J. Brezski – Chief Financial Officer and Treasurer;
- Scott A. McQuilkin – Senior Executive Vice President, Innovation;
- James J. Nolan – Executive Vice President, Research and Development; and
- Lawrence F. Shay – Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel.

Compensation Objectives and Philosophy

The compensation and benefits provided to the company's executives have as their primary purpose the attraction, retention and motivation of talented individuals who will drive the successful execution of the company's strategic plan. Specifically, we:

- Attract talented leaders to serve as executive officers of the company by setting executive compensation levels and program targets at competitive levels for comparable roles in the marketplace;
- Retain our executives by providing a balanced mix of current and long-term compensation; and
- Motivate our executives by "paying for performance," or rewarding individual performance and the accomplishment of corporate goals, as determined by the compensation committee, through the use of performance-based compensation.

Fiscal 2013 Company Performance and Impact on Compensation

Fiscal 2013 featured ups and downs in our business but was, ultimately, a successful and profitable year for the company. While we suffered setbacks in our efforts to secure new patent licensing arrangements with major handset manufacturers, we received several favorable and significant arbitration decisions relating to existing agreements, which allowed us to deliver solid revenues of \$325.4 million, positive cash flow and a strong year-end cash balance of \$698.5 million (up from \$577.3 million at year-end 2012). We believe that these arbitration successes, along with the arbitration agreement with Huawei that we signed in December 2013, position us to deliver additional value in 2014 and beyond. During 2013, we maintained our prolific pace of innovation, with

approximately 180 U.S. patents and approximately 1,300 non-U.S. patents issued. The compensation committee believes that the executives' performance exemplified the resiliency and versatility of the business and that its compensation decisions appropriately rewarded the executives for the company's overall performance in 2013.

Fiscal 2013 Compensation Program Highlights

Based on a comprehensive review of the company's executive compensation programs conducted with the assistance of Pearl Meyer & Partners ("Pearl Meyer"), an independent compensation consultant, the compensation committee made a number of significant changes related to the compensation of NEOs in 2013, including:

- Amending and restating all NEO employment agreements to remove excise tax gross ups and include double-trigger change-in-control provisions;
- Amending the Long-Term Compensation Program ("LTCP") to adjust the participation levels, add stock options, and amend the change-in-control provisions to curtail accelerated vesting upon change in control of the company with no termination of employment;
- Granting performance-based restricted stock unit awards for three Long-Term Incentive Plan ("LTIP") cycles under the LTCP, including the two active LTIP cycles that had commenced in 2011 and 2012, respectively, to provide more upside leverage and link employee and shareholder interests by tying value to both business results and future stock price;
- Overhauling the annual incentive program to provide for a bonus pool that is funded solely by corporate performance; and
- Establishing a nonqualified deferred compensation program in which NEOs and other management and highly compensated employees are eligible to participate.

Elements of Compensation Program & NEO Compensation Actions

The elements of our executive compensation program reflect a mix of annual and long-term, cash and equity and time and performance-based compensation. For 2013, the material elements of our executive compensation program included:

- Base salary;
- Short-Term Incentive Plan ("STIP") awards, paid in cash;
- LTCP awards, which include a combination of time-based restricted stock units ("RSUs"), performance-based RSUs and stock options;
- Retirement benefits, which include 401(k) matching contributions and a nonqualified deferred compensation plan; and
- Discretionary RSU awards.

Base Salaries

Each NEO received a salary increase in 2013 in recognition of his role within the company and his scope of responsibility and as a result of a comparison of each NEO's total compensation against that of the other executive officers in the company's peer group (see "Current Compensation – Base Salaries" for additional information on NEO base salaries).

Performance-Based Compensation

Performance against the 2013 STIP goals resulted in the funding of the STIP bonus pool at a 100.5% of target (see "Current Compensation – Short-Term Incentive Plan" below for a description of the STIP). The compensation committee determined that the company achieved 88% of its normalized cash flow target for the completed January 1, 2011 through December 31, 2013 performance cycle (Cycle 6) resulting in a payout on January 1, 2014 of 71% of LTIP target for that cycle (see "Long-Term Compensation" below for a description of the LTCP).

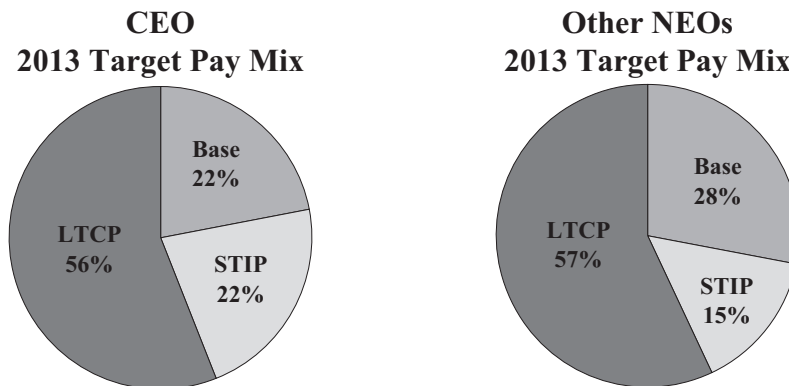
Additionally, as part of the comprehensive review of our executive compensation programs, it was determined that NEO target long-term grants were well below market levels. Therefore, the 2013 LTCP target payout level for each NEO was increased considerably to bring his participation closer to the median. 2013 LTCP awards to the NEOs were a combination of time-based RSUs under the LTCP’s RSU program (“RSU Program”), performance-based RSUs under the LTIP and stock options under the LTCP’s stock option program (“Option Program”). Twenty-five percent (25%) of the 2013 LTCP award was awarded under the RSU Program; 50% was awarded under the LTIP and 25% was awarded under the Option Program. The time-based RSUs will vest on the third anniversary of the grant date assuming continued service. The performance-based RSUs granted for the 2013 LTIP award will be earned based on normalized cash flow performance over a three-year period (January 1, 2013 through December 31, 2015). The options will vest in three equal amounts on each of the three anniversaries of the grant date and will expire on the seventh anniversary of the grant date. By granting a mix of (i) time-based RSUs, for retention purposes, (ii) performance-based RSUs, to drive the company’s long-term business objectives and (iii) stock options, to provide a direct link to share price, the compensation committee believes it provides the right mix of incentives to tie NEO and company performance.

Other Awards

As a result of Pearl Meyer’s independent analysis conducted in late 2012, the compensation committee decided to make each of Messrs. Merritt, McQuilkin, Nolan and Shay a discretionary grant of time-based RSUs in January 2013. The grants were made to bring compensation opportunity for these executives up to market levels of their positions in our peer group companies and to further align the interests of management and the shareholders. These special time-based RSU awards are not part of a regular ongoing program. As a result, the compensation committee recognizes that these discretionary time-based RSU grants to Messrs. Merritt, McQuilkin, Nolan and Shay, combined with the increased LTCP participation level for each NEO, results in 2013 Summary Compensation Table compensation totals that are noticeably higher than in prior years. The compensation committee believes that direct comparison of 2012 and 2013 compensation is not appropriate, and, instead, that the more meaningful comparison is to compare 2012 and 2013 compensation without the 2013 one-time discretionary RSU awards.

Pay for Performance

Our executive compensation programs are intended to align our executive officers’ interests with those of our stockholders by rewarding performance that meets or exceeds the goals established by the compensation committee. These goals are established with the objective of improving the company’s performance and increasing stockholder value. Our NEOs’ total compensation is comprised of a mix of base salary, annual cash incentives (STIP), and long-term incentive compensation (LTCP and other equity awards). Consistent with our compensation philosophy, the actual compensation received by our NEOs will vary based on individual and corporate performance measured against annual and long-term performance goals. Additionally, because a large percentage of our NEOs’ pay is comprised of equity awards, the value of their pay increases and decreases with changes in our stock price. For 2013, approximately 78% of our CEO’s target compensation and close to 72%, on average, of the target compensation of our other NEOs was at risk and dependent upon the company’s performance (STIP + LTCP).



Good Governance Practices and Policies:

The company strives to maintain good governance practices for the compensation of our executive officers, including our NEOs. Such practices include:

- *No Excise Tax Gross-Ups:* All NEO/executives entered into revised employment contracts in 2013 that do not contain excise tax gross-up provisions. Excise tax gross-up provisions have been eliminated from all NEO/executive employment contracts.
- *Double-Trigger Change-in-Control Provisions:* The amended and any new employment contracts entered into in 2013 contain double-trigger severance payout provisions (i.e., an executive must be terminated in connection with the change in control to receive any severance). Severance provisions that are triggered solely on a change in control have been eliminated from all employment contracts.
- *Stock Ownership Guidelines:* Target stock ownership levels are set for the chief executive officer at five times base salary and for the other NEOs at two to three times the respective officer's individual salary. Each NEO has met the applicable stock ownership requirements or is otherwise in compliance as described below under "Stock Ownership Guidelines."
- *Minimal Perquisites:* The company does not provide any perquisites to NEOs that its other senior managers do not receive.
- *Independent Consultant Benchmarking:* The compensation committee works with an outside independent consultant to annually assess executive compensation programs.
- *Anti-Hedging Policy:* No NEO may enter into any hedge of InterDigital stock.
- *Risk Mitigation:* Compensation programs are reviewed with the compensation consultant on an annual basis to ensure plans do not create incentives that would put the company at risk of a material adverse effect.
- *Balanced Compensation Programs:* Compensation programs are balanced to create a focus on short- and long-term results through a mix of fixed and variable pay.
- *Annual Incentives Are Capped:* The company's total STIP (annual incentive plan) pool is limited to two times the target amount, even if that performance would result in pay that exceeds the ranges established at the beginning of the year.

Results from 2013 Shareholder Advisory Vote on Executive Compensation

At the 2013 annual meeting of shareholders, we held an advisory vote to approve executive compensation, commonly known as "say on pay." Approximately 94% of the votes cast approved the compensation of the company's named executive officers as disclosed in our 2013 proxy statement. Although the vote was advisory, the compensation committee considered the strong support shown by these voting results in evaluating our executive compensation programs for 2014.

Factors Considered in Setting Compensation Amounts and Targets

In establishing compensation amounts and program targets for executives, the compensation committee seeks to provide compensation that is competitive in light of current market conditions and industry practices. Accordingly, the compensation committee annually reviews market data that is comprised of proxy-disclosed data from peer companies and information from nationally recognized published surveys for general and high-technology industry, adjusted for size. The market data helps the committee to gain perspective on the compensation levels and practices at the peer companies and to assess the relative competitiveness of the compensation paid to the company's executives. The market data thus guides the compensation committee in its efforts to set executive compensation levels and program targets at competitive levels for comparable roles in the marketplace. The compensation committee then takes into account other factors, such as the importance of each executive officer's role to the company, individual expertise, experience, and performance, retention concerns

and relevant compensation trends in the marketplace, in making its final compensation determinations. The compensation committee's general practice is to position the company's target compensation amounts and opportunities at or near the market median while considering other relevant factors, as discussed above, in order to attract and retain talented leaders to serve as executives of the company.

For 2013, the compensation committee engaged Pearl Meyer to assist it with the process of identifying peer group companies and gathering information on its executive compensation levels and practices. After conducting a peer group review and reviewing market data from nationally recognized published surveys, as described above, in December 2012, Pearl Meyer presented a report to the compensation committee that included a revised peer group and publicly available information about the levels and targets for base salary, short-term incentive compensation, long-term incentive compensation and overall compensation for comparable executive-level positions at such peer group companies. The compensation committee reviewed the new peer group and peer group data and utilized such data in connection with its compensation decisions for 2013. The companies comprising the peer group, and their 2012 revenue and year-end market capitalization, were as follows:

	2012 Revenue (\$M)	YE 2012 Market Value (\$M)
Acacia Research Corporation	251	1,278
ACME Packet, Inc.	274	1,492
ADTRAN, Inc.	621	1,225
Alkemes Plc	543	2,443
ARM Holdings plc	577	17,410
Dolby Laboratories, Inc.	935	2,991
DTS Inc.	101	313
Elelaxis Inc.	47	839
Immersion Corporation	32	187
Nuance Communications, Inc.	1,753	6,999
Rambus Inc.	234	540
Rovi Corporation	526	1,589
Silicon Image, Inc.	252	408
Synaptics Incorporated	539	987
Tessera Technologies, Inc.	210	859
Universal Display Corp.	83	1,192
InterDigital, Inc.	663	1,683
<i>InterDigital Rank (percentile)</i>	<i>88th</i>	<i>74th</i>

Role of Executive Officers in Determining Executive Compensation

The compensation committee determines the composition, structure and amount of all executive officer compensation and has final authority with respect to these compensation decisions. As part of the annual performance and compensation review for executive officers other than the chief executive officer, the committee considers the chief executive officer's assessment of the other executive officers' individual performances, including the identification of major individual accomplishments and any other recommendations of the chief executive officer with respect to their compensation. The chief executive officer also reports to the compensation committee on the company's achievement of objectively measurable goals established under performance-based programs, based upon data related to achievement provided by the chief financial officer.

Role and Independence of Advisors

As discussed above, the compensation committee engaged Pearl Meyer, an independent compensation consultant, to assist in developing and implementing the company's 2013 executive compensation program. The compensation committee is responsible for selecting the consultant, negotiating the fees that are paid and determining the scope of the engagement. The compensation committee retained the compensation consultant to advise it and the rest of the board, as applicable, on matters related to the 2013 compensation of the company's executive officers, including, but not limited to, peer group composition, benchmarking total direct compensation of the executives, and short- and long-term incentive plan design. Pearl Meyer provided the committee with advice only on executive compensation matters and the committee determined that the Pearl Meyer did not have any conflicts of interest.

Current Compensation

Base Salary

Base salary is the fixed element of an executive's current cash compensation, which the company pays because it affords each executive the baseline financial security necessary for the executive to focus on his or her day-to-day responsibilities. Base salaries for the executives are set at competitive levels to attract and retain highly qualified and talented leaders. The compensation committee reviews and approves base salaries for the executives annually. Pearl Meyer did a comprehensive benchmarking analysis in late 2012. 2013 salary adjustments for our NEOs were based on consideration of each NEO's position, scope of responsibility and importance to the company and his performance during 2012, as well as a review of the market data and a comparison of each NEO's total compensation against that of the other executive officers in the company's peer group. The changes below and the changes to the peer group placed the 2013 base salaries of the NEOs generally within +/- 5% of the median of the 2013 peer group. Set forth below are the 2012 and 2013 base salaries for our NEOs:

<u>NEO</u>	<u>2012</u>	<u>2013</u>
William J. Merritt	\$550,000	\$575,000
Richard J. Brezski	275,000	285,000
Scott A. McQuilkin	332,600	375,000
James J. Nolan	302,900	325,000
Lawrence F. Shay	387,000	410,000

The NEOs generally received increases from 4% to 7%; however, Mr. McQuilkin, Senior Executive Vice President, Innovation received a salary adjustment of close to 13% in recognition of the importance of his role within the company and his expanded scope of responsibility.

Short-Term Incentive Plan

The STIP annual incentive award is designed to reward the achievement of corporate goals and the individual accomplishments of the executives during each fiscal year. The compensation committee overhauled the company's STIP in 2013 in order to create a stronger link between STIP payouts and overall company performance. In 2013, the company established a target annual "incentive pool" in an amount equal to the sum of individual target STIP payouts. This incentive pool was then funded at year end based on the level of achievement of objectively measurable company goals pre-established by the compensation committee. The compensation committee also established shared corporate goals for the company's executives that factored in determining the executives' individual payouts. The aggregate value of the STIP awards paid to the NEOs combined with the aggregate value of the STIP awards paid to the company's other employees cannot be greater than the total funded incentive pool, as adjusted for actual corporate achievement.

For 2013, the objectively measurable company goals established by the compensation committee to fund the STIP incentive pool included generating normalized cash flow and patent licensing. The shared corporate goals for the company's executives involved generating normalized cash flow, patent acquisitions, further development of

new wireless technologies, enhancing the company’s intellectual property portfolio, patent sales, and engaging new customers or partners through the InterDigital Solutions and Innovation Partners groups. The specific goals, and the relative weights assigned to each, were as follows:

2013 STIP Company Performance Goals:

<u>Goal</u>	<u>Description</u>	<u>Target Weight</u>
Cash flow	Generate a specified dollar amount of normalized cash flow	50%
Patent licensing	End 2013 with a specified percentage of the terminal unit market under license	50%
TOTAL		100%

2013 STIP Shared Executive Corporate Performance Goals:

<u>Goal</u>	<u>Description</u>	<u>Target Weight</u>
Cash flow	Generate a specified dollar amount of normalized cash flow	40%
Patent acquisitions	Complete a certain number of patent acquisition transactions involving patents meeting certain criteria	15%
Technology development and enhancement	Generate or identify certain numbers of patented or potentially patentable contributions to current and emerging standards	15%
Patent sales	Complete sales of patents delivering a specified aggregate value	10%
InterDigital Solutions	Enter into a specified number of agreements through the InterDigital Solutions group	10%
Innovation Partners	Enter into a specified number of technology partnerships through the Innovation Partners group	10%
TOTAL		100%

For 2013, the company believed that cash flow and percentage of terminal unit market under license, given its business model, were the most accurate measures of performance. Additionally, the shared executive goals were intended to align the executive team around a key set of company performance objectives. These annual company and shared executive goals are generally structured to challenge and motivate executives, so that reasonable “stretch” performances would collectively yield a payout at or about 100% of target.

Actual funding of the incentive pool may range from a minimum of 25% to a maximum amount of 200% of the target based on these goals. A floor of 25% of the aggregate target was set because all employees of InterDigital are eligible to participate in this plan. However, any individual participant’s STIP payout is not guaranteed; the compensation committee can exercise negative discretion with respect to the executive officers. The actual STIP payout for the chief executive officer is based on achievement of the shared executive corporate goals (75%) and his individual performance (25%). The actual STIP award paid to all other executives is based on the achievement of the shared executive corporate goals (50%), his or her department’s achievement of goals (25%) and his or her individual performance (25%). The target STIP award for each of the company’s executives is set as a percentage of annual base salary. For 2013, the targets were 100% of base salary for Mr. Merritt, 60% of base salary for Messrs. McQuilkin and Shay and 50% of base salary for Messrs. Brezski and Nolan. These target percentages were set at or near the median of the market.

At the end of 2013, the chief executive officer reported to the compensation committee on the company’s achievement of the objectively measurable company goals set to fund the STIP incentive pool. The achievement with respect to the cash flow goal was slightly below target and achievement with respect to the patent licensing goal was slightly above target. Following consideration of the performance results, the compensation committee determined that the company achieved 100.5% of the 2013 established company goals and that it would not use its negative discretion to reduce the pool further.

The chief executive officer also reported to the compensation committee on the achievement of the objectively measurable shared executive goals as well as provided his assessment of the performance with respect to the subjectively measured goals (departmental and individual executive officer) for the year. For 2013, the results with respect to the following shared executive goals were at or above target: patent acquisitions, technology development and enhancement, and customer/partner engagement through the InterDigital Solutions and Innovation Partners groups; however, the results with respect to generating cash flow and patent sales were below target. Following consideration of the performance results, the compensation committee determined that the achievement level with respect to the shared executive goals was 101%.

In determining the STIP payout to the chief executive officer for 2013, the compensation committee considered the recommendation of the chairman of the board, who is the primary liaison between the chief executive officer and the full board of directors, and reviewed the individual performance of the chief executive officer in 2013. For the other NEOs, the compensation committee reviewed the performance assessments provided by the chief executive officer and also considered its own direct interactions with each NEO. As noted above, 50% of an STIP award paid to an NEO is based on the achievement of the shared executive corporate goals, 25% is based on the performance of the department for which the NEO is responsible and the remaining 25% is based on individual performance; however, for the chief executive officer, 75% of the STIP award paid is based on the achievement of the shared executive corporate goals and 25% is based on individual performance. The STIP awards for 2013 paid to the NEOs in 2014 were entirely in cash. The Grants of Plan-Based Awards Table below reports the threshold, target and maximum potential STIP amounts for each NEO for 2013, and the Summary Compensation Table below reports the amounts actually earned by the NEOs for 2013 under the STIP. For 2013, the aggregate value of the STIP awards paid to the NEOs combined with the aggregate value of the STIP awards paid to the company's remaining employees was not greater than the achieved incentive pool.

Long-Term Compensation

The LTCP was also amended and restated in January 2013 to provide the compensation committee the flexibility to set the program participation levels of each executive annually, to more closely reflect current market conditions, to add a stock option program and to provide management with more flexibility with non-executive grants in setting the participation levels and allocation among compensation components, which consist of time-based RSU awards, stock options and performance-based awards (in the form of cash or equity). In addition, the change-in-control provisions of the LTCP were amended to curtail, under certain circumstances, the accelerated vesting of equity awards upon a change in control of the company with no termination of employment.

The LTCP is designed to enhance retention efforts by incentivizing executives to remain with the company to drive the company's long-term strategic plan. It currently consists of three components: (1) time-based RSUs, which provide retention benefits; (2) LTIP performance-based awards, which include performance-based RSUs, to not only provide retention benefits, but also to further align employee and shareholder interests by tying value to both business results and future stock price; and (3) stock option grants, which the compensation committee considers to be performance-based and an important form of long-term incentive compensation because they are only valuable if our stock price increases over time. As a result, our NEOs' interests are directly linked to our long-term business objectives.

The goal of the LTIP is to challenge and motivate management to achieve a result that yields a payout at or about 100% of target for the LTIP component of the LTCP. 100% achievement of the corporate goal or goals results in a 100% payout of the associated target amounts. For each 1% change above or below 100% achievement, the actual award amount is adjusted by 2.5 percentage points, with a threshold payout of 50% of target and a maximum payout of 200% of target. Accordingly, for performance that falls below 80% achievement, no performance-based award would vest.

Under the LTCP as amended, the compensation committee determines annually the participation level and components of each executive's LTCP award and approves each executive's target LTCP award for each cycle. In January 2013, the compensation committee also decided to convert the performance-based awards granted

under the LTIP component of Cycle 6 (2011-2013) and Cycle 7 (2012-2014) of the LTCP into performance-based RSUs, thereby tying the value of the awards more closely to the stock price and thus enhancing the alignment of our NEOs' interests with those of our stockholders. The pre-approved goal or goals established by the compensation committee at the start of each cycle remained unchanged.

Cycle 8 (2013-2015)

For the cycle that covers the performance period that runs from January 1, 2013 through December 31, 2015 ("Cycle 8"), each NEO received 25% of his LTCP target in the form of time-based RSUs that vest in full on the third anniversary of the grant date. Each NEO also received 50% of his LTCP target in performance-based RSUs that vest based on the company's achievement of pre-approved goals established by the compensation committee. Unvested time-based and performance-based RSUs accrue dividend equivalents, which are paid in the form of additional shares of stock at the time, and only to the extent, that the awards vest. The remaining 25% of the LTCP target was granted in stock options, which were incentive stock options to the extent possible, which vest ratably over three years and expire on the seventh anniversary of the award.

The target LTCP awards granted to the NEOs under Cycle 8 were as follows. Such target amounts are intended to reflect the relative influence and importance of each NEO's role within the company.

<u>NEO</u>	<u>Target</u>
William J. Merritt	\$1,500,000
Richard J. Brezski	500,000
Scott A. McQuilkin	750,000
James J. Nolan	600,000
Lawrence F. Shay	1,000,000

The objectives underlying the goals established for the LTIP under Cycle 8 are to drive the company's strategic plan and complement the annual STIP performance goals for each of the three years covered by the cycle. The goals associated with Cycle 8 are to generate specified amounts of normalized cash flow over the performance period of the cycle.

Cycle 7 (2012-2014)

For the cycle that began on January 1, 2012 and runs through December 31, 2014 ("Cycle 7"), each NEO received 25% of his LTCP target in the form of time-based RSUs that vest in full on the third anniversary of the grant date. The remaining 75% of his LTCP target consists of an LTIP award paid based on the company's achievement during the cycle of pre-approved goals established by the compensation committee. As noted above, on January 18, 2013, such LTIP awards were converted into performance-based RSUs, thereby tying the value of the awards more closely to the stock price and thus enhancing the alignment of our NEOs' interests with those of our stockholders. (The pre-approved goals established by the compensation committee at the start of the cycle remained unchanged.) Unvested time-based and performance-based RSUs accrue dividend equivalents, which are paid in the form of additional shares of stock at the time, and only to the extent, that the awards vest.

The LTCP awards granted to the NEOs under Cycle 7 were as follows. Such target amounts were intended to reflect the relative influence and importance of each NEO's role within the company.

<u>NEO</u>	<u>Target</u>
William J. Merritt	\$875,000
Richard J. Brezski	190,291
Scott A. McQuilkin	332,600
James J. Nolan	272,610
Lawrence F. Shay	387,000

The objectives underlying the goals established for the LTIP under Cycle 7 are to drive the company’s strategic plan and complement the annual STIP performance goals for each of the three years covered by the cycle. The goals associated with Cycle 7 are to generate specified amounts of normalized cash flow over the period of the cycle.

Cycle 6 (2011-2013)

For the cycle that began on January 1, 2011 and ran through December 31, 2013 (“Cycle 6”), the LTCP award structure was the same as the awards for Cycle 7 (i.e., 25% time-based RSUs and 75% LTIP). As noted above, on January 18, 2013, such LTIP awards were converted into performance-based RSUs, thereby tying the value of the award more closely to the stock price and thus enhancing the alignment of our NEOs’ interests with those of our stockholders. (The pre-approved goal established by the compensation committee at the start of the cycle remained unchanged.) Unvested time-based and performance-based RSUs accrue dividend equivalents, which are paid in the form of additional shares of stock at the time, and only to the extent, that the awards vest.

The target LTCP awards granted to the NEOs under Cycle 6 were as follows:

<u>NEO</u>	<u>Target</u>
William J. Merritt	\$687,000
Richard J. Brezski	161,450
Scott A. McQuilkin	322,900
James J. Nolan	253,530
Lawrence F. Shay	351,900

As with Cycles 7 and 8, the goal associated with Cycle 6 was to generate a specified amount of normalized cash flow over the period of the cycle. After reviewing the company’s progress toward this goal as of December 31, 2013, the compensation committee determined the company’s goal achievement under Cycle 6 to be 88% and authorized payouts of the performance-based RSU awards at 71% of target.

Savings and Protection (401(k) and Nonqualified Deferred Compensation Plan)

The company’s Savings and Protection Plan (“401(k) Plan”) is a tax-qualified retirement savings plan pursuant to which employees, including executives, are able to contribute the lesser of 100% of their annual base salary or the annual limit prescribed by the Internal Revenue Service (“IRS”) on a pre-tax basis. The company provides a 50% matching contribution on the first 6% of an employee’s salary contributed to the 401(k) Plan, up to the cap mandated by the IRS. The company offers this benefit to encourage employees to save for retirement and to provide a tax-advantaged means for doing so.

In 2013, the company introduced a nonqualified deferred compensation plan to complement the 401(k) plan. As noted above, the IRS imposes limits on the amounts that an employee may contribute annually to a 401(k) plan account. The company’s nonqualified plan provides certain management and highly compensated employees, including the NEOs, with an opportunity to defer up to 40% of their base salary and up to 100% of their eligible STIP payment. Amounts deferred into the nonqualified plan are recordkeeping (notional) accounts and are not held in trust for the participants. Participants may hypothetically invest their notional accounts in the investment options available through the nonqualified plan (which currently are similar to those available under the 401(k) plan). The company matches up to 50% of the first six (6%) percent of the participant’s base salary, determined on a combined plan basis taking into account deferred amounts under both the nonqualified plan and the 401(k) Plan; these contributions will receive the investment performance of InterDigital common stock. Matching contributions are made once annually after the end of the year. Participants vest 1/3 in company matching contributions after one year of service, 2/3 after two years of service and fully after three years of service, a vesting schedule identical to the 401(k) Plan. For more information about the nonqualified deferred compensation plan, see “Nonqualified Deferred Compensation.”

Employment Agreements

In March, 2013, the company entered into amended and restated employment agreements with each NEO. Among other modifications to the existing agreements, the revisions: (1) removed the Code Section 280G excise tax gross-up; (2) changed the employment term from indefinite to an initial term of two years; (3) updated the 2013 salary, targeted STIP and targeted LTCP awards for each of our NEOs, (4) removed the ability to receive severance upon resignation for any reason following a change in control (i.e., a “single-trigger” payment); and (5) updated the payments and benefits provided to NEOs upon certain qualifying terminations of employment, including those occurring on or within one year following a change in control.

The employment agreements provide severance payments and benefits upon certain qualifying terminations of employment, including upon termination of the NEO’s employment by the company without “Cause” or by the executive for “Good Reason,” and providing for enhanced payments and benefits if such termination occurs on or within one year after a “Change in Control” of the company, each as defined in the applicable Employment Agreement. For more information regarding the provisions governing these termination scenarios, see “Potential Payments upon Termination or Change in Control.”

Grant Practices

Prior to 2013, RSU awards under the LTCP were typically granted on the first day of each cycle or, if the participant joined the company during the first year of a cycle or was promoted during the first six months of a cycle, his or her date of hire or promotion, respectively. However, in 2013, the equity grants under the LTCP were made on January 18, 2013, upon adoption of the amended and restated LTCP by the compensation committee.

RSUs granted under LTCP are calculated as a target percentage of the participant’s base salary or, in the case of the executive officers, as a set dollar amount. The target or set dollar amount is then divided by the fair market value of the company’s common stock on the first business day prior to the award grant date to determine the number of RSUs to be granted.

From time to time, the compensation committee may, in its sole discretion, grant additional equity awards to executives, including the NEOs, outside of the LTCP and the other compensation programs described above. In approving such awards, the compensation committee may consider the specific circumstances of the grantee, including, but not limited to, promotion, expansion of responsibilities, exceptional achievement recognition and retention concerns. In 2013, the compensation committee granted the following awards to NEOs: 25,000 time-based RSUs to Mr. Merritt, 12,000 to Mr. McQuilkin, 9,000 to Mr. Nolan and 15,000 to Mr. Shay to bring compensation opportunity for these executives up to market levels of other peer group companies and to further align the interests of management and the shareholders. Shortly after these grants of discretionary RSU awards were made in January 2013, the company adopted a policy that all new hire and discretionary equity grants are to be made on the 15th day of the month.

The compensation committee believes that the grant procedures described above provide assurance that the grant timing does not take advantage of material nonpublic information.

Impact of Tax Treatment

Section 162(m) of the Code generally limits the company’s tax deduction for compensation paid to its chief executive officer and other NEOs (other than the chief financial officer) to \$1 million per person in any tax year. Qualified performance-based compensation is not subject to the deduction limit if specified requirements are met. The compensation committee has considered the effects of Section 162(m) when implementing compensation plans and has taken into account whether preserving the tax deductibility of compensation paid to NEOs could impair the operation and effectiveness of the company’s compensation programs. The compensation committee’s intent is to maximize the tax deductibility when doing so does not impair the effectiveness of our

compensation plans; however, it believes it is important to maintain flexibility to make adjustments, if necessary even if those modifications result in the compensation not being considered performance-based. Therefore, under certain circumstances, certain amounts paid to executives in excess of \$1 million may not be deductible.

Stock Ownership Guidelines

To align further the interests of our executives with those of our shareholders, the company has established executive stock ownership guidelines. The chief executive officer's target ownership level is an amount of company common stock with a value of at least five times his current annual base salary. The other NEOs are expected to own company stock with a value of at least a multiple of two (Messrs. Brezski and Nolan) or three (Messrs. McQuilkin and Shay) times their current annual base salary. Qualifying stock includes shares of common stock held outright or through the company's 401(k) Plan, restricted stock and, on a pre-tax basis, unvested time-based RSUs. Any executive who has not reached or fails to maintain his or her target ownership level must retain at least 50% of any after-tax shares derived from vested RSUs or exercised options until his or her guideline is met. An executive may not make any disposition of shares that results in his or her holdings falling below the target level without the express approval of the compensation committee. As of March 31, 2014, all of the NEOs are in compliance with this policy, and all except Mr. Brezski (who only became subject to these guidelines with his promotion to Chief Financial Officer in May, 2012) had reached their target ownership levels.

Prohibition Against Hedging

The company's insider trading policy prohibits directors, officers, employees and consultants of the company from engaging in any hedging transactions involving company stock.

Clawbacks

While the company does not currently maintain a compensation recovery, or clawback, policy beyond the requirements of Section 304 of Sarbanes-Oxley Act of 2002, the company plans to implement a clawback policy as required to fully comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act once final rules are adopted by the SEC and NASDAQ.

Compensation-Related Risk Assessment

We have assessed our employee compensation policies and practices and determined that any risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on the company. In reaching this conclusion, the compensation committee considered all components of our compensation program and assessed any associated risks. The compensation committee also considered the various strategies and measures employed by the company that mitigate such risk, including: (i) the overall balance achieved through our use of a mix of cash and equity, annual and long-term incentives and time- and performance-based compensation; (ii) our use of multi-year vesting periods for equity grants; (iii) limits on the maximum goal achievement levels and overall payout amounts under the STIP and LTIP awards; (iv) the company's adoption of and adherence to various compliance programs, including a code of ethics, a contract review and approval process and signature authority policy and a system of internal controls and procedures; and (v) the oversight exercised by the compensation committee over the performance metrics and results under the STIP and the LTCP. In addition, compensation programs are reviewed with Pearl Meyer, the compensation consultant, on an annual basis to ensure plans do not create incentives that would put the company at excessive risk. Based on the assessment described above, the compensation committee concluded that any risks associated with our compensation policies and practices were not reasonably likely to have a material adverse effect on the company.

Summary Compensation Table

The following table contains information concerning compensation awarded to, earned by or paid to our NEOs in the last three years (except in the case of Mr. Brezski, who was first deemed an NEO in 2012 and for whom the table only includes information for 2012 and 2013). Our NEOs include: (i) William J. Merritt, our chief executive officer, (ii) Richard J. Brezski, our chief financial officer and (iii) Scott A. McQuilkin, James J. Nolan and Lawrence F. Shay, who are our three other most highly compensated executive officers in 2013 who were serving as executive officers of the company at December 31, 2013. Additional information regarding the items reflected in each column follows the table.

Name and Principal Position	Year	Salary (\$)	Stock Awards \$(2)(3)	Option Awards \$(4)	Non-Equity Incentive Plan Compensation \$(5)	All Other Compensation (6)	Total (\$)
William J. Merritt President and Chief Executive Officer	2013	575,000	1,737,573	375,000	645,000	10,965	3,343,538
	2012	550,000	206,260	—	1,110,000	8,190	1,874,450
	2011	550,000	171,890	—	469,700	8,040	1,199,630
Richard J. Brezski(1) Chief Financial Officer and Treasurer	2013	285,000	163,459	125,000	156,000	8,046	737,505
	2012	253,721	132,885	—	212,988	7,800	607,394
Scott A. McQuilkin Senior Executive Vice President, Innovation	2013	375,000	838,881	187,500	271,000	8,046	1,680,427
	2012	332,600	83,132	—	470,721	8,790	895,243
	2011	322,900	80,740	—	158,504	8,640	570,784
James J. Nolan Executive Vice President, Research & Development	2013	325,000	642,766	150,000	167,000	8,046	1,292,812
	2012	302,900	68,143	—	331,684	8,190	711,097
	2011	281,700	63,376	—	117,891	8,040	471,007
Lawrence F. Shay Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel	2013	410,000	1,044,806	250,000	266,000	10,128	1,980,934
	2012	387,000	96,769	—	526,041	8,190	1,018,000
	2011	351,900	87,985	—	175,159	8,040	623,084

- (1) Mr. Brezski was promoted to the position of Chief Financial Officer in May 2012, and he was not among the company's NEOs in 2011.
- (2) Amounts reported reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for time-based RSU awards granted during the designated fiscal year. The assumptions used in valuing these awards are incorporated by reference to Notes 2 and 10 to our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2013. Under generally accepted accounting principles, compensation expense with respect to stock awards granted to our employees and directors is generally equal to the grant date fair value of the awards and is recognized over the vesting periods applicable to the awards.
- (3) Amounts reported for 2013 also reflect the value at the grant date of performance-based RSUs granted in 2013 based upon the probable outcome of the performance conditions, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used in valuing these awards are incorporated by reference to Notes 2 and 10 to our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2013. As discussed above in Compensation Discussion and Analysis, on January 18, 2013, the company granted performance-based RSU awards to its NEOs for Cycles 6, 7 and 8 under the LTIP of the LTCP. As of the date of grant, the company believed that the performance thresholds most likely to be achieved under the grants for Cycles 6, 7 and 8 were 50%, 0% and 0%, respectively. Accordingly, the amounts reported above reflect only the value of the performance-based RSUs granted for Cycle 6, at 50% of their total grant date value.

The following table sets forth the grant date fair value of the performance-based RSUs granted to the NEOs in 2013 assuming that the highest level of performance conditions will be achieved and the grants vest at their maximum level, which in the case of each cycle is 200%:

NEO	Maximum Value Performance-Based RSU Awards Cycle 6 \$(a)	Maximum Value Performance-Based RSU Awards Cycle 7 (\$)	Maximum Value Performance-Based RSU Awards Cycle 8 (\$)	Maximum Value Total Performance-Based RSU Awards (\$)
William J. Merritt	1,031,306	1,237,585	1,500,074	3,768,965
Richard J. Brezski	153,781	311,540	500,054	965,375
Scott A. McQuilkin	484,411	498,905	750,081	1,733,397
James J. Nolan	380,299	408,934	600,012	1,389,245
Lawrence F. Shay	527,894	580,568	1,000,020	2,108,482

(a) As discussed above in Compensation Discussion and Analysis, based on the actual level of performance conditions achieved for Cycle 6 (which began on January 1, 2011 and ended December 31, 2013), only 71% of each NEO's target performance-based RSU award vested on January 1, 2014.

- (4) Amounts reported reflect the value recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718. For fiscal 2013, the weighted-average assumptions underlying the valuation of the stock options under the Black-Scholes option pricing model are as follows: expected life of 4.5 years; volatility of 46.77%; a risk-free interest rate of .72%; and a dividend yield of .905%.
- (5) Amounts reported for fiscal 2013 include the value of payouts earned under the company's STIP. Amounts reported for fiscal 2012 include the value of payouts earned under the company's STIP and cash payouts earned pursuant to Cycle 5 under the LTIP of the LTCP (which cycle began on January 1, 2010 and ended December 31, 2012). Amounts reported for fiscal 2011 include the value of payouts earned under the company's STIP.
- (6) The following table details each component of the "All Other Compensation" column in the Summary Compensation Table for fiscal 2013:

NEO	401(k) Plan Matching Contributions \$(a)	Life Insurance Premiums \$(b)	Deferred Compensation Plan Matching Contributions \$(c)	Total (\$)
William J. Merritt	7,650	396	2,919	10,965
Richard J. Brezski	7,650	396	—	8,046
Scott A. McQuilkin	7,650	396	—	8,046
James J. Nolan	7,650	396	—	8,046
Lawrence F. Shay	7,650	396	2,082	10,128

- (a) Amounts represent company matching contributions to all employees, including the NEOs, on 50% of the first 6% of the employee's salary contributed to the 401(k) Plan in fiscal 2013, up to the maximum amount permitted by the Internal Revenue Service.
- (b) Amounts represent premium amounts paid by the company for group term life insurance for the benefit of each NEO.
- (c) Amounts represent company matching contributions made pursuant to the company's nonqualified deferred compensation plan for NEO contributions in 2013. For more information, see "Nonqualified Deferred Compensation."

Grants of Plan-Based Awards in 2013

The following table summarizes the grants of (i) cash awards under the STIP (STIP), (ii) options (OPT) and time-based RSU awards (TRSU) under Cycle 8 of the LTCP, (iii) performance-based RSU LTIP awards under Cycle 8 of the LTCP (PSU8), (iv) performance-based RSU LTIP awards under Cycle 7 of the LTCP (PSU7), (v) performance-based RSU LTIP awards under Cycle 6 of the LTCP (PSU6) and (vi) discretionary time-based RSU awards (DRSU) under the company's 2009 Stock Incentive Plan, each made to the NEOs during the year ended December 31, 2013. Each of these types of awards is discussed in "Compensation Discussion and Analysis" above.

Name	Type of Award	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
William J. Merritt	STIP		143,750	575,000	1,150,000							
	OPT	1/18/2013							22,085	44.19	375,000	
	TRSU	1/18/2013						8,486			374,996	
	PSU8	1/18/2013				8,487	16,973	33,946			0	
	PSU7	1/18/2013				7,002	14,003	28,006			0	
	PSU6	1/18/2013				5,835	11,669	23,338			257,827	
	DRSU(4)	1/18/2013							25,000		1,104,750	
Richard J. Brezski	STIP		35,625	142,500	285,000							
	OPT	1/18/2013							7,362	44.19	125,000	
	TRSU	1/18/2013						2,829			125,014	
	PSU8	1/18/2013				2,829	5,658	11,316			0	
	PSU7	1/18/2013				1,763	3,525	7,050			0	
	PSU6	1/18/2013				870	1,740	3,480			38,445	
Scott A. McQuilkin	STIP		56,250	225,000	450,000							
	OPT	1/18/2013							11,042	44.19	187,500	
	TRSU	1/18/2013						4,243			187,498	
	PSU8	1/18/2013				4,244	8,487	16,974			0	
	PSU7	1/18/2013				2,823	5,645	11,290			0	
	PSU6	1/18/2013				2,741	5,481	10,962			121,103	
	DRSU(4)	1/18/2013							12,000		530,280	
James J. Nolan	STIP		40,625	162,500	325,000							
	OPT	1/18/2013							8,834	44.19	150,000	
	TRSU	1/18/2013						3,394			149,981	
	PSU8	1/18/2013				3,395	6,789	13,578			0	
	PSU7	1/18/2013				2,314	4,627	9,254			0	
	PSU6	1/18/2013				2,152	4,303	8,606			95,075	
	DRSU(4)	1/18/2013							9,000		397,710	
Lawrence F. Shay	STIP		61,500	246,000	492,000							
	OPT	1/18/2013							14,723	44.19	250,000	
	TRSU	1/18/2013						5,657			249,983	
	PSU8	1/18/2013				5,658	11,315	22,630			0	
	PSU7	1/18/2013				3,285	6,569	13,138			0	
	PSU6	1/18/2013				2,987	5,973	11,946			131,973	
	DRSU(4)	1/18/2013							15,000		662,850	

(1) Amounts reported represent the potential threshold, target and maximum payouts the NEO could have earned pursuant to the STIP for fiscal 2013. Actual payouts could have ranged from a minimum of 25% to a maximum amount of 200% of the targeted payout. For all NEOs, the actual amount earned for fiscal 2013, which was paid in 2014 and is reported in the Summary Compensation Table above, was based on the company's achievement of the 2013 corporate and shared executive goals established by the compensation committee in March 2013 and the individual performance of the NEO during 2013.

- (2) Amounts reported represent the potential threshold, target and maximum performance-based RSUs the NEO could earn pursuant to his or her performance-based RSU LTIP award under Cycles 6, 7 and 8 of the LTCP, respectively. 100% achievement of the performance goal or goals results in a 100% payout of the associated target amounts. For each 1% change above or below 100% achievement, the actual award amount is adjusted by 2.5 percentage points, with a threshold payout of 50% of target and a maximum payout of 200% of target. Accordingly, for performance that falls below 80% achievement, no performance-based RSUs would vest.
- (3) Grant date fair value of RSU awards is determined in accordance with FASB ASC Topic 718. The TRSU awards granted in 2013 are scheduled to vest in full on January 1, 2016. Amounts reported for option grants reflect the value recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718. For fiscal 2013, the weighted-average assumptions underlying the valuation of the stock options under the Black-Scholes option pricing model are as follows: expected life of expected life of 4.5 years; volatility of 46.77%; a risk-free interest rate of .72%; and a dividend yield of .905%. Amounts reported for performance-based RSUs is based upon the probable outcome of the performance conditions, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. As of the date of grant, the company believed that the performance thresholds most likely to be achieved under the grants for Cycles 6, 7 and 8 were 50%, 0% and 0%, respectively.
- (4) Amount reported represents a discretionary grant of time-based RSUs awarded to bring compensation opportunity for the NEO up to market levels of other peer group companies and to further align the interests of management and the shareholders.

Outstanding Equity Awards at 2013 Fiscal Year End

The following table sets forth information concerning outstanding option and stock awards of the NEOs as of December 31, 2013.

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)(4)
William J. Merritt	1/01/11					4,414	130,192		
	1/01/12					5,023	148,150		
	1/18/13	—	22,085	—	44.19	1/18/20			
	1/18/13					8,552	252,205		
	1/18/13(6)							17,105	504,440
	1/18/13(7)							14,112	416,171
	1/18/13(8)							11,760	346,804
	1/18/13(9)					16,797	495,345		
	Richard J. Brezski	1/01/11					657	19,396	
1/01/12						654	19,309		
5/09/12(10)						976	28,810		
5/09/12(11)						1,055	31,113		
1/18/13		—	7,362	—	44.19	1/18/20			
1/18/13						2,851	84,078		
1/18/13(6)								5,702	168,156
1/18/13(7)								3,552	104,763
Scott A. McQuilkin	1/01/11					2,073	61,154		
	1/01/12					2,024	59,711		
	1/18/13	—	11,042	—	44.19	1/18/20			
	1/18/13					4,276	126,102		
	1/18/13(6)							8,553	252,235
	1/18/13(7)							5,689	167,770
	1/18/13(8)							5,523	162,896
	1/18/13(9)					8,062	237,761		
James J. Nolan	1/01/11					1,627	48,002		
	1/01/12					1,659	48,945		
	1/18/13	—	8,834	—	44.19	1/18/20			
	1/18/13					3,420	100,870		
	1/18/13(6)							6,841	201,770
	1/18/13(7)							4,663	137,515
	1/18/13(8)							4,336	127,886
Lawrence F. Shay	1/01/11					2,259	66,641		
	1/01/12					2,356	69,506		
	1/18/13	—	14,723	—	44.19	1/18/20			
	1/18/13					5,701	168,127		
	1/18/13(6)							11,403	336,283
	1/18/13(7)							6,620	195,231
	1/18/13(8)							6,019	177,518
1/18/13(9)					10,078	297,201			

- (1) Amounts reported represent awards of options granted pursuant to Cycle 8 under the LTCP. All options vest annually, in three equal installments, beginning on the first anniversary of the grant date.
- (2) Amounts reported represent awards of time-based RSUs (including dividend equivalents accrued). All awards made on January 1, 2011 are time-based RSUs granted pursuant to Cycle 6 under the LTCP and vested in full on

January 1, 2014. All awards made on January 1, 2012 are time-based RSUs granted pursuant to Cycle 7 under the LTCP and are scheduled to vest in full on January 1, 2015. Unless otherwise indicated, all awards made on January 18, 2013 are time-based RSUs granted pursuant to Cycle 7 under the LTCP and are scheduled to vest in full on January 1, 2016.

- (3) Values reported were determined by multiplying the number of unvested time-based RSUs by \$29.49, the closing price of our common stock on December 31, 2013, the last trading day in 2013 (plus cash in lieu of a fractional share).
- (4) Amounts reported were based on target performance measures and represent awards of performance-based RSUs made pursuant to the LTIP under the LTCP.
- (5) Values reported were based on target performance measures and determined by multiplying the number of unvested performance-based RSUs by \$29.49, the closing price of our common stock on December 31, 2013, the last trading day in 2013 (plus cash in lieu of a fractional share).
- (6) Performance-based RSU award granted pursuant to LTIP Cycle 8 under the LTCP, which is scheduled to vest on January 18, 2016 provided that the compensation committee has determined that the threshold level of performance has been achieved with respect to the goals associated with the cycle.
- (7) Performance-based RSU award granted pursuant to LTIP Cycle 7 under the LTCP, which is scheduled to vest on January 1, 2015 provided that the compensation committee has determined that the threshold level of performance has been achieved with respect to the goals associated with the cycle.
- (8) Performance-based RSU award granted pursuant to LTIP Cycle 6 under the LTCP, which was scheduled to vest on January 1, 2014 provided that the compensation committee determined that the threshold level of performance had been achieved with respect to the goal associated with the cycle. As discussed above in “Compensation Discussion and Analysis,” the compensation committee determined that an achievement level of 88% had been met with respect to the goal for this cycle, resulting in a payout of 71% of the target performance-based RSU award (plus the proportionate number of dividend equivalents accrued) on January 1, 2014.
- (9) Amount reported represents a discretionary grant of time-based RSUs (including dividend equivalents accrued) awarded to bring compensation opportunity for the NEO up to market levels of other peer group companies and to further align the interests of management and the shareholders.
- (10) Amount reported represents an additional award of time-based RSUs (including dividend equivalents accrued) granted pursuant to Cycle 7 under the LTCP, scheduled to vest in full on January 1, 2015. Because Mr. Brezski was promoted in the first half of the first year of the cycle, his participation in the cycle was increased pursuant to the terms of the LTCP.
- (11) Amount reported represents a discretionary grant of time-based RSUs (including dividend equivalents accrued) awarded in connection with a promotion, which is scheduled to vest annually, in three equal installments, beginning on the grant date.

Option Exercises and Stock Vested in 2013

The following table sets forth information, on an aggregated basis, concerning stock options exercised and stock awards vested during 2013 for the NEOs.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting #(1)	Value Realized on Vesting \$(2)
William J. Merritt	—	—	13,163	566,723
Richard J. Brezski	—	—	1,834	81,284
Scott A. McQuilkin	—	—	6,475	278,489
James J. Nolan	—	—	4,934	212,061
Lawrence F. Shay	—	—	7,647	329,743

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- (1) Includes dividend equivalents accrued and paid out in additional shares of common stock upon the vesting of the underlying awards.
 - (2) Amounts reported represent the total pre-tax value realized upon the vesting of RSUs (number of shares vested times the closing price of our common stock on the vesting date) plus cash in lieu of a fractional share.

Nonqualified Deferred Compensation

In 2013, the company implemented a nonqualified deferred compensation plan (the “deferred compensation plan”) to complement the 401(k) Plan. As noted above, the IRS imposes limits on the amounts that an employee may contribute annually to a 401(k) plan account. The deferred compensation plan provides the company’s directors and certain designated highly compensated employees, including the NEOs, with an opportunity to set aside additional compensation for their retirement. The deferred compensation plan became effective as of June 12, 2013; the initial plan year commenced on June 12, 2013 and ended on December 31, 2013, and, thereafter, each plan year will be from January 1 to December 31. Pursuant to the terms of the deferred compensation plan, each eligible employee, including each NEO, may elect to defer salary, STIP payouts and certain other compensation, if applicable, and non-management members of the board of directors may elect to defer board fees, in each case on a pre-tax basis and up to a maximum amount selected by the compensation committee.

An employee participant or director may allocate deferrals to one or more deemed investments under the deferred compensation plan. The amount of earnings (or losses) that accrue to a participant’s account attributable to deferrals depends on the performance of investment alternatives selected by the participant. The deemed investment options are currently similar to those available under the 401(k) Plan. However, a participant’s election of investment alternatives as measuring devices for determining the value of a participant’s account does not represent actual ownership of, or any ownership rights in or to, the investments to which the investment alternatives refer, nor is the company in any way bound or directed to make actual investments corresponding to such deemed investments.

The company will not make any matching or discretionary contributions to the accounts of directors. However, the company may, but is not required to, make matching or discretionary contributions, in cash or company common stock, to the accounts of employee participants. Any such company contributions are subject to a vesting schedule as determined by the compensation committee. The specific terms for each plan year, including eligible compensation, minimum and maximum deferral amounts (by percentage of compensation) and matching terms, are determined on an annual basis by the compensation committee.

Employee participant and director account payment obligations are payable in cash on a date or dates selected by the employee participant or director or upon certain specified events such as termination of employment, death or disability, subject to change in certain specified circumstances. An employee participant or director may elect to defer to a single lump-sum payment of his or her account, or may elect payments over time.

For the 2013 plan year, eligible employees could elect to defer 10%, 20%, 30% or 40% of their base salary and 25%, 50%, 75% or 100% of their STIP. Matching contributions are determined on a combined plan basis taking into account deferred amounts under both the 401(k) Plan and the deferred compensation plan. Because this was the first plan year of the deferred compensation plan, deferral elections had to be made by July 1, 2013 and only compensation earned for the last six months of 2013 was eligible for deferral. For 2013, a participant’s combined match for the 401(k) and deferred compensation plan was 50% of the combined deferrals up to 6% of the participant’s base salary. Matching contributions will be deemed to be notionally invested in the InterDigital Stock Fund and are not eligible for transfer to other investment options. Matching contributions vest ratably based on years of service of the participant over three years in one-third increments, with the first vesting occurring after one year of service. Each NEO had at least three years of service with the company prior to the adoption of this plan; therefore, all will be immediately and fully vested in any matching contributions.

The following table sets forth the relevant information regarding the deferred compensation plan for 2013.

Name	Executive Contributions in Last FY (\$)(1)	Registrant Contributions in Last FY (\$)(2)	Aggregate Earnings in Last FY (\$)(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)(4)
William J. Merritt	97,308	2,919	3,160	—	103,387
Richard J. Brezski	—	—	—	—	—
Scott A. McQuilkin	—	—	—	—	—
James J. Nolan	—	—	—	—	—
Lawrence F. Shay	69,385	2,082	2,535	—	74,002

- (1) For Messrs. Merritt and Shay, amounts are included in the “Salary” column of the Summary Compensation Table for fiscal 2013. The payouts of the 2013 STIP were not made until 2014; as a result, any deferrals of 2013 STIP amounts are not reflected in this column.
- (2) For the 2013 plan year, the company agreed to match deferrals up to 50% of the first 6% of the participant’s base salary, determined on a combined plan basis taking into account deferred amounts under both the 401(k) Plan and the deferred compensation plan during the 2013 calendar year. The amounts disclosed in this column reflect matching contributions (made by the company in 2014) for 2013 salary deferrals and are included in the “All Other Compensation” column of the Summary Compensation Table for fiscal 2013. Because the 2013 STIP payments were made in 2014, the 2013 STIP deferrals are considered 2014 contributions and will be matched after year-end 2014.
- (3) The company does not pay guaranteed, above-market or preferential earnings on deferred compensation; therefore, the amounts in this column are not included in the Summary Compensation Table. Balances include earnings credited to the NEO’s account from notional investment alternatives elected by the NEO from alternatives that are similar to those available to participants in the 401(k) Plan. Because the 2013 STIP payouts were not made until 2014, there were no 2013 earnings associated with the 2013 STIP deferral amounts.
- (4) Aggregate balance consists of employee contributions made in 2013, company matching contributions made for 2013 and notional investment earnings in 2013. The deferred compensation plan was newly implemented in 2013; therefore, there are no amounts included that were reported as compensation to any NEO in any previous years.

Potential Payments upon Termination or Change in Control

Employment Agreements

As discussed above in “Compensation Discussion and Analysis,” in 2013, each NEO entered into an amended and restated employment agreement with the company that provides for severance pay and benefits, among other things, in certain events of termination of employment, as described below.

Time-Based RSU, LTIP, Option and STIP Awards

If on December 31, 2013 the NEO’s employment terminated due to disability or death or the NEO was terminated by the company without cause (as described below) or, only with respect only to awards granted prior to January 2013, if the NEO had retired, the NEO would have been entitled to pro-rata vesting of all time-based RSUs, including time-based RSUs granted under the LTCP. For time-based RSU awards, the pro-rata portion of each grant is determined by multiplying the total number of RSUs by a fraction equal to the number of company payroll periods during the vesting period for which the NEO was employed by the total number of payroll periods during the vesting period.

If the NEO’s employment terminated for any reason during the first or second year of an LTCP cycle, the NEO would have forfeited eligibility to receive any LTIP payout of performance-based RSUs under that cycle. If, however, the NEO’s employment terminated during the third year of a cycle in the event of disability or death

or termination by the company without cause, the NEO would have been eligible to earn a pro-rata portion of his performance-based RSU LTIP award. For LTIP awards, the pro-rated amount is determined by multiplying the number of RSUs that would otherwise have vested (based on actual performance over the performance period) by a fraction equal to the portion of the vesting period that had transpired prior to the cessation of employment.

If the NEO was terminated by the company without cause, the NEO would have been entitled to pro-rata vesting of options granted under the LTCP Option Program. The pro-rata portion of each option grant is determined by multiplying the total number of options by a fraction equal to the number of company payroll periods during the vesting period for which the NEO was employed by the total number of payroll periods during the vesting period.

Pursuant to the terms of the STIP, which require an employee to be working actively at the time of the payout, the NEO generally would not have been eligible to receive a payout under the plan in the event of a termination as of year end, because payments under the STIP are made after year end. However, pursuant to the terms of their respective employment agreements, in the event of his termination without “cause” or his resignation for “good reason,” in each case, on or within one year following a “change in control” of the company, Messrs. Merritt, McQuilkin and Shay each would have been entitled to receive an amount equal to 200% of his target payout under the STIP and Messrs. Brezski and Nolan each would have been entitled to receive an amount equal to 100% of his target payout under the STIP.

Pursuant to the terms of the LTCP and STIP, the NEO forfeits any rights under the LTCP and STIP if his or her employment terminates for cause.

Any rights that the NEOs had as of December 31, 2013 under these plans in connection with other termination scenarios are discussed below in connection with the relevant scenario.

Deferred Compensation

If on December 31, 2013 the NEO’s employment terminated due to retirement or disability or the NEO voluntarily terminated his employment with the company with or without good reason, the NEO would have received a distribution of his deferred amounts under the deferred compensation plan, including the vested portion of any company matching or discretionary contributions, in accordance with the NEO’s applicable distribution elections. In the event of a termination due to death, the NEO would have received the balance of his deferred compensation account in a lump sum as soon as administratively practicable, or if the NEO so elected, within two months of the calendar year following his death. In the event the NEO was terminated by the company with or without cause, the NEO would have received the balance of his deferred compensation account in a lump sum within 90 days of the date of termination. In the event of a change in control, as defined by the deferred compensation plan, the NEO would have received a distribution of his account balance in a lump sum as soon as administratively practicable, but in no event later than 30 days from the effective date of the change in control.

Termination Scenarios

The following is a discussion of the various termination scenarios that would require us to pay severance and other benefits to the NEOs. Unless different treatment is indicated below, please see “Time-Based RSU, LTCP, Option and STIP Awards” above for the treatment of the LCTP and STIP awards upon termination under each of the following termination scenarios.

Termination Due to Retirement

The company’s retirement eligibility age is 70. For purposes of determining eligibility, the company employs a formula that sums the employee’s years of service and age. For each of the NEOs, successfully meeting this eligibility requirement and voluntarily retiring causes the vesting, on a pro-rata basis, of all unvested time-based RSU awards granted prior to January 2013.

Termination Due to Death

In the event of the termination of an NEO's employment due to death, the company will pay to the NEO's executors, legal representatives or administrators an amount equal to the accrued but unpaid portion of the NEO's base salary. The NEO's executors, legal representatives or administrators will be entitled to receive the payment prescribed under any death or disability benefits plan in which the NEO is a participant as our employee, and to exercise any rights afforded under any compensation or benefit plan then in effect.

Termination for Cause

Pursuant to the terms of the NEO employment agreements, the company could have terminated the employment of any NEO at any time for "cause" which is generally defined in the employment agreements to include: (a) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of the NEO with respect to the NEO's obligations or otherwise relating to the business of the company; (b) the NEO's material breach of his employment agreement or the company's nondisclosure and assignment of ideas agreement; (c) the NEO's conviction or entry of a plea of nolo contendere for fraud, misappropriation or embezzlement, any felony, or any crime of moral turpitude; or (d) the NEO's willful neglect of duties as determined in the sole and exclusive discretion of the board. In the event of such a termination, the NEO would have been entitled to receive any unpaid base salary, prorated to the date of termination, and any accrued but unused paid time off as of the date of the termination (together, the "Standard Entitlements").

Termination Without Cause

Pursuant to the terms of the NEO employment agreements, the company could have terminated the employment of any NEO at any time, for any reason, without cause upon 30 days prior written notice to the NEO. In the event of a termination without cause, the NEO would have been entitled to receive the Standard Entitlements. In addition, provided he executed a separation agreement (which included, among other things, a broad release of all claims against the company and a non-disparagement provision) (a "Separation Agreement"), the NEO would have been entitled to receive: (i) severance in an amount equal to one and a half times his base salary then in effect (in the case of Mr. Merritt, two and a half times his base salary then in effect) paid over a period of twelve months (eighteen months in the case of Mr. Merritt) commencing 60 days after his date of termination; (ii) health coverage on terms and conditions comparable to those most recently provided to him for the period of one year (18 months in the case of Mr. Merritt) commencing upon the date of termination; and (iii) outplacement services in an amount not to exceed \$10,000, paid by the company directly to the entity providing such services.

Termination by the NEO

Pursuant to the terms of the NEO employment agreements, each NEO could have terminated his employment with us at any time for "good reason," which means the NEO's resignation of employment with the company followed the occurrence of one or more of the following, in each case without the NEO's consent: (i) a material diminution in the NEO's base salary or in the NEO's target bonus opportunity under the STIP as in effect for the year in which the termination occurs; (ii) a material diminution in the NEO's title, authority, duties or responsibilities; (iii) a material failure to comply with the compensation provision of the NEO's employment agreement; (iv) relocation of the NEO's primary office more than 50 miles from the NEO's current office; or (v) any other action or inaction that constitutes a material breach by the company of the employment agreement or the company's nondisclosure and assignment of ideas agreement. In the event that the NEO terminated his employment for good reason, the NEO would have been entitled to receive the Standard Entitlements. In addition, provided he executed a Separation Agreement, the NEO would have been entitled to receive: (i) severance in an amount equal to one and a half times his base salary then in effect (in the case of Mr. Merritt, two and a half times his base salary then in effect) paid over a period of eighteen months; (ii) health coverage on terms and conditions comparable to those most recently provided to him for the period of one year (18 months in the case of Mr. Merritt) commencing upon the date of termination; and (iii) outplacement services in an amount not to exceed \$10,000, paid by the company directly to the entity providing such services.

In addition, pursuant to the terms of the employment agreements, each NEO could have terminated his employment with us without good reason, provided that the date of termination was at least 30 days after the date he gave written notice of the termination to the company. In the event that the NEO terminated his employment without good reason, he would have been entitled to receive the Standard Entitlements.

Termination Following a Change in Control

Pursuant to the terms of the NEO employment agreements, if the company terminated an NEO other than for cause or such NEO terminated his employment with us for good reason, in each case within one year following a change in control of the company, he would have been entitled to receive the Standard Entitlements. In addition, provided that he executed a Separation Agreement, the NEO would have been entitled to (i) severance in an amount equal to (a) for Messrs. Merritt, McQuilkin and Shay, two times the sum of his base salary and target bonus under the STIP then in effect and (b) for Messrs. Brezski and Nolan, two times the base salary then in effect and one times the bonus target under the STIP then in effect, in each case, paid in a lump sum 60 days after his date of termination; (ii) an amount equal to the cost of continued health coverage on terms and conditions comparable to those most recently provided to him for the period of twenty-four months, paid in a lump sum and (iii) outplacement services in an amount not to exceed \$10,000, paid by the company directly to the entity providing such services.

For this purpose, under the NEO employment agreements, “change in control” of the company generally means the acquisition (including by merger or consolidation, or by our issuance of securities) by one or more persons, in one transaction or a series of related transactions, of more than 50% of the voting power represented by our outstanding stock on the date of the NEO’s employment agreement, or a sale of substantially all of our assets.

If the company terminated an NEO other than for cause or such NEO terminated his employment with us for good reason, in each case within one year following a change in control of the company, (i) the NEO would have been entitled to the early vesting of all outstanding performance-based RSU LTIP awards at target, (ii) all stock options granted under the LTCP would have become fully vested and (iii) all time-based RSUs (whether granted as an LTCP, promotion, new hire or other discretionary award) would have become fully vested.

Change in Control without Termination

For outstanding time-based RSU awards granted prior to 2013, the occurrence of a change in control would have caused all such unvested time-based RSUs (whether granted as an LTCP, promotion, new hire or other discretionary award) to vest immediately in full. This would occur without regard to whether the NEO remains employed at the company after the change in control. In addition, with regard to performance-based RSUs, in the event of a change in control, each outstanding award will be deemed to have been earned at target as of the effective date of the change in control; however, the award will remain subject to any employment-based vesting conditions.

Post-Termination Obligations

Each of the NEOs is bound by certain confidentiality obligations, which extend indefinitely, and, pursuant to the terms of their employment agreements by certain non-competition and non-solicitation covenants (i) for a period of (a) one year for Mr. Merritt following termination of employment by the company for any reason or resignation by the NEO for any reason, and (b) for a period up to a maximum of one year for all other NEOs, depending on the nature of termination and whether the company pays severance to the NEO following termination; or (ii) two years following termination of employment by the company without cause or resignation by the NEO for good reason, in each case, on or within twelve months after a change in control. In addition, each of the NEOs is bound by certain covenants protecting our right, title and interest in and to certain intellectual property that either has been or is being developed or created in whole or in part by the NEO.

Taxes

In the event that the payments made to each NEO upon termination constitute “parachute payments” pursuant to Section 280G of the Code, the NEO employment agreements provide that either (i) the payments will be reduced to such lesser amount that would result in no amount being subject to excise tax or (ii) the payments will be made in full, whichever produces the larger after-tax net benefit to the NEO. The employment agreements do not provide for an excise tax “gross-up.”

Term of Employment

Each employment agreement with our NEOs provides for an initial employment term of two years, which term will automatically renew for additional successive one-year periods (unless either party provides notice of non-renewal at least 90 days before the expiration of the term (as extended by any renewal period). In the event that a change in control occurs at any time during the term, then the term shall extend for an additional year and 90 days from the date of the change in control, provided such extension serves to lengthen the term that would otherwise have been in place.

Potential Payments upon Termination or Change in Control

The following tables reflect the amount of compensation payable to each NEO pursuant to their employment agreements, as well as pursuant to the terms of their LTCP awards, the STIP and the deferred compensation plan, upon: (i) termination due to disability, (ii) retirement, (iii) death, (iv) termination without cause, (v) termination by the NEO for good reason, (vi) termination upon a change in control of the company (by the company without cause or by the NEO for good reason) within one year of a change in control and (vii) change in control of the company without a termination. The amounts shown assume that the termination (or the change in control in the case of (vii)) was effective as of December 31, 2013, the last business day of 2013, and the price per share used to calculate the value of the company’s stock awards was \$29.49, the per share closing market price of our common stock as of that date. The amounts reflected are estimates of the amounts that would have been paid out to the NEOs upon their termination. In addition, note that the tables below do not take into account the cutback provision described above under “Termination Scenarios — Taxes;” as a result, the actual amounts paid out could be lower than what is presented. The actual amounts to be paid out can be determined only at the time the events described above actually occur.

William J. Merritt

Assuming the following events occurred on December 31, 2013, Mr. Merritt’s payments and benefits have an estimated value of:

	Severance (\$)	Long-Term Compensation Plan (\$)	Value of Other RSUs Subject to Acceleration (\$)	Deferred Compensation (\$)(9)	Payments under Executive Life Insurance Program (\$)(10)	Payments under Executive Long-Term Disability Program (\$)(11)	Welfare Benefits (\$)	Out- placement Services (\$)(14)
Disability	—	554,734(3)	158,765(7)	103,387	—	20,000	—	—
Retirement	—	227,668(4)	—	103,387	—	—	—	—
Death	—	554,734(3)	158,765(7)	103,387	300,000	—	—	—
Without Cause	1,437,500(1)	554,734(3)	158,765(7)	103,387	—	—	15,175(12)	10,000
Voluntary Resignation for								
Good Reason	1,437,500(1)	—	—	103,387	—	—	15,175(12)	10,000
Change in Control								
(Termination by Us								
Without Cause or by								
Mr. Merritt for Good								
Reason, within 1 year) ...	2,300,000(2)	1,697,388(5)	495,345(8)	103,387	—	—	20,233(13)	10,000
Change in Control (Without								
Termination)	—	278,342(6)	—	103,387	—	—	—	—

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- (1) This amount represents severance equal to two and a half times Mr. Merritt's base salary of \$575,000, which he is entitled to receive once his Separation Agreement becomes effective and is payable in equal installments over a period of 18 months after the date of his termination.
 - (2) This amount represents severance equal to two times the sum of Mr. Merritt's base salary of \$575,000 and target 2013 STIP payout of \$575,000. He is entitled to this amount at the date of his termination if his termination (by us without cause or by him for good reason) occurred within one year following a change in control, in a lump sum after his Separation Agreement becomes effective.
 - (3) This amount represents the value, at December 31, 2013, of Mr. Merritt's time-based RSUs and performance-based RSU LTIP award granted under Cycle 6, time-based RSUs granted under Cycle 7 and time-based RSUs granted under Cycle 8 that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the LTCP, Mr. Merritt would forfeit eligibility to receive any LTIP payout under Cycles 7 and 8 since a termination on December 31, 2013 would occur during the first year or second year of those cycles. For time-based RSUs granted under Cycles 7 and 8, the amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment. For the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$130,192, representing the value of 4,414 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$246,231, representing the value of 8,349 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$97,476, representing the value of 3,305 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); and (d) \$80,835, representing the value of 2,741 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without cause, Mr. Merritt would also have been entitled to a pro rata vesting of his options granted under Cycle 8 of the LTCP, resulting in the accelerated vesting of 7,079 options. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Merritt's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.
 - (4) This amount represents the value, at December 31, 2013, of Mr. Merritt's time-based RSU awards granted under Cycles 6 and 7 of the LTCP that would vest upon retirement. The amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment and include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$130,192, representing the value of 4,414 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); and (b) \$97,476, representing the value of 3,305 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
 - (5) This amount represents the value, at December 31, 2013, of Mr. Merritt's time-based RSUs and performance-based RSU LTIP award granted under each of Cycle 6, Cycle 7 and Cycle 8 that would vest upon termination (by us without cause or by him for good reason) within one year following a change in control. All performance-based RSU LTIP awards would be paid out at target; however, for the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$130,192, representing the value of 4,414 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$246,231, representing the value of 8,349 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$148,150, representing the value of 5,023 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); (d) \$416,170, representing the value of 14,112 performance-based

RSUs for the LTIP award granted under Cycle 7 (plus cash in lieu of a fractional share); (e) \$252,205, representing the value of 8,552 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share); and (f) \$504,440 representing the value of 17,105 performance-based RSUs for the LTIP award granted under Cycle 8 (plus cash in lieu of a fractional share). In addition, Mr. Merritt would have been entitled to the accelerated vesting of 22,085 options granted under Cycle 8 of the LTCP. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Merritt's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.

- (6) This amount represents the value, at December 31, 2013, of Mr. Merritt's time-based RSUs granted under each of Cycle 6 and Cycle 7 that would vest immediately upon a change in control. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$130,192, representing the value of 4,414 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share) and (b) \$148,150, representing the value of 5,023 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (7) This amount represents the value, at December 31, 2013, of 5,383 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a discretionary RSU grant upon termination due to disability, death or termination by the company without cause.
- (8) This amount represents the value, at December 31, 2013, of an unvested discretionary grant of 16,797 time-based RSUs (plus cash in lieu of a fractional share) that would vest in full upon termination (by us without cause or by Mr. Merritt for good reason) within one year following a change in control.
- (9) This amount represents the balance, at December 31, 2013, of Mr. Merritt's deferred compensation plan account (including matching contributions made for 2013), which is payable (a) upon retirement, disability or his voluntary termination of employment with the company with or without good reason, in annual installments over five years, (b) upon death, in a lump sum as soon as administratively practicable following his death, (c) upon a termination by the company with or without cause, in a lump sum within 90 days of the date of termination and (d) upon a change in control, in a lump sum as soon as administratively practicable, but in no event later than 30 days from the effective date of the change in control.
- (10) This amount represents the payment prescribed under our basic term life insurance program, calculated as follows: 1.5 times base salary, up to a maximum of \$300,000.
- (11) This amount represents the actuarial present value of the monthly benefit that would become payable to Mr. Merritt under our executive long-term disability plan in the event of his termination due to disability on December 31, 2013, calculated as follows: 60% of his monthly (pre-tax) base salary, up to \$10,000, and a supplemental monthly payment of up to \$10,000.
- (12) This amount represents the value of health coverage pursuant to COBRA for a period of 18 months after termination on terms and conditions comparable to those most recently provided to Mr. Merritt as of December 31, 2013 pursuant to his employment agreement.
- (13) This amount represents the value of health coverage pursuant to COBRA for a period of 24 months after termination on terms and conditions comparable to those most recently provided to Mr. Merritt as of December 31, 2013 pursuant to his employment agreement.
- (14) This amount represents the maximum amount payable by the company for outplacement services in the event of termination by the company without cause or termination by the NEO for good reason.

Richard J. Brezski

Assuming the following events occurred on December 31, 2013, Mr. Brezski's payments and benefits have an estimated value of:

	Severance (\$)	Long-Term Compensation Plan (\$)	Value of Other RSUs Subject to Acceleration (\$)	Deferred Compensation (\$)(9)	Payments under Executive Life Insurance Program (\$)(10)	Payments under Executive Long-Term Disability Program (\$)(11)	Welfare Benefits (\$)	Out- placement Services (\$)(14)
Disability	—	110,189(3)	14,789(7)	—	—	20,000	—	—
Retirement	—	46,507(4)	14,789(7)	—	—	—	—	—
Death	—	110,189(3)	14,789(7)	—	300,000	—	—	—
Without Cause	427,500(1)	110,189(3)	14,789(7)	—	—	—	14,404(12)	10,000
Voluntary Resignation for Good Reason	427,500(1)	—	—	—	—	—	14,404(12)	10,000
Change in Control (Termination by Us Without Cause or by Mr. Brezski for Good Reason, within 1 year)	712,500(2)	461,246(5)	31,113(8)	—	—	—	28,807(13)	10,000
Change in Control (Without Termination)	—	67,515(6)	31,113(8)	—	—	—	—	—

- (1) This amount represents severance equal to one and a half times Mr. Brezski's base salary of \$285,000, which he is entitled to receive once his Separation Agreement becomes effective and is payable in equal installments over a period of 12 months after the date of his termination.
- (2) This amount represents severance equal to the sum of two times Mr. Brezski's base salary of \$285,000 and one times his target 2013 STIP payout of \$142,500. He is entitled to this amount at the date of his termination if his termination (by us without cause or by him for good reason) occurred within one year following a change in control, in a lump sum after his Separation Agreement becomes effective.
- (3) This amount represents the value, at December 31, 2013, of Mr. Brezski's time-based RSUs and performance-based RSU LTIP award granted under Cycle 6, time-based RSUs granted under Cycle 7 and time-based RSUs granted under Cycle 8 that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the LTCP, Mr. Brezski would forfeit eligibility to receive any LTIP payout under Cycles 7 and 8 since a termination on December 31, 2013 would occur during the first year or second year of those cycles. For time-based RSUs granted under Cycles 7 and 8, the amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment. For the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$19,396, representing the value of 657 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$36,734, representing the value of 1,245 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$27,111, representing the value of 919 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); and (d) \$26,948, representing the value of 913 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without cause, Mr. Brezski would also have been entitled to a pro rata vesting of his options granted under Cycle 8 of the LTCP, resulting in the accelerated vesting of 2,360 options. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Brezski's

outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.

- (4) This amount represents the value, at December 31, 2013, of Mr. Brezski's time-based RSU awards granted under Cycles 6 and 7 of the LTCP that would vest upon retirement. The amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment and include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$19,396, representing the value of 657 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); and (b) \$27,111, representing the value of 919 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (5) This amount represents the value, at December 31, 2013, of Mr. Brezski's time-based RSUs and performance-based RSU LTIP award granted under each of Cycle 6, Cycle 7 and Cycle 8 that would vest upon termination (by us without cause or by him for good reason) within one year following a change in control. All performance-based RSU LTIP awards would be paid out at target; however, for the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$19,396, representing the value of 657 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$36,734, representing the value of 1,245 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$48,119, representing the value of 1,631 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); (d) \$104,763, representing the value of 3,552 performance-based RSUs for the LTIP award granted under Cycle 7 (plus cash in lieu of a fractional share); (e) \$84,078, representing the value of 2,851 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share); and (f) \$168,156 representing the value of 5,702 performance-based RSUs for the LTIP award granted under Cycle 8 (plus cash in lieu of a fractional share). In addition, Mr. Brezski would have been entitled to the accelerated vesting of 7,362 options granted under Cycle 8 of the LTCP. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Brezski's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.
- (6) This amount represents the value, at December 31, 2013, of Mr. Brezski's time-based RSUs granted under each of Cycle 6 and Cycle 7 that would vest immediately upon a change in control. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$19,396, representing the value of 657 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share) and (b) \$48,119, representing the value of 1,631 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (7) This amount represents the value, at December 31, 2013, of 501 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a discretionary RSU grant upon termination due to disability, death or termination by the company without cause, or, because the grant was made prior to 2013, upon retirement.
- (8) This amount represents the value, at December 31, 2013, of an unvested discretionary grant of 1,055 time-based RSUs (plus cash in lieu of a fractional share) that would vest in full upon termination (by us without cause or by Mr. Brezski for good reason) within one year following a change in control, or, because the grant was made prior to 2013, upon a change of control.
- (9) Mr. Brezski had not made any contributions pursuant to the deferred compensation plan as of December 31, 2013.
- (10) This amount represents the payment prescribed under our basic term life insurance program, calculated as follows: 1.5 times base salary, up to a maximum of \$300,000.

- (11) This amount represents the actuarial present value of the monthly benefit that would become payable to Mr. Brezski under our executive long-term disability plan in the event of his termination due to disability on December 31, 2013, calculated as follows: 60% of his monthly (pre-tax) base salary, up to \$10,000, and a supplemental monthly payment of up to \$10,000.
- (12) This amount represents the value of health coverage pursuant to COBRA for a period of one year after termination on terms and conditions comparable to those most recently provided to Mr. Brezski as of December 31, 2013 pursuant to his employment agreement.
- (13) This amount represents the value of health coverage pursuant to COBRA for a period of 24 months after termination on terms and conditions comparable to those most recently provided to Mr. Brezski as of December 31, 2013 pursuant to his employment agreement.
- (14) This amount represents the maximum amount payable by the company for outplacement services in the event of termination by the company without cause or termination by the NEO for good reason.

Scott A. McQuilkin

Assuming the following events occurred on December 31, 2013, Mr. McQuilkin's payments and benefits have an estimated value of:

	Severance (\$)	Long-Term Compensation Plan (\$)	Value of Other RSUs Subject to Acceleration (\$)	Deferred Compensation (\$)(9)	Payments under Executive Life Insurance Program (\$)(10)	Payments under Executive Long-Term Disability Program (\$)(11)	Welfare Benefits (\$)	Out- placement Services (\$)(14)
Disability	—	256,529(3)	76,205(7)	—	—	20,000	—	—
Retirement	—	100,441(4)	—	—	—	—	—	—
Death	—	256,529(3)	76,205(7)	—	300,000	—	—	—
Without Cause	562,500(1)	256,529(3)	76,205(7)	—	—	—	16,929(12)	10,000
Voluntary Resignation for Good Reason	562,500(1)	—	—	—	—	—	16,929(12)	10,000
Change in Control (Termination by Us Without Cause or by Mr. McQuilkin for Good Reason, within 1 year)	1,200,000(2)	782,643(5)	237,761(8)	—	—	—	33,858(13)	10,000
Change in Control (Without Termination)	—	120,864(6)	—	—	—	—	—	—

- (1) This amount represents severance equal to one and a half times Mr. McQuilkin's base salary of \$375,000, which he is entitled to receive once his Separation Agreement becomes effective and is payable in equal installments over a period of 12 months after the date of his termination.
- (2) This amount represents severance equal to two times the sum of Mr. McQuilkin's base salary of \$375,000 and target 2013 STIP payout of \$225,000. He is entitled to this amount at the date of his termination if his termination (by us without cause or by him for good reason) occurred within one year following a change in control, in a lump sum after his Separation Agreement becomes effective.
- (3) This amount represents the value, at December 31, 2013, of Mr. McQuilkin's time-based RSUs and performance-based RSU LTIP award granted under Cycle 6, time-based RSUs granted under Cycle 7 and time-based RSUs granted under Cycle 8 that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the LTCP, Mr. McQuilkin would forfeit eligibility to receive any LTIP payout under Cycles 7 and 8 since a termination on December 31, 2013 would occur during the first year or second year of those cycles. For time-based RSUs granted under

Cycles 7 and 8, the amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment. For the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$61,154, representing the value of 2,073 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$115,671, representing the value of 3,922 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$39,287, representing the value of 1,332 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); and (d) \$40,417, representing the value of 1,370 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without cause, Mr. McQuilkin would also have been entitled to a pro rata vesting of his options granted under Cycle 8 of the LTCP, resulting in the accelerated vesting of 3,540 options. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. McQuilkin's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.

- (4) This amount represents the value, at December 31, 2013, of Mr. McQuilkin's time-based RSU awards granted under Cycles 6 and 7 of the LTCP that would vest upon retirement. The amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment and include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$61,154, representing the value of 2,073 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); and (b) \$39,287, representing the value of 1,332 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (5) This amount represents the value, at December 31, 2013, of Mr. McQuilkin's time-based RSUs and performance-based RSU LTIP award granted under each of Cycle 6, Cycle 7 and Cycle 8 that would vest upon termination (by us without cause or by him for good reason) within one year following a change in control. All performance-based RSU LTIP awards would be paid out at target; however, for the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$61,154, representing the value of 2,073 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$115,671, representing the value of 3,922 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$59,711, representing the value of 2,024 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); (d) \$167,770, representing the value of 5,689 performance-based RSUs for the LTIP award granted under Cycle 7 (plus cash in lieu of a fractional share); (e) \$126,102, representing the value of 4,276 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share); and (f) \$252,235 representing the value of 8,553 performance-based RSUs for the LTIP award granted under Cycle 8 (plus cash in lieu of a fractional share). In addition, Mr. McQuilkin would have been entitled to the accelerated vesting of 11,042 options granted under Cycle 8 of the LTCP. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. McQuilkin's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.
- (6) This amount represents the value, at December 31, 2013, of Mr. McQuilkin's time-based RSUs granted under each of Cycle 6 and Cycle 7 that would vest immediately upon a change in control. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$61,154, representing the value of 2,073 time-based RSUs granted under Cycle 6 (plus cash in lieu of a

fractional share) and (b) \$59,711, representing the value of 2,024 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).

- (7) This amount represents the value, at December 31, 2013, of 2,584 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a discretionary RSU grant upon termination due to disability, death or termination by the company without cause.
- (8) This amount represents the value, at December 31, 2013, of an unvested discretionary grant of 8,062 time-based RSUs (plus cash in lieu of a fractional share) that would vest in full upon termination (by us without cause or by Mr. McQuilkin for good reason) within one year following a change in control.
- (9) Mr. McQuilkin had not made any contributions pursuant to the deferred compensation plan as of December 31, 2013.
- (10) This amount represents the payment prescribed under our basic term life insurance program, calculated as follows: 1.5 times base salary, up to a maximum of \$300,000.
- (11) This amount represents the actuarial present value of the monthly benefit that would become payable to Mr. McQuilkin under our executive long-term disability plan in the event of his termination due to disability on December 31, 2013, calculated as follows: 60% of his monthly (pre-tax) base salary, up to \$10,000, and a supplemental monthly payment of up to \$10,000.
- (12) This amount represents the value of health coverage pursuant to COBRA for a period of one year after termination on terms and conditions comparable to those most recently provided to Mr. McQuilkin as of December 31, 2013 pursuant to his employment agreement.
- (13) This amount represents the value of health coverage pursuant to COBRA for a period of 24 months after termination on terms and conditions comparable to those most recently provided to Mr. McQuilkin as of December 31, 2013 pursuant to his employment agreement.
- (14) This amount represents the maximum amount payable by the company for outplacement services in the event of termination by the company without cause or termination by the NEO for good reason.

James J. Nolan

Assuming the following events occurred on December 31, 2013, Mr. Nolan's payments and benefits have an estimated value of:

	Severance (\$)	Long-Term Compensation Plan (\$)	Value of Other RSUs Subject to Acceleration (\$)	Deferred Compensation (\$)(9)	Payments under Executive Life Insurance Program (\$)(10)	Payments under Executive Long-Term Disability Program (\$)(11)	Welfare Benefits (\$)	Out- placement Services (\$)(14)
Disability	—	203,361(3)	57,154(7)	—	—	20,000	—	—
Retirement	—	80,206(4)	—	—	—	—	—	—
Death	—	203,361(3)	57,154(7)	—	300,000	—	—	—
Without Cause	487,500(1)	203,361(3)	57,154(7)	—	—	—	16,929(12)	10,000
Voluntary Resignation for Good Reason	487,500(1)	—	—	—	—	—	16,929(12)	10,000
Change in Control (Termination by Us Without Cause or by Mr. Nolan for Good Reason, within 1 year) ...	812,500(2)	627,927(5)	178,321(8)	—	—	—	33,858(13)	10,000
Change in Control (Without Termination)	—	96,947(6)	—	—	—	—	—	—

- (1) This amount represents severance equal to one and a half times Mr. Nolan's base salary of \$325,000, which he is entitled to receive once his Separation Agreement becomes effective and is payable in equal installments over a period of 12 months after the date of his termination.

- (2) This amount represents severance equal to the sum of two times Mr. Nolan's base salary of \$325,000 and one times his target 2013 STIP payout of \$162,500. He is entitled to this amount at the date of his termination if his termination (by us without cause or by him for good reason) occurred within one year following a change in control, in a lump sum after his Separation Agreement becomes effective.
- (3) This amount represents the value, at December 31, 2013, of Mr. Nolan's time-based RSUs and performance-based RSU LTIP award granted under Cycle 6, time-based RSUs granted under Cycle 7 and time-based RSUs granted under Cycle 8 that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the LTCP, Mr. Nolan would forfeit eligibility to receive any LTIP payout under Cycles 7 and 8 since a termination on December 31, 2013 would occur during the first year or second year of those cycles. For time-based RSUs granted under Cycles 7 and 8, the amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment. For the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$48,002, representing the value of 1,627 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$90,825, representing the value of 3,079 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$32,204, representing the value of 1,092 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); and (d) \$32,330, representing the value of 1,096 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without cause, Mr. Nolan would also have been entitled to a pro rata vesting of his options granted under Cycle 8 of the LTCP, resulting in the accelerated vesting of 2,832 options. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Nolan's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.
- (4) This amount represents the value, at December 31, 2013, of Mr. Nolan's time-based RSU awards granted under Cycles 6 and 7 of the LTCP that would vest upon retirement. The amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment and include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$48,002, representing the value of 1,627 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); and (b) \$32,204, representing the value of 1,092 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (5) This amount represents the value, at December 31, 2013, of Mr. Nolan's time-based RSUs and performance-based RSU LTIP award granted under each of Cycle 6, Cycle 7 and Cycle 8 that would vest upon termination (by us without cause or by him for good reason) within one year following a change in control. All performance-based RSU LTIP awards would be paid out at target; however, for the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$48,002, representing the value of 1,627 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$90,825, representing the value of 3,079 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$48,945, representing the value of 1,659 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); (d) \$137,515, representing the value of 4,663 performance-based RSUs for the LTIP award granted under Cycle 7 (plus cash in lieu of a fractional share); (e) \$100,870, representing the value of 3,420 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share); and (f) \$201,770 representing the value of 6,841 performance-based RSUs for the LTIP award granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without

cause, Mr. Nolan would also have been entitled to the accelerated vesting of 8,834 options granted under Cycle 8 of the LTCP. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Nolan's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.

- (6) This amount represents the value, at December 31, 2013, of Mr. Nolan's time-based RSUs granted under each of Cycle 6 and Cycle 7 that would vest immediately upon a change in control. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$48,002, representing the value of 1,627 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share) and (b) \$48,945, representing the value of 1,659 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (7) This amount represents the value, at December 31, 2013, of 1,938 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a discretionary RSU grant upon termination due to disability, death or termination by the company without cause.
- (8) This amount represents the value, at December 31, 2013, of an unvested discretionary grant of 6,046 time-based RSUs (plus cash in lieu of a fractional share) that would vest in full upon termination (by us without cause or by Mr. Nolan for good reason) within one year following a change in control.
- (9) Mr. Nolan had not made any contributions pursuant to the deferred compensation plan as of December 31, 2013.
- (10) This amount represents the payment prescribed under our basic term life insurance program, calculated as follows: 1.5 times base salary, up to a maximum of \$300,000.
- (11) This amount represents the actuarial present value of the monthly benefit that would become payable to Mr. Nolan under our executive long-term disability plan in the event of his termination due to disability on December 31, 2013, calculated as follows: 60% of his monthly (pre-tax) base salary, up to \$10,000, and a supplemental monthly payment of up to \$10,000.
- (12) This amount represents the value of health coverage pursuant to COBRA for a period of one year after termination on terms and conditions comparable to those most recently provided to Mr. Nolan as of December 31, 2013 pursuant to his employment agreement.
- (13) This amount represents the value of health coverage pursuant to COBRA for a period of 24 months after termination on terms and conditions comparable to those most recently provided to Mr. Nolan as of December 31, 2013 pursuant to his employment agreement.
- (14) This amount represents the maximum amount payable by the company for outplacement services in the event of termination by the company without cause or termination by the NEO for good reason.

Lawrence F. Shay

Assuming the following events occurred on December 31, 2013, Mr. Shay's payments and benefits have an estimated value of:

	Severance (\$)	Long-Term Compensation Plan (\$)	Value of Other RSUs Subject to Acceleration (\$)	Deferred Compensation (\$)(9)	Payments under Executive Life Insurance Program (\$)(10)	Payments under Executive Long-Term Disability Program (\$)(11)	Welfare Benefits (\$)	Out- placement Services (\$)(14)
Disability	—	292,303(3)	95,257(7)	74,002	—	18,500	—	—
Retirement	—	112,373(4)	—	74,002	—	—	—	—
Death	—	292,303(3)	95,257(7)	74,002	300,000	—	—	—
Without Cause	615,000(1)	292,303(3)	95,257(7)	74,002	—	—	16,929(12)	10,000
Voluntary Resignation for Good Reason	615,000(1)	—	—	74,002	—	—	16,929(12)	10,000
Change in Control (Termination by Us Without Cause or by Mr. Shay for Good Reason, within 1 year) . . .	1,312,000(2)	961,831(5)	297,201(8)	74,002	—	—	33,858(13)	10,000
Change in Control (Without Termination)	—	136,147(6)	—	74,002	—	—	—	—

- (1) This amount represents severance equal to one and a half times Mr. Shay's base salary of \$410,000, which he is entitled to receive once his Separation Agreement becomes effective and is payable in equal installments over a period of 12 months after the date of his termination.
- (2) This amount represents severance equal to two times the sum of Mr. Shay's base salary of \$410,000 and target 2013 STIP payout of \$246,000. He is entitled to this amount at the date of his termination if his termination (by us without cause or by him for good reason) occurred within one year following a change in control, in a lump sum after his Separation Agreement becomes effective.
- (3) This amount represents the value, at December 31, 2013, of Mr. Shay's time-based RSUs and performance-based RSU LTIP award granted under Cycle 6, time-based RSUs granted under Cycle 7 and time-based RSUs granted under Cycle 8 that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the LTCP, Mr. Shay would forfeit eligibility to receive any LTIP payout under Cycles 7 and 8 since a termination on December 31, 2013 would occur during the first year or second year of those cycles. For time-based RSUs granted under Cycles 7 and 8, the amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment. For the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$66,641, representing the value of 2,259 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$126,043, representing the value of 4,274 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$45,732, representing the value of 1,550 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); and (d) \$53,887, representing the value of 1,827 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share). In the event of a termination by the company without cause, Mr. Shay would also have been entitled to a pro rata vesting of his options granted under Cycle 8 of the LTCP, resulting in the accelerated vesting of 4,719 options. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Shay's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.

- (4) This amount represents the value, at December 31, 2013, of Mr. Shay's time-based RSU awards granted under Cycles 6 and 7 of the LTCP that would vest upon retirement. The amounts were prorated based on the portion of the vesting period that would have transpired prior to cessation of employment and include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$66,641, representing the value of 2,259 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); and (b) \$45,732, representing the value of 1,550 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (5) This amount represents the value, at December 31, 2013, of Mr. Shay's time-based RSUs and performance-based RSU LTIP award granted under each of Cycle 6, Cycle 7 and Cycle 8 that would vest upon termination (by us without cause or by him for good reason) within one year following a change in control. All performance-based RSU LTIP awards would be paid out at target; however, for the performance-based RSU LTIP award pursuant to Cycle 6 (which ended December 31, 2013), the amount reflects the actual payout of 71% of target. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$66,641, representing the value of 2,259 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share); (b) \$126,043, representing the value of 4,274 performance-based RSUs for the LTIP award granted under Cycle 6 (plus cash in lieu of a fractional share); (c) \$69,506, representing the value of 2,356 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share); (d) \$195,231, representing the value of 6,620 performance-based RSUs for the LTIP award granted under Cycle 7 (plus cash in lieu of a fractional share); (e) \$168,127, representing the value of 5,701 time-based RSUs granted under Cycle 8 (plus cash in lieu of a fractional share); and (f) \$336,283 representing the value of 11,403 performance-based RSUs for the LTIP award granted under Cycle 8 (plus cash in lieu of a fractional share). In addition, Mr. Shay would have been entitled to the accelerated vesting of 14,723 options granted under Cycle 8 of the LTCP. The value of accelerated options is the aggregate spread between the closing stock price of \$29.49 and the exercise price of the options, if less than \$29.49. As Mr. Shay's outstanding unvested stock option grant was underwater at December 31, 2013, the value reflected in the table above for these options is zero.
- (6) This amount represents the value, at December 31, 2013, of Mr. Shay's time-based RSUs granted under each of Cycle 6 and Cycle 7 that would vest immediately upon a change in control. All RSU amounts include accrued dividend equivalents, which are paid out in the form of additional shares of common stock at the time, and only to the extent, that the awards vest. The value shown is comprised of: (a) \$66,641, representing the value of 2,259 time-based RSUs granted under Cycle 6 (plus cash in lieu of a fractional share) and (b) \$69,506, representing the value of 2,356 time-based RSUs granted under Cycle 7 (plus cash in lieu of a fractional share).
- (7) This amount represents the value, at December 31, 2013, of 3,230 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a discretionary RSU grant upon termination due to disability, death or termination by the company without cause.
- (8) This amount represents the value, at December 31, 2013, of an unvested discretionary grant of 10,078 time-based RSUs (plus cash in lieu of a fractional share) that would vest in full upon termination (by us without cause or by Mr. Shay for good reason) within one year following a change in control.
- (9) This amount represents the balance, at December 31, 2013, of Mr. Shay's deferred compensation plan account (including matching contributions made for 2013), which is payable (a) upon retirement, disability or his voluntary termination of employment with the company with or without good reason, in annual installments over two years, (b) upon death, in a lump sum as soon as administratively practicable following his death, (c) upon a termination by the company with or without cause, in a lump sum within 90 days of the date of termination and (d) upon a change in control in a lump sum as soon as administratively practicable, but in no event later than 30 days from the effective date of the change in control.

- (10) This amount represents the payment prescribed under our basic term life insurance program, calculated as follows: 1.5 times base salary, up to a maximum of \$300,000.
- (11) This amount represents the actuarial present value of the monthly benefit that would become payable to Mr. Shay under our executive long-term disability plan in the event of his termination due to disability on December 31, 2013, calculated as follows: 60% of his monthly (pre-tax) base salary, up to \$10,000, and a supplemental monthly payment of up to \$8,500.
- (12) This amount represents the value of health coverage pursuant to COBRA for a period of one year after termination on terms and conditions comparable to those most recently provided to Mr. Shay as of December 31, 2013 pursuant to his employment agreement.
- (13) This amount represents the value of health coverage pursuant to COBRA for a period of 24 months after termination on terms and conditions comparable to those most recently provided to Mr. Shay as of December 31, 2013 pursuant to his employment agreement.
- (14) This amount represents the maximum amount payable by the company for outplacement services in the event of termination by the company without cause or termination by the NEO for good reason.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes the company's equity compensation plan information relating to the common stock authorized for issuance under the company's equity compensation plans as of December 31, 2013:

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)</u>	<u>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))(2)</u>
Equity compensation plans approved by InterDigital shareholders	1,727,904	\$22.61	2,005,195
Equity compensation plans not approved by InterDigital shareholders(3)	1,750	\$21.76	—
Total	1,729,654	\$22.61	2,005,195

- (1) Column (a) includes 374,099 shares of common stock underlying outstanding time-based RSUs awards and 1,110,638 shares of common stock underlying outstanding performance-based RSU awards, assuming a maximum payout of 200% of the target number of performance-based awards at the end of the applicable performance period, in each case including dividend equivalents credited. Because there is no exercise price associated with RSUs, these stock awards are not included in the weighted-average exercise price calculation presented in column (b). Dividend equivalents are paid in shares of common stock at the time, and only to the extent, that the related RSU awards vest.
- (2) On June 4, 2009, the company's shareholders adopted and approved our 2009 Stock Incentive Plan (the "2009 Plan"), which provides for grants of stock options, stock appreciation rights, restricted stock, RSUs and incentive bonuses. As of that date, no further grants were permitted under any previously existing stock plans of the company (the "Pre-existing Plans"), and all remaining equity instruments available for grant under the Pre-existing Plans became available for grant under the 2009 Plan. Amounts reported relate to the 2009 Plan.
- (3) Relates to a Pre-existing Plan, the company's 2002 Stock Award and Incentive Plan (the "2002 Plan"). As of June 4, 2009, no further grants were permitted under the 2002 Plan. All outstanding awards under the 2002 Plan as of December 31, 2013 were option awards. As of March 31, 2014, there were no awards outstanding under the 2002 Plan. A description of the 2002 Plan is incorporated by reference to Note 11 to the consolidated financial statements set forth in the company's annual report on Form 10-K for the year ended December 31, 2008.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

How many shares of the company's common stock do the directors, director nominees, executive officers and certain significant shareholders own?

The following table sets forth information regarding the beneficial ownership of the 40,453,401 shares of our common stock outstanding as of March 31, 2014, except as otherwise indicated below, by each person who is known to us, based upon filings with the SEC, to beneficially own more than 5% of our common stock, as well as by each director, each director nominee, each NEO and all directors and executive officers as a group. Except as otherwise indicated below and subject to the interests of spouses of the named beneficial owners, each named beneficial owner has sole voting and sole investment power with respect to the stock listed. None of the shares reported are currently pledged as security for any outstanding loan or indebtedness. If a shareholder holds options or other securities that are exercisable or otherwise convertible into our common stock within 60 days of March 31, 2014, pursuant to SEC rules, we treat the common stock underlying those securities as beneficially owned by that shareholder, and as outstanding shares when we calculate that shareholder's percentage ownership of our common stock. However, pursuant to SEC rules, we do not consider that common stock to be outstanding when we calculate the percentage ownership of any other shareholder.

<u>Name</u>	<u>Common Stock</u>	
	<u>Shares</u>	<u>Percent of Class</u>
<i>Directors and Director Nominees:</i>		
Gilbert F. Amelio(1)	8,104	*
Jeffrey K. Belk	13,174	*
Steven T. Clontz(2)	141,931	*
Edward B. Kamins	14,700	*
John A. Kritzmacher	8,510	*
William J. Merritt(3)	117,829	*
Jean F. Rankin	9,934	*
Robert S. Roath(4)	20,794	*
<i>NEOs:</i>		
Richard J. Brezski(5)	11,401	*
Scott A. McQuilkin(6)	38,210	*
James J. Nolan(7)	36,757	*
Lawrence F. Shay(8)	44,862	*
All directors and executive officers as a group (14 persons)(9)	476,730	1.2%
<i>Greater Than 5% Shareholders:</i>		
BlackRock, Inc.(10) 40 East 52nd Street New York, New York 10022	3,553,736	8.6%
First Pacific Advisors, LLC(11) 11400 West Olympic Boulevard, Suite 1200 Los Angeles, California 90064	2,599,323	6.3%
The Vanguard Group(12) 100 Vanguard Boulevard Malvern, Pennsylvania 19355	2,469,082	6.0%

* Represents less than 1% of our outstanding common stock

- (1) Includes 4,234 shares of common stock that have vested but have been deferred by Dr. Amelio.
- (2) Includes 36,429 shares of common stock that have vested but have been deferred by Mr. Clontz.

- (3) Includes 7,361 shares of common stock that Mr. Merritt has the right to acquire through the exercise of stock options within 60 days of March 31, 2014 and 3,131 whole shares of common stock beneficially owned by Mr. Merritt through participation in the 401(k) Plan.
- (4) Includes 12,802 shares of common stock that have vested but have been deferred by Mr. Roath.
- (5) Includes 2,454 shares of common stock that Mr. Brezski has the right to acquire through the exercise of stock options within 60 days of March 31, 2014, 1,059 shares of common stock underlying an RSU award that is scheduled to vest within 60 days of March 31, 2014 and 1,715 whole shares of common stock beneficially owned by Mr. Brezski through participation in the 401(k) Plan.
- (6) Includes 3,680 shares of common stock that Mr. McQuilkin has the right to acquire through the exercise of stock options within 60 days of March 31, 2014 and 1,302 whole shares of common stock beneficially owned by Mr. McQuilkin through participation in the 401(k) Plan.
- (7) Includes 2,944 shares of common stock that Mr. Nolan has the right to acquire through the exercise of stock options within 60 days of March 31, 2014 and 3,114 whole shares of common stock beneficially owned by Mr. Nolan through participation in the 401(k) Plan.
- (8) Includes 4,907 shares of common stock that Mr. Shay has the right to acquire through the exercise of stock options within 60 days of March 31, 2014 and 3,165 whole shares of common stock beneficially owned by Mr. Shay through participation in the 401(k) Plan.
- (9) Includes: 25,272 shares of common stock that all directors and officers as a group have the right to acquire through the exercise of stock options within 60 days of March 31, 2014; 1,059 shares of common stock issuable to all directors and officers as a group upon settlement of RSU awards that are scheduled to vest within 60 days of March 31, 2014; 53,466 shares of common stock that have vested but have been deferred by all directors and officers as a group; and 12,427 whole shares of common stock beneficially owned by all officers and directors as a group through participation in the 401(k) Plan.
- (10) As of December 31, 2013, based on information contained in the Schedule 13G/A filed on January 29, 2014 by BlackRock, Inc.
- (11) As of December 31, 2013, based on information contained in the Schedule 13G filed on February 12, 2014 by First Pacific Advisors, LLC (“FPA”). Robert L. Rodriguez, J. Richard Atwood and Steven T. Romick jointly filed the Schedule 13G with FPA, an investment adviser. As controlling persons of FPA, each may be deemed to beneficially own 2,599,323 shares of the company’s common stock. Messrs. Rodriguez, Atwood and Romick expressly disclaim beneficial ownership of the securities owned by FPA’s clients.
- (12) As of December 31, 2013, based on information contained in the Schedule 13G/A filed on February 11, 2014 by The Vanguard Group.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The company has a written statement of policy with respect to related person transactions that is administered by the audit committee. Under the policy, a “Related Person Transaction” means any transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) between the company (including any of its subsidiaries) and a related person, in which the related person had, has or will have a direct or indirect material interest. A “Related Person” includes any of our executive officers, directors or director nominees, any shareholder owning in excess of 5% of our common stock, any immediate family member of any of the foregoing persons, and any firm, corporation or other entity in which any of the foregoing persons is employed as an executive officer or is a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest. Related Person Transactions do not include certain transactions involving only director or executive officer compensation, transactions where the Related Person receives proportional benefits as a shareholder along with all other shareholders, transactions involving competitive bids or transactions involving certain bank-related services.

Pursuant to the policy, a Related Person Transaction may be consummated or may continue only if:

- The audit committee approves or ratifies the transaction in accordance with the terms of the policy; or
- The chairman of the audit committee, pursuant to authority delegated to the chairman by the audit committee, pre-approves or ratifies the transaction and the amount involved in the transaction is less than \$100,000, provided that, for the Related Person Transaction to continue, it must be approved by the audit committee at its next regularly scheduled meeting.

It is the company’s policy to enter into or ratify Related Person Transactions only when the audit committee determines that the Related Person Transaction in question is in, or is not inconsistent with, the best interests of the company, including but not limited to situations where the company may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or where the company provides products or services to Related Persons on an arm’s length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally.

In determining whether to approve or ratify a Related Person Transaction, the committee takes into account, among other factors it deems appropriate, whether the Related Person Transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the Related Person’s interest in the transaction.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

During 2013, did all directors and officers timely file all reports required by Section 16(a)?

Based upon a review of filings with the SEC furnished to us and written representations that no other reports were required, we believe that during and with respect to 2013 all of our directors and officers timely filed all reports required by Section 16(a) of the Exchange Act.

Shareholder Proposals

How may shareholders make proposals or director nominations for the 2015 annual meeting?

Shareholders interested in submitting a proposal for inclusion in our proxy statement for the 2015 annual meeting may do so by submitting the proposal in writing to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727. To be eligible for inclusion in our proxy statement for the 2015 annual meeting, shareholder proposals must be received no later than December 29, 2014, and they must comply with all applicable SEC requirements. The submission of a shareholder proposal does not guarantee that it will be included in our proxy statement.

Our bylaws also establish an advance notice procedure with regard to nominations of persons for election to the board and shareholder proposals that are not submitted for inclusion in the proxy statement but that a shareholder instead wishes to present directly at an annual meeting. Shareholder proposals and nominations may not be brought before the 2015 annual meeting unless, among other things, the shareholder's submission contains certain information concerning the proposal or the nominee, as the case may be, and other information specified in our bylaws, and we receive the shareholder's submission no earlier than March 14, 2015, and no later than April 13, 2015. However, if the date of our 2015 annual meeting is more than 30 days before or more than 60 days after the anniversary of our 2014 annual meeting, the submission and the required information must be received by us no earlier than the 90th day prior to the 2015 annual meeting and no later than the later of the 60th day prior to the annual meeting or the 15th day following the day on which we first publicly announce the date of the 2015 annual meeting. Proposals or nominations that do not comply with the advance notice requirements in our bylaws will not be entertained at the 2015 annual meeting. A copy of the bylaws may be obtained on our website at <http://ir.interdigital.com> under the heading "Corporate Governance — CG Documents," or by writing to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727.

Proxy Solicitation Costs and Potential Savings

Who pays for the proxy solicitation costs?

We will bear the entire cost of proxy solicitation, including preparation, assembly, printing and mailing of the Notice, this proxy statement, the proxy card and any additional materials furnished to shareholders. Copies of proxy solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others to forward to such beneficial owners. In addition, we may reimburse such persons for their cost of forwarding the solicitation materials to such beneficial owners. Our directors, officers or regular employees may supplement solicitation of proxies by mail through the use of one or more of the following methods: telephone, email, telegram, facsimile or personal solicitation. No additional compensation will be paid for such services. For 2014, we have also engaged Alliance Advisors, LLC, a professional proxy solicitation firm, to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners at an anticipated cost of approximately \$7,200.

INTERDIGITAL, INC.
2009 STOCK INCENTIVE PLAN

1. Purpose

The purpose of the InterDigital, Inc. 2009 Stock Incentive Plan (the “Plan”) is to advance the interests of the InterDigital Inc. (the “Company”) by stimulating the efforts of employees, officers, non-employee directors and other service providers, in each case who are selected to be participants, by heightening the desire of such persons to continue working toward and contributing to the success and progress of the Company. Upon approval by the Company’s shareholders, the Plan will supersede the Company’s Prior Plans with respect to future awards, and provides for the grant of Incentive and Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units, any of which may be performance-based, and for Incentive Bonuses, which may be paid in cash or stock or a combination thereof, as determined by the Administrator.

2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) “Administrator” means the Administrator of the Plan in accordance with Section 19.

(b) “Award” means an Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Incentive Bonus granted to a Participant pursuant to the provisions of the Plan, any of which the Administrator may structure to qualify in whole or in part as a Performance Award.

(c) “Award Agreement” means a written agreement or other instrument as may be approved from time to time by the Administrator implementing the grant of each Award. An Agreement may be in the form of an agreement to be executed by both the Participant and the Company (or an authorized representative of the Company) or certificates, notices or similar instruments as approved by the Administrator.

(d) “Board” means the board of directors of the Company.

(e) “Change in Control” means the occurrence of any of the following after the Effective Date:

(1) Any “person,” as such term is used in Section 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), acquires voting securities of the Company and immediately thereafter is a “50% Beneficial Owner.” For purposes of this provision, a “50% Beneficial Owner” shall mean a person who is the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then-outstanding voting securities; or

(2) During any period of two consecutive years commencing on or after the Effective Date, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person (as defined above) who has entered into an agreement with the Company to effect a transaction described in subsections (1), (3), (4) or (5) of this definition) whose election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved cease for any reason to constitute at least a majority thereof; or

(3) The consummation of a merger, consolidation, recapitalization, or reorganization of the Company, or a reverse stock split of any class of voting securities of the Company, other than any such transaction which would result in at least 50% of the combined voting power of the voting securities of the Company or

the surviving entity outstanding immediately after such transaction being beneficially owned by the persons who were shareholders of the Company immediately prior to the transaction in substantially the same proportion as their ownership of the voting power immediately prior to the transaction; provided that, for purposes of this Section 2(f)(3), such continuity of ownership (and preservation of relative voting power) shall be deemed to be satisfied if the failure to meet such 50% threshold (or to substantially preserve such relative ownership of the voting securities) is due solely to the acquisition of voting securities by an employee benefit plan of the Company, such surviving entity or a subsidiary thereof; or

(4) The shareholders of the Company accept shares in a share exchange in which the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than 50% of the combined voting power of the outstanding voting securities of the corporation resulting from or surviving such share exchange in substantially the same proportion as the ownership of the voting securities outstanding immediately before such share exchange; or

(5) The shareholders of the Company have approved a plan of complete liquidation of the Company; or

(6) The consummation of a sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect).

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rulings and regulations issues thereunder.

(g) "Common Stock" means the Company's common stock, par value \$.01, subject to adjustment as provided in Section 12.

(h) "Company" means InterDigital, Inc., a Pennsylvania corporation.

(i) "Detrimental Activity" with respect to a Participant means that such Participant:

(1) Has engaged in any type of disloyalty to the Company, including without limitation, insubordination, fraud, embezzlement, theft or dishonesty in the course of his or her employment or engagement; or

(2) Has been convicted of a felony; or

(3) Has disclosed any confidential or proprietary information without the consent of the Company; or

(4) Has breached the terms of any written confidentiality agreement or any non-competition agreement with the Company in any material respect.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(k) "Fair Market Value" means the fair market value of Common Stock, Awards or other property as determined by the Administrator or under procedures established by the Administrator. The Fair Market Value of Shares shall be the closing sale price reported on the composite tape of the principal stock exchange on which the Shares are listed on the day as of which such value is being determined or, if there is no sale on that day, then on the last previous day on which a sale was reported.

(l) "Incentive Bonus" means a bonus opportunity awarded under Section 9 pursuant to which a Participant may become entitled to receive an amount based on satisfaction of such performance criteria as are specified in the Award Agreement.

(m) "Incentive Stock Option" means a stock option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(n) "Nonemployee Director" means each person who is, or is elected to be, a member of the Board and who is not an employee of the Company or any Subsidiary.

(o) “Nonqualified Stock Option” means a stock option that is not intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Code.

(p) “Option” means an Incentive Stock Option and/or a Nonqualified Stock Option granted pursuant to Section 6 of the Plan.

(q) “Participant” means any individual described in Section 3 to whom Awards have been granted from time to time by the Administrator and any authorized transferee of such individual.

(r) “Performance Award” means an Award, the grant, issuance, retention, vesting or settlement of which is subject to satisfaction of one or more Qualifying Performance Criteria established pursuant to Section 14.

(s) “Plan” means the InterDigital, Inc. 2009 Stock Incentive Plan as set forth herein and as amended from time to time.

(t) “Prior Plans” means the InterDigital Communications Corporation 1999 Restricted Stock Plan, the InterDigital Communications Corporation 2000 Stock Award and Incentive Plan and the InterDigital Communications Corporation 2002 Stock Award and Incentive Plan.

(u) “Qualifying Performance Criteria” has the meaning set forth in Section 14(b).

(v) “Restricted Stock” means Shares granted pursuant to Section 8 of the Plan.

(w) “Restricted Stock Unit” means an Award granted to a Participant pursuant to Section 8 pursuant to which Shares or cash in lieu thereof may be issued in the future.

(x) “Share” means a share of the Common Stock, subject to adjustment as provided in Section 12.

(y) “Stock Appreciation Right” means a right granted pursuant to Section 7 of the Plan that entitles the Participant to receive, in cash or Shares or a combination thereof, as determined by the Administrator, value equal to or otherwise based on the excess of (i) the Fair Market Value of a specified number of Shares at the time of exercise over (ii) the exercise price of the right, as established by the Administrator on the date of grant.

(z) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company where each of the corporations in the unbroken chain other than the last corporation owns stock possessing at least 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, and if specifically determined by the Administrator in the context other than with respect to Incentive Stock Options, may include an entity in which the Company has a significant ownership interest or that is directly or indirectly controlled by the Company.

(aa) “Termination of Employment” means ceasing to serve as a full-time employee of the Company and its Subsidiaries or, with respect to a Nonemployee Director or other service provider, ceasing to serve as such for the Company, except that with respect to all or any Awards held by a Participant (i) the Administrator may determine, subject to Section 6(d), that an approved leave of absence or approved employment on a less than full-time basis is not considered a Termination of Employment, (ii) the Administrator may determine that a transition of employment to service with a partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which the Company or a Subsidiary is a party is not considered a Termination of Employment, (iii) service as a member of the Board or other service provider shall constitute continued employment with respect to Awards granted to a Participant while he or she served as an employee and (iv) service as an employee of the Company or a Subsidiary shall constitute continued employment with respect to Awards granted to a Participant while he or she served as a member of the Board or other service provider. The Administrator shall determine whether any corporate transaction, such as a sale or spin-off of a division or subsidiary that employs a Participant, shall be deemed to result in a Termination of Employment with the Company and its Subsidiaries for purposes of any affected Participant’s Options, and the Administrator’s decision shall be final and binding.

3. Eligibility

Any person who is a current or prospective officer or employee of the Company or of any Subsidiary shall be eligible for selection by the Administrator for the grant of Awards hereunder. In addition, Nonemployee Directors and any other service providers who have been retained to provide consulting, advisory or other services to the Company or to any Subsidiary shall be eligible for the grant of Awards hereunder as determined by the Administrator. Options intending to qualify as Incentive Stock Options may only be granted to employees of the Company or any Subsidiary within the meaning of the Code, as selected by the Administrator.

4. Effective Date and Termination of Plan

This Plan was adopted by the Board as of April 27, 2009, and it will become effective (the “Effective Date”) when it is approved by the Company’s shareholders at a meeting of the Company’s shareholders or by written consent in accordance with the laws of the Commonwealth of Pennsylvania, which approval must be obtained within twelve (12) months of the adoption of this Plan by the Board. The Plan shall remain available for the grant of Awards until the tenth (10th) anniversary of the Effective Date. Notwithstanding the foregoing, the Plan may be terminated at such earlier time as the Board may determine. Termination of the Plan will not affect the rights and obligations of the Participants and the Company arising under Awards theretofore granted and then in effect.

5. Shares Subject to the Plan and to Awards

(a) *Aggregate Limits.* The aggregate number of Shares issuable pursuant to all Awards shall not exceed 2,114,439, plus (i) any Shares that were authorized for issuance under the Prior Plans that, as of the Effective Date, remain available for issuance under the Prior Plans (not including any Shares that are subject to, as of the Effective Date, outstanding awards under the Prior Plans or any Shares that prior to the Effective Date were issued pursuant to awards granted under the Prior Plans) and (ii) any Shares subject to outstanding awards under the Prior Plans as of the Effective Date (the “Prior Plan Awards”) that on or after such date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable shares). The aggregate number of Shares available for grant under this Plan and the number of Shares subject to outstanding Awards shall be subject to adjustment as provided in Section 12. The Shares issued pursuant to Awards granted under this Plan may be shares that are authorized and unissued or shares that were reacquired by the Company, including shares purchased in the open market.

(b) *Issuance of Shares.* For purposes of Section 5(a), the aggregate number of Shares issued under this Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Award. The aggregate number of Shares available for Awards under this Plan at any time shall not be reduced by (i) Shares subject to Awards that have been terminated, expired unexercised, forfeited or settled in cash, (ii) Shares subject to Awards (or Prior Plan Awards) that have been retained or withheld by the Corporation in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award (or Prior Plan Award), or (iii) Shares subject to Awards (or Prior Plan Awards) that otherwise do not result in the issuance of Shares in connection with payment or settlement thereof. In addition, Shares that have been delivered (either actually or by attestation) to the Company in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award (or Prior Plan Award) shall be available for Awards under this Plan.

(c) *Tax Code Limits.* In each calendar year a Participant may be granted Awards under this Plan denominated in Shares relating up to his or her Annual Share Limit. A Participant’s Annual Share Limit, in any calendar year, shall equal 300,000 Shares plus the amount of the Participant’s unused Annual Share Limit as of the close of the previous year, which number shall be calculated and adjusted pursuant to Section 12 only to the extent that such calculation or adjustment will not affect the status of any Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code but which number shall not count any tandem SARs (as defined in Section 7). In each calendar year a Participant may be granted Awards under this

Plan denominated in cash (and not Shares) relating up to his or her Annual Cash Limit. A Participant's Annual Cash Limit, in any calendar year, shall equal \$1.5 million plus the amount of the Participant's unused Annual Cash Limit as of the close of the previous year. The aggregate number of Shares that may be issued pursuant to the exercise of Incentive Stock Options granted under this Plan shall not exceed 3,000,000, which number shall be calculated and adjusted pursuant to Section 12 only to the extent that such calculation or adjustment will not affect the status of any option intended to qualify as an Incentive Stock Option under Section 422 of the Code.

6. Options

(a) *Option Awards.* Options may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Administrator. No Participant shall have any rights as a shareholder with respect to any Shares subject to Options hereunder until said Shares have been issued. Each Option shall be evidenced by an Award Agreement. Options granted pursuant to the Plan need not be identical but each Option must contain and be subject to the terms and conditions set forth below.

(b) *Price.* The Administrator will establish the exercise price per Share under each Option, which, in no event will be less than the Fair Market Value of the Shares on the date of grant; provided, however, that the exercise price per Share with respect to an Option that is granted in connection with a merger or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than 100% of the Fair Market Value of the Shares on the date such Option is granted if such exercise price is based on a formula set forth in the terms of the options held by such optionees or in the terms of the agreement providing for such merger or other acquisition. The exercise price of any Option may be paid in Shares, cash or a combination thereof, as determined by the Administrator, including an irrevocable commitment by a broker to pay over such amount from a sale of the Shares issuable under an Option, the delivery of previously owned Shares and withholding of Shares deliverable upon exercise.

(c) *No Repricing without Shareholder Approval.* Other than in connection with a change in the Company's capitalization (as described in Section 12) the exercise price of an Option may not be reduced without shareholder approval (including canceling previously awarded Options in exchange for cash, other Awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Award).

(d) *Provisions Applicable to Options.* The date on which Options become exercisable shall be determined at the sole discretion of the Administrator and set forth in an Award Agreement. Unless provided otherwise in the applicable Award Agreement, to the extent that the Administrator determines that an approved leave of absence is not a Termination of Employment, the vesting period and/or exercisability of an Option shall be adjusted by the Administrator during or to reflect the effects of any period during which the Participant is on an approved leave of absence or is employed on a less than full-time basis. The Administrator shall establish the term of each Option, which in no case shall exceed a period of 10 years from the date of grant.

(e) *Incentive Stock Options.* Notwithstanding anything to the contrary in this Section 6, in the case of the grant of an Option intending to qualify as an Incentive Stock Option: (i) if the Participant owns stock possessing more than 10 percent of the combined voting power of all classes of stock of the Company (a "10% Shareholder"), the exercise price of such Option must be at least 110 percent of the Fair Market Value of the Shares on the date of grant and the Option must expire within a period of not more than five (5) years from the date of grant, and (ii) Termination of Employment will occur when the person to whom an Award was granted ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company and its Subsidiaries. Notwithstanding anything in this Section 6 to the contrary, options designated as Incentive Stock Options shall not be eligible for treatment under the Code as Incentive Stock Options (and will be deemed to be Nonqualified Stock Options) to the extent that either (1) the aggregate Fair Market Value of Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and

any Subsidiary) exceeds \$100,000, taking Options into account in the order in which they were granted, or (2) such Options otherwise remain exercisable but are not exercised within 3 months of Termination of Employment (or such other period of time provided in Section 422 of the Code).

7. Stock Appreciation Rights

Stock Appreciation Rights may be granted to Participants from time to time either in tandem with or as a component of other Awards granted under the Plan (“tandem SARs”) or not in conjunction with other Awards (“freestanding SARs”) and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each grant or each recipient. Any Stock Appreciation Right granted in tandem with an Award may be granted at the same time such Award is granted or at any time thereafter before exercise or expiration of such Award. All freestanding SARs shall be granted subject to the same terms and conditions applicable to Options as set forth in Section 6 and all tandem SARs shall have the same exercise price, vesting, exercisability, forfeiture and termination provisions as the Award to which they relate. Subject to the provisions of Section 6 and the immediately preceding sentence, the Administrator may impose such other conditions or restrictions on any Stock Appreciation Right as it shall deem appropriate. Stock Appreciation Rights may be settled in Shares, cash or a combination thereof, as determined by the Administrator and set forth in the applicable Award Agreement.

8. Restricted Stock and Restricted Stock Units

(a) *Restricted Stock and Restricted Stock Unit Awards.* Restricted Stock and Restricted Stock Units may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Administrator. Restricted Stock is an award or issuance of Shares the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including continued employment or performance conditions) and terms as the Administrator deems appropriate. Restricted Stock Units are Awards denominated in units of Shares under which the issuance of Shares is subject to such conditions (including continued employment or performance conditions) and terms as the Administrator deems appropriate. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement. Unless determined otherwise by the Administrator, each Restricted Stock Unit will be equal to one Share and will entitle a Participant to either the issuance of Shares or payment of an amount of cash determined with reference to the value of Shares. Restricted Stock and Restricted Stock Units granted pursuant to the Plan need not be identical but each grant of Restricted Stock and Restricted Stock Units must contain and be subject to the terms and conditions set forth below.

(b) *Contents of Agreement.* Each Award Agreement shall contain provisions regarding (i) the number of Shares or Restricted Stock Units subject to such Award or a formula for determining such number, (ii) the purchase price of the Shares, if any, and the means of payment, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares or Restricted Stock Units granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Shares or Restricted Stock Units as may be determined from time to time by the Administrator, (v) the term of the performance period, if any, as to which performance will be measured for determining the number of such Shares or Restricted Stock Units, and (vi) restrictions on the transferability of the Shares or Restricted Stock Units. Shares issued under a Restricted Stock Award may be issued in the name of the Participant and held by the Participant or held by the Company, in each case as the Administrator may provide.

(c) *Vesting and Performance Criteria.* The grant, issuance, retention, vesting and/or settlement of shares of Restricted Stock and Restricted Stock Units will occur when and in such installments as the Administrator determines or under criteria the Administrator establishes, which may include Qualifying Performance Criteria. Notwithstanding anything in this Plan to the contrary, the performance criteria for any Restricted Stock or Restricted Stock Unit that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code will be a measure based on one or more Qualifying Performance Criteria selected by the Administrator and specified when the Award is granted.

(d) *Discretionary Adjustments and Limits.* Subject to the limits imposed under Section 162(m) of the Code for Awards that are intended to qualify as “performance-based compensation,” notwithstanding the satisfaction of any performance goals, the number of Shares granted, issued, retainable and/or vested under an Award of Restricted Stock or Restricted Stock Units on account of either financial performance or personal performance evaluations may, to the extent specified in the Award Agreement, be reduced, but not increased, by the Administrator on the basis of such further considerations as the Administrator shall determine.

(e) *Voting Rights.* Unless otherwise determined by the Administrator, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those shares during the period of restriction. Participants shall have no voting rights with respect to Shares underlying Restricted Stock Units unless and until such Shares are reflected as issued and outstanding shares on the Company’s stock ledger.

(f) *Dividends and Distributions.* Participants in whose name Restricted Stock is granted shall be entitled to receive all dividends and other distributions paid with respect to those Shares, unless determined otherwise by the Administrator. The Administrator will determine whether any such dividends or distributions will be automatically reinvested in additional shares of Restricted Stock and subject to the same restrictions on transferability as the Restricted Stock with respect to which they were distributed or whether such dividends or distributions will be paid in cash. Shares underlying Restricted Stock Units shall be entitled to dividends or dividend equivalents only to the extent provided by the Administrator.

9. Incentive Bonuses

(a) *General.* Each Incentive Bonus Award will confer upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period specified by the Administrator.

(b) *Incentive Bonus Document.* The terms of any Incentive Bonus will be set forth in an Award Agreement. Each Award Agreement evidencing an Incentive Bonus shall contain provisions regarding (i) the target and maximum amount payable to the Participant as an Incentive Bonus, (ii) the performance criteria and level of achievement versus these criteria that shall determine the amount of such payment, (iii) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (vi) forfeiture provisions and (vii) such further terms and conditions, in each case not inconsistent with this Plan as may be determined from time to time by the Administrator.

(c) *Performance Criteria.* The Administrator shall establish the performance criteria and level of achievement versus these criteria that shall determine the target and maximum amount payable under an Incentive Bonus, which criteria may be based on financial performance and/or personal performance evaluations. The Administrator may specify the percentage of the target Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Notwithstanding anything to the contrary herein, the performance criteria for any portion of an Incentive Bonus that is intended by the Administrator to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria (as defined in Section 14(b)) selected by the Administrator and specified at the time the Incentive Bonus is granted. The Administrator shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

(d) *Timing and Form of Payment.* The Administrator shall determine the timing of payment of any Incentive Bonus. Payment of the amount due under an Incentive Bonus may be made in cash or in Shares, as determined by the Administrator. The Administrator may provide for or, subject to such terms and conditions as the Administrator may specify, may permit a Participant to elect for the payment of any Incentive Bonus to be deferred to a specified date or event.

(e) *Discretionary Adjustments.* Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus on account of either financial performance or personal performance evaluations may, to the extent specified in the Award Agreement, be reduced, but not increased, by the Administrator on the basis of such further considerations as the Administrator shall determine.

10. Deferral of Gains

The Administrator may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the lapse or waiver of restrictions with respect to Restricted Stock Units. If any such deferral election is required or permitted, the Administrator shall, in its sole discretion, establish rules and procedures for such payment deferrals. Notwithstanding anything herein to the contrary, in no event will any deferral of the delivery of Shares or any other payment with respect to any Award be allowed if the Administrator determines, in its sole discretion, that the deferral would result in the imposition of the additional tax under Section 409A(a)(1)(B) of the Code. No award shall provide for deferral of compensation that does not comply with Section 409A of the Code, unless the Board, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A of the Code. The Company shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A of the Code is not so exempt or compliant or for any action taken by the Board.

11. Conditions and Restrictions Upon Securities Subject to Awards

The Administrator may provide that the Shares issued upon exercise of an Option or Stock Appreciation Right or otherwise subject to or issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Administrator in its discretion may specify prior to the exercise of such Option or Stock Appreciation Right or the grant, vesting or settlement of such Award, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the Shares issued upon exercise, vesting or settlement of such Award (including the actual or constructive surrender of Shares already owned by the Participant) or payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued under an Award, including without limitation (i) restrictions under an insider trading policy or pursuant to applicable law, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Company equity compensation arrangements, (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers and (iv) provisions requiring Shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.

12. Adjustment of and Changes in the Stock

In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), stock split or a combination or consolidation of the outstanding Shares into a lesser number of shares, is declared with respect to the Shares, the authorization limits under Sections 5(a) and 5(c) shall be increased or decreased proportionately, and the Shares then subject to each Award shall be increased or decreased proportionately without any change in the aggregate purchase price therefore. In the event the Shares shall be changed into or exchanged for a different number or class of shares of stock or securities of the Company or of another corporation, whether through recapitalization, reorganization, reclassification, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or any other similar corporate transaction or event affects the Shares such that an equitable adjustment would be required in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the authorization limits under Sections 5(a) and 5(c) shall be adjusted proportionately, and an equitable adjustment shall be made to each Share subject to an Award such that no

dilution or enlargement of the benefits or potential benefits occurs. Each such Share then subject to each Award shall be adjusted to the number and class of shares into which each outstanding Share shall be so exchanged such that no dilution or enlargement of the benefits occurs, all without change in the aggregate purchase price for the Shares then subject to each Award. Action by the Administrator pursuant to this Section 12 may include adjustment to any or all of: (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards or be delivered under the Plan; (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards; (iii) the purchase price or exercise price of a Share under any outstanding Award or the measure to be used to determine the amount of the benefit payable on an Award; and (iv) any other adjustments the Administrator determines to be equitable.

No right to purchase fractional shares shall result from any adjustment in Awards pursuant to this Section 12. In case of any such adjustment, the Shares subject to the Award shall be rounded down to the nearest whole share. The Company shall notify Participants holding Awards subject to any adjustments pursuant to this Section 12 of such adjustment, but (whether or not notice is given) such adjustment shall be effective and binding for all purposes of the Plan.

13. Effect of a Change in Control

Unless otherwise expressly provided in the Award Agreement or another contract, including an employment agreement, or under the terms of a transaction constituting a Change in Control, the Administrator may provide for the acceleration of the vesting and, if applicable, exercisability of any outstanding Award, or portion thereof, or the lapsing of any conditions of restrictions on or the time for payment in respect of any outstanding Award, or portion thereof upon termination of the Participant's employment following a Change in Control. In addition, unless otherwise expressly provided in the Award Agreement or another contract, including an employment agreement, or under the terms of a transaction constituting a Change in Control, the Administrator may provide that any or all of the following shall occur in connection with a Change in Control: (i) the substitution for the Shares subject to any outstanding Award, or portion thereof, stock or other securities of the surviving corporation or any successor corporation to the Company, or a parent or subsidiary thereof, in which event the aggregate purchase or exercise price, if any, of such Award, or portion thereof, shall remain the same, (ii) the conversion of any outstanding Award, or portion thereof, into a right to receive cash or other property upon or following the consummation of the Change in Control in an amount equal to the value of the consideration to be received by holders of Common Shares in connection with such transaction for one Share, less the per share purchase or exercise price of such Award, if any, multiplied by the number of Shares subject to such Award, or a portion thereof, and/or (iii) the cancellation of any outstanding and unexercised Awards upon or following the consummation of the Change in Control. Any actions or determinations of the Administrator pursuant to this Section 13 may, but need not be uniform as to all outstanding Awards, and the Administrator may, but need not treat all holders of outstanding Awards identically.

14. Qualifying Performance-Based Compensation

(a) *General.* The Administrator may establish performance criteria and level of achievement versus such criteria that shall determine the number of Shares to be granted, retained, vested, issued or issuable under or in settlement of or the amount payable pursuant to an Award, which criteria may be based on Qualifying Performance Criteria or other standards of financial performance and/or personal performance evaluations. In addition, the Administrator may specify that an Award or a portion of an Award is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code, provided that the performance criteria for such Award or portion of an Award that is intended by the Administrator to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Administrator and specified at the time the Award is granted. The Administrator shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment, settlement or vesting of any Award that is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the

Code. Notwithstanding satisfaction of any performance goals, the number of Shares issued under or the amount paid under an award may, to the extent specified in the Award Agreement, be reduced, but not increased, by the Administrator on the basis of such further considerations as the Administrator in its sole discretion shall determine.

(b) *Qualifying Performance Criteria.* For purposes of this Plan, the term “Qualifying Performance Criteria” shall mean any one or more of the following performance criteria, or derivations of such performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Administrator: (i) net sales; (ii) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items; (iii) net income or net income per common share (basic or diluted); (iv) return on assets (gross or net), return on investment, return on capital, or return on equity; (v) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (vi) interest expense after taxes; (vii) economic value added or created; (viii) operating margin or profit margin; (ix) stock price or total shareholder return; (x) average cash balance or cash position; and (xi) strategic business criteria, consisting of one or more objectives based on meeting specified product development, strategic partnering, licensing, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. To the extent consistent with Section 162(m) of the Code, the Administrator (a) shall appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to eliminate the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the disposal of a segment of a business or related to a change in accounting principle all as determined in accordance with standards established by opinion No. 30 of the Accounting Principles Board (APA Opinion No. 30) or other applicable or successor accounting provisions, as well as the cumulative effect of accounting changes, in each case as determined in accordance with generally accepted accounting principles or identified in the Company’s financial statements or notes to the financial statements, and (b) may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (1) asset write-downs, (2) litigation, claims, judgments or settlements, (3) the effect of changes in tax law or other such laws or provisions affecting reported results, (4) accruals for reorganization and restructuring programs and (5) accruals of any amounts for payment under this Plan or any other compensation arrangement maintained by the Company.

15. Transferability

Each Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a Participant other than by will or the laws of descent and distribution, and each Option or Stock Appreciation Right shall be exercisable only by the Participant during his or her lifetime. Notwithstanding the foregoing, to the extent permitted by the Administrator, the person to whom an Award is initially granted (the “Grantee”) may transfer an Award to any “family member” of the Grantee (as such term is defined in Section 1(a)(5) of the General Instructions to Form S-8 under the Securities Act of 1933, as amended (“Form S-8”)), to trusts solely for the benefit of such family members and to partnerships in which such family members and/or trusts are the only partners; provided that, (i) as a condition thereof, the transferor and the transferee must execute a written agreement containing such terms as specified by the Administrator, and (ii) the transfer is pursuant to a gift or a domestic relations order to the extent permitted under the General Instructions to Form S-8. Except to the extent specified otherwise in the agreement the Administrator provides for the Grantee and transferee to execute, all vesting, exercisability and forfeiture provisions that are conditioned on the Grantee’s continued employment or service shall continue to be determined with reference to the Grantee’s employment or service (and not to the

status of the transferee) after any transfer of an Award pursuant to this Section 15, and the responsibility to pay any taxes in connection with an Award shall remain with the Grantee notwithstanding any transfer other than by will or intestate succession.

16. Suspension or Termination of Awards

Except as otherwise provided by the Administrator, if at any time (including after a notice of exercise has been delivered or an award has vested) the Chief Executive Officer or any other person designated by the Administrator (each such person, an “Authorized Officer”) reasonably believes that a Participant may have committed any act constituting Cause for termination of employment or any Detrimental Activity, the Authorized Officer, Administrator or the Board may suspend the Participant’s rights to exercise any Option, to vest in an Award, and/or to receive payment for or receive Shares in settlement of an Award pending a determination of whether such an act has been committed.

If the Administrator or an Authorized Officer determines a Participant has committed any act constituting Cause for termination of employment or any Detrimental Activity, then except as otherwise provided by the Administrator, (a) neither the Participant nor his or her estate nor transferee shall be entitled to exercise any Option or Stock Appreciation Right whatsoever, vest in or have the restrictions on an Award lapse, or otherwise receive payment of an Award, (b) the Participant will forfeit all outstanding Awards and (c) the Participant may be required, at the Administrator’s sole discretion, to return and/or repay to the Company any then unvested Shares previously issued under the Plan. In making such determination, the Administrator or an Authorized Officer shall give the Participant an opportunity to appear and present evidence on his or her behalf at a hearing before the Administrator or its designee or an opportunity to submit written comments, documents, information and arguments to be considered by the Administrator.

17. Compliance with Laws and Regulations

This Plan, the grant, issuance, vesting, exercise and settlement of Awards thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Awards, shall be subject to all applicable foreign, federal, state and local laws, rules and regulations, stock exchange rules and regulations, and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant’s name or deliver any Shares prior to the completion of any registration or qualification of such shares under any foreign, federal, state or local law or any ruling or regulation of any government body which the Administrator shall determine to be necessary or advisable. To the extent the Company is unable to or the Administrator deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, the Company and its Subsidiaries shall be relieved of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained. No Option shall be exercisable and no Shares shall be issued and/or transferable under any other Award unless a registration statement with respect to the Shares underlying such Award is effective and current or the Company has determined that such registration is unnecessary.

The Administrator may modify the provisions of the Plan or adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures or to recognize differences in local law, currency or tax policy. The Administrator may also impose conditions on the grant, issuance, exercise, vesting, settlement or retention of Awards in order to comply with such foreign law and/or to minimize the Company’s obligations with respect to tax equalization for Participants employed outside their home country. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding the conversion of local currency, data privacy security, payroll tax, withholding procedures and handling of stock certificates which vary with local requirements. The Administrator may also adopt sub-plans applicable to particular Subsidiaries or locations. The rules of such sub-plans may take precedence over other provisions of this Plan, with the exception of Sections 5 and 20, but unless otherwise

superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan. The Administrator shall not be required to obtain the approval of shareholders prior to the adoption, amendment or termination of any sub-plan unless required by applicable law (including the law of the foreign jurisdiction in which Participants participating in the sub-plan are located) or the NASDAQ Global Select Market listing requirements.

18. Withholding

To the extent required by applicable federal, state, local or foreign law, a Participant shall be required to satisfy, in a manner satisfactory to the Company, any withholding tax obligations that arise by reason of an Option exercise, disposition of Shares issued under an Incentive Stock Option, the vesting of or settlement of an Award, an election pursuant to Section 83(b) of the Code or otherwise with respect to an Award. To the extent a Participant makes an election under Section 83(b) of the Code, within ten days of filing such election with the Internal Revenue Service, the Participant must notify the Company in writing of such election. The Company and its Subsidiaries shall not be required to issue Shares, make any payment or to recognize the transfer or disposition of Shares until all such obligations are satisfied. The Administrator may provide for or permit these obligations to be satisfied through the mandatory or elective sale of Shares and/or by having the Company withhold a portion of the Shares that otherwise would be issued to him or her upon exercise of the Option or the vesting or settlement of an Award, or by tendering Shares previously acquired. To the extent a Participant makes an election under Section 83(b) of the Code, within ten days of filing such election with the Internal Revenue Service, the Participant must notify the Company in writing of such election.

19. Administration of the Plan

(a) *Administrator of the Plan.* The Plan shall be administered by the Administrator who shall be a committee of two or more directors designated by the Board, or in the absence of such a committee, the Board itself. Initially, the Compensation Committee of the Board will be designated as the Administrator. Any power of the Administrator may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Securities Exchange Act of 1934 or cause an Award designated as a Performance Award not to qualify for treatment as performance-based compensation under Section 162(m) of the Code. To the extent that any permitted action taken by the Board conflicts with action taken by the Administrator, the Board action shall control. The Compensation Committee hereby designates the Secretary of the Company and the head of the Company's human resource function to assist the Administrator in the administration of the Plan and execute Award Agreements or other documents entered into under this Plan on behalf of the Administrator or the Company. In addition, the Compensation Committee may delegate any or all aspects of the day-to-day administration of the Plan to one or more officers or employees of the Company or any Subsidiary, and/or to one or more agents.

(b) *Powers of Administrator.* Subject to the express provisions of this Plan, the Administrator shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of this Plan, including, without limitation: (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards; (iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Shares subject to Awards and the exercise or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events (including a Change in Control), or other factors; (iv) to establish and verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; (v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical) and the terms of or

form of any document or notice required to be delivered to the Company by Participants under this Plan; (vi) to determine the extent to which adjustments are required pursuant to Section 12; (vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in if the Administrator, in good faith, determines that it is necessary to do so in light of extraordinary circumstances and for the benefit of the Company; (viii) to approve corrections in the documentation or administration of any Award; (ix) to require or permit Participant elections and/or consents under this Plan to be made by means of such electronic media as the Administrator may prescribe; and (x) to make all other determinations deemed necessary or advisable for the administration of this Plan. The Administrator may, in its sole and absolute discretion, without amendment to the Plan, waive or amend the operation of Plan provisions respecting exercise after termination of employment or service to the Company or an Affiliate and, except as otherwise provided herein, adjust any of the terms of any Award. The Administrator may also (a) accelerate the date on which any Award granted under the Plan becomes exercisable or (b) accelerate the vesting date or waive or adjust any condition imposed hereunder with respect to the vesting or exercisability of an Award, provided that the Administrator, in good faith, determines that such acceleration, waiver or other adjustment is necessary or desirable in light of extraordinary circumstances. Notwithstanding anything in the Plan to the contrary, no Award outstanding under the Plan may be repriced, regranted through cancellation, including cancellation in exchange for other Awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Award, or otherwise amended to reduce the exercise price applicable thereto (other than with respect to adjustments made in connection with a transaction or other change in the Company's capitalization as described in Section 12) without the approval of the Company's shareholders.

(c) *Determinations by the Administrator.* All decisions, determinations and interpretations by the Administrator regarding the Plan, any rules and regulations under the Plan and the terms and conditions of or operation of any Award granted hereunder, shall be final and binding on all Participants, beneficiaries, heirs, assigns or other persons holding or claiming rights under the Plan or any Award. The Administrator shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

(d) *Subsidiary Awards.* In the case of a grant of an Award to any Participant employed by a Subsidiary, such grant may, if the Administrator so directs, be implemented by the Company issuing any subject Shares to the Subsidiary, for such lawful consideration as the Administrator may determine, upon the condition or understanding that the Subsidiary will transfer the Shares to the Participant in accordance with the terms of the Award specified by the Administrator pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such Award may be issued by and in the name of the Subsidiary and shall be deemed granted on such date as the Administrator shall determine.

20. Amendment of the Plan or Awards

The Board may amend, alter or discontinue this Plan and the Administrator may amend, or alter any agreement or other document evidencing an Award made under this Plan but, except as provided pursuant to the provisions of Section 12, no such amendment shall, without the approval of the shareholders of the Company:

- (a) increase the maximum number of Shares for which Awards may be granted under this Plan;
- (b) reduce the price at which Options may be granted below the price provided for in Section 6(a);
- (c) reduce the exercise price of outstanding Options;
- (d) extend the term of this Plan;
- (e) change the class of persons eligible to be Participants;

(f) otherwise amend the Plan in any manner requiring shareholder approval by law or under the NASDAQ Global Select Market listing requirements; or

(g) increase the individual maximum limits in Section 5(c).

No amendment or alteration to the Plan or an Award or Award Agreement shall be made which would impair the rights of the holder of an Award, without such holder's consent, provided that no such consent shall be required if the Administrator determines in its sole discretion and prior to the date of any Change in Control that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard.

21. No Liability of Company

The Company and any Subsidiary or affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or any other person as to: (i) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and (ii) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted hereunder.

22. Non-Exclusivity of Plan

Neither the adoption of this Plan by the Board nor the submission of this Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Administrator to adopt such other incentive arrangements as either may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under this Plan or an arrangement not intended to qualify under Code Section 162(m), and such arrangements may be either generally applicable or applicable only in specific cases.

23. Governing Law

This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the Commonwealth of Pennsylvania and applicable federal law. Any reference in this Plan or in the agreement or other document evidencing any Awards to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

24. Arbitration of Disputes

In the event a Participant or other holder of an Award or person claiming a right under an Award or the Plan believes that a decision by the Administrator with respect to such person or Award was arbitrary or capricious, the person may request arbitration with respect to such decision. The review by the arbitrator shall be limited to determining whether the Participant or other Award holder has proven that the Administrator's decision was arbitrary or capricious. This arbitration shall be the sole and exclusive review permitted of the Administrator's decision. Participants, Award holders and persons claiming rights under an Award or the Plan explicitly waive any right to judicial review.

Notice of demand for arbitration shall be made in writing to the Administrator within thirty (30) days after the applicable decision by the Administrator. The arbitrator shall be selected by those members of the Board who are neither members of the Compensation Committee nor employees of the Company or any Subsidiary. If there are no such members of the Board, the arbitrator shall be selected by the Board. The arbitrator shall be an individual who is an attorney licensed to practice law in the jurisdiction in which the Company's headquarters

are then located. Such arbitrator shall be neutral within the meaning of the Commercial Rules of Dispute Resolution of the American Arbitration Association; provided, however, that the arbitration shall not be administered by the American Arbitration Association. Any challenge to the neutrality of the arbitrator shall be resolved by the arbitrator whose decision shall be final and conclusive. The arbitration shall be administered and conducted by the arbitrator pursuant to the Commercial Rules of Dispute Resolution of the American Arbitration Association. Each side shall bear its own fees and expenses, including its own attorney's fees, and each side shall bear one half of the arbitrator's fees and expenses. The decision of the arbitrator on the issue(s) presented for arbitration shall be final and conclusive and may be enforced in any court of competent jurisdiction.

25. No Right to Employment, Reelection or Continued Service

Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Subsidiaries and/or its affiliates to terminate any Participant's employment, service on the Board or service for the Company at any time or for any reason not prohibited by law, nor shall this Plan or an Award itself confer upon any Participant any right to continue his or her employment or service for any specified period of time. Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, any Subsidiary and/or its affiliates. Subject to Sections 4 and 20, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Board without giving rise to any liability on the part of the Company, its Subsidiaries and/or its affiliates.

26. Unfunded Plan

The Plan is intended to be an unfunded plan. Participants are and shall at all times be general creditors of the Company with respect to their Awards. If the Administrator or the Company chooses to set aside funds in a trust or otherwise for the payment of Awards under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

As amended June 12, 2013

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Board Of Directors

Steven T. Clontz

Chairman of the Board,
InterDigital, Inc.
Senior Executive Vice President for
North America and Europe, Singapore
Technologies Telemedia

Dr. Gilbert F. Amelio

Former CEO, Apple, National
Semiconductor

Jeffrey K. Belk

Managing Director, ICT168 Capital

Edward B. Kamins

Principal, UpFront Advisors, LLC

John A. Kritzmacher

Executive Vice President and Chief
Financial Officer, John Wiley & Sons, Inc.

William J. Merritt

President and Chief Executive Officer,
InterDigital, Inc.

Jean F. Rankin

Executive Vice President, General Counsel
and Secretary, LSI Corporation

Robert S. Roath

Senior Vice President and Chief Financial
Officer (Retired), RJR Nabisco, Inc.

Executive Management

William J. Merritt

President and Chief Executive Officer

Richard J. Brezski

Chief Financial Officer and Treasurer

Jannie K. Lau

Executive Vice President, General Counsel
and Secretary

Scott A. McQuilkin

Senior Executive Vice President,
Innovation

James J. Nolan

Executive Vice President, Research and
Development

Allen A. Proithis

Executive Vice President, Solutions Group

Lawrence F. Shay

Executive Vice President, Intellectual
Property, and Chief Intellectual Property
Counsel

Shareholder Information

Annual Meeting of Shareholders

Thursday, June 12, 2014
11:00 a.m. Eastern Time
DoubleTree by Hilton Hotel Wilmington
4727 Concord Pike
Wilmington, Delaware 19803

Common Stock Information

The primary market for InterDigital's
common stock is the NASDAQ Global
Select Market®. InterDigital trades under
the ticker symbol IDCC.

Registrar and Transfer Agent

Shareholders with questions concerning
stock certificates, shareholder records,
account information, dividends, or stock
transfers should contact InterDigital's
transfer agent:

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Philadelphia, Pennsylvania

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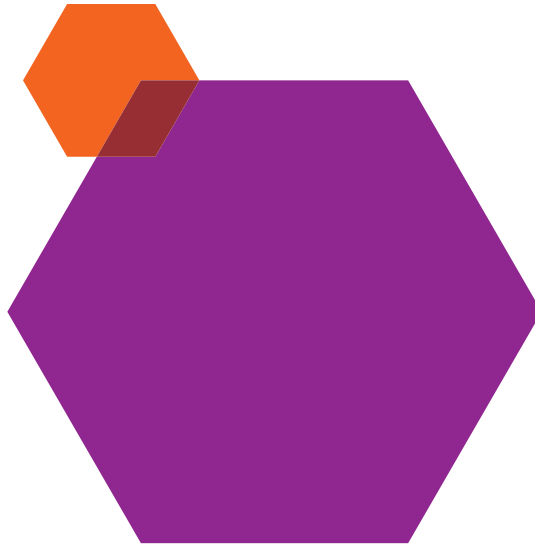
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