

ANNUAL REPORT 2014

Notice of 2015 Annual Meeting and Proxy Statement

InterDigital, Inc.



Creating
the Living
Network

TO OUR SHAREHOLDERS

Since our inception over forty years ago, we've remained true to our central mission: developing leading-edge mobile technology, and contributing solutions to the entire industry. In doing so, we've fulfilled a unique role, with a total focus on improving the entire wireless ecosystem unconstrained by legacy product interests or market competition. We've done so because we consider it an opportunity to drive leadership, and also because we know it can be a pathway to significant value. In 2014, we were proven right on both counts.

In terms of research, our focus on broad, horizontal solutions that can benefit the entire industry yielded tremendous innovation success, in two main technology branches that have become focus areas for InterDigital: the Internet of Things, or IoT, and 5G, the next major technology generation for mobile networks, devices and services.

IoT represents a seminal change in mobile technology, where the focus will shift from enabling people through connectivity to enabling devices – homes, cars, machines, sensors, and myriad other possibilities. The result will be more connections, obviously. More importantly, that increase in connected devices and device types will yield a massive increase in data, driving a fundamental reworking of business and societal processes, the likes of which we haven't seen since the advent of broad-based computing or of mobile connectivity itself. Each of these produced revolutions, marginalizing once powerful companies and producing new powerhouses. IoT is likely to do as well.

The massive expansion of connected devices requires radically new thinking in terms of how to organize them into coherent, interoperable networks. For example, think about it in terms of our roads. If we projected a tenfold increase in vehicle traffic, we could not just make the existing roads ten times wider – we would be left with just roads – no houses, farms, or factories.

So we need to fundamentally rethink how networks are designed, and how they are accessed. This is directly in our wheelhouse. InterDigital has been driving fundamental network design since our inception; and on IoT, we have been helping to define these new processes on an industry-wide basis since 2009, when the very first standardization efforts took place. Many of those efforts have in turn been contributed to the emerging oneM2M standard, which is working to bring the entire world together on a single standard. There are competing proprietary technologies, but we're optimistic that, as is generally the case, an industry-wide effort to which we've contributed significantly will overpower individual company approaches. In 2014, we put the spotlight on our contribution by completing two of what are most likely the world's first demonstrations of a oneM2M service delivery platform, in Sophia Antipolis, France, as well as in South Korea.



Our other primary technology direction has been 5G research. Many people say it's too early to discuss 5G, since this next generation of cellular mobile technology is still at the stage of being defined. Those of us who've been involved with or have followed InterDigital for many years know that we aren't afraid to commit to what we think are the right technologies at the earliest stages.

In 2014, our commitment to 5G went to a significant stage. Our technology development around some of the potential key areas of 5G – spectrum research and millimeter wave technology, for example – yielded a number of industry firsts. We also embarked on an increased global presence: we established InterDigital Europe, based in London, to solidify our commitment to participation in some of the earliest 5G work taking place in Europe, as well as a presence in South Korea. At Mobile World Congress in early 2015, our work was rewarded with a very strong presence and tremendous interest, especially in our functioning EdgeHaul 60 GHz wireless mesh backhaul system demonstration, a world's first. We also won some key European Commission and Horizon 2020 research bids, in conjunction with valued consortium partners, evidencing the shared belief in our vision for 5G and our ability create the innovations necessary to drive it.

Our research and focus on broad solutions has also driven the launch of startups that leverage our company's knowledge and existing research into solutions that are industry-wide and vendor-agnostic: wot.io and XCellAir. Both companies are focused on delivering solutions that can benefit all players, industry-wide. As always, we feel this is the surest path to value. And by adopting a startup approach leveraging technologies incubated and knowledge developed within InterDigital, we've placed these efforts into a structure designed to maximize their success at the most efficient cost.

Creation of value for customers, employees and shareholders is always the end goal. 2014 was a landmark year in that respect. Reflecting the value we deliver to the industry, Samsung signed a long-term license agreement with our company, and in so doing renewed a licensing relationship that now stretches back 16 years. The agreement with Samsung brought our licensed share of the worldwide handset market to roughly 50% at the end of 2014, and we continue to work to reach agreements to capture the market share remaining.

Our success in licensing nearly 50% of the market put us in a tremendous position and, we hope, heralds more success. With a strong cash balance and increasing recurring revenues and cash flow, we were able, in June, to double our quarterly dividend and announce a new \$300 million share buyback authorization. With the completion of that authorization, we will have repurchased roughly half the shares of our company that were ever outstanding. Increasing revenues and cash flows, coupled with careful financial management, has seen our company enter 2015 in its strongest position ever, with continued strong prospects for growth.

The cornerstone of that value remains our research. In 2015, through the launch of an enhanced website and other efforts, we're making it easier than ever before for partners and customers to engage with InterDigital, see and benefit from our contributions, and consider possibilities for collaboration. We call what we do "Creating the Living Network," and in 2015 that

refers as much to the mobile networks we're pioneering as it does to the networks of partners and customers with whom we engage. The Living Network is not just alive with technologies, but also with relationships, collaboration and possibilities.

The company would also like to highlight the contributions of Ed Kamins, Gil Amelio and Terry Clontz, who will be retiring from the board of directors in June. In their roles as stewards of the company – for well over a decade, in the cases of Ed and Terry – they have helped us navigate significant challenges and leave the company very strongly positioned. With the addition of Doug Hutcheson, who will take over as Chairman, and Kai Öistämö to the board in 2014, you can be sure that company and shareholder interests will remain well represented by leaders in the mobile industry.



William J. Merritt
President and Chief Executive Officer



Steven "Terry" Clontz
Chairman of the Board

Message from Our CEO and Our Chairman

Areas of Focus

oneMPOWER: A TESTED IoT PLATFORM TO SERVE A WIDE RANGE OF INDUSTRIES

Advances in network capabilities, storage capacity, embedded processing, and information technologies have led to inexpensive devices, sensors, and actuators with increased computing power and low power consumption. These advances provide a massive opportunity for further growth in M2M/IoT applications benefiting a broad range of both mature and emerging market segments including automotive, industrial, medical, connected homes, and smart cities.

InterDigital's role in defining M2M /IoT standards and technologies stems back to its earliest days: in 2009, InterDigital was a key part of the initial ETSI standardization efforts, and that approach and related technologies have now been contributed to the consolidated oneM2M standard. The global oneM2M standards, an initiative by seven of the world's leading regional ICT standards bodies, defines comprehensive service layer solutions to accelerate development and reuse of M2M/IoT data and applications across diverse verticals, networks, and devices. Our leadership role continued: in late 2014, InterDigital delivered one of the world's first successful interoperability tests of a oneM2M-compliant service delivery platform, at events in Sophia Antipolis, France, and in Seoul, South Korea.

Since then, InterDigital announced the commercial launch of its oneMPOWER™ platform at Mobile World Congress 2015. oneMPOWER platform is a scalable and secure horizontal M2M/IoT solution and, given our heritage, is the most mature oneM2M standards-based platform in the industry today.

It features a plethora of services that span connectivity, device, data, and transaction management resulting in faster time-to-market and revenue, reduced complexity, and lower costs. oneMPOWER platform is currently being tested in the Connected Health arena to manage Continua Alliance certified products, and in the intelligent transport / smart cities sector starting with the United Kingdom oneTRANSPORT™ initiative.

InterDigital plans to make its oneMPOWER platform solution available soon through [wot.io™](#), a data service exchange™ for connected device platforms. By accessing the oneMPOWER platform through [wot.io](#), customers will be able to eliminate the complexity of cloud planning, deployment, and management, allow any oneM2M compatible device to connect to the most mature commercially available oneM2M-based platform in the market, and facilitate evolution of legacy platforms to the future-proof oneM2M ecosystem.

5G: RESEARCH CONTINUALLY FOCUSED ON THE FUTURE

InterDigital has been a leader in defining previous generations of mobile, through the first digital standards through to the LTE that powers our current generation of leading-edge devices. And, as always, InterDigital is focusing on the future today, helping to lead the world's effort to define, develop and deliver the next generations of mobile through 5G research.

The foundation of advancing any technology is defining the challenges that need to be met, and the capabilities that need to be delivered. There, InterDigital is leading the way. The company is at the heart of the discussions taking place in the engineering world regarding which wireless subsystems, network subsystems, device capabilities, air interfaces and spectrum requirements will drive 5G.

One of the company's lead efforts in this regard is InterDigital Europe, based in London, which is leading collaboration and research into 5G as part of efforts to outline 5G requirements and impacts through the European Commission and Horizon 2020, the €80 billion European research and innovation program. In early 2015, InterDigital Europe announced it had secured a milestone 5G Infrastructure Public Private Partnership (5GPPP) win, with the approval of Horizon 2020 funding for project XHAUL, and had also been awarded key roles and received funding for two collaborative projects known as POINT (iP Over ICN the betTer IP) and RIFE (aRchitecture for an Internet For Everybody).

XHAUL was proposed by a European Union 5GPPP industry-led consortium that consists of twenty-one partners. The objective of the project is to develop a 5G integrated backhaul and fronthaul transport network to flexibly and dynamically interconnect the 5G radio access and core network functions. The project, in which InterDigital is a work package leader, targets a 30 percent reduction in network total cost of ownership, while improving network efficiency and helping in achieving the very low latency that will characterize the 5G networks of the future. XHAUL will validate and demonstrate its technology innovations into a software-defined flexible and reconfigurable 5G test-bed in Berlin, and will also conduct mobility-related experiments using Taiwan's high-speed trains.

InterDigital Europe's roles in POINT and RIFE are technology manager and architecture lead, respectively. The goal of the POINT project is to develop technology, innovations, and business value chains that leverage emerging information centric networking technology (ICN) in commercially viable ways. The project is based on the hypothesis that many current IP-based applications can run 'better' on an ICN-based network

than on current IP networks. Project RIFE leverages advanced emerging networking technology to address the major societal challenge of providing affordable internet access to those who cannot afford it by solving the technological challenge to increase the efficiency of the underlying transport networks and the involved architectures and protocols. The RIFE solution will harness unused transmission capacity, combined with placing content caches and service functionality closer to the user.

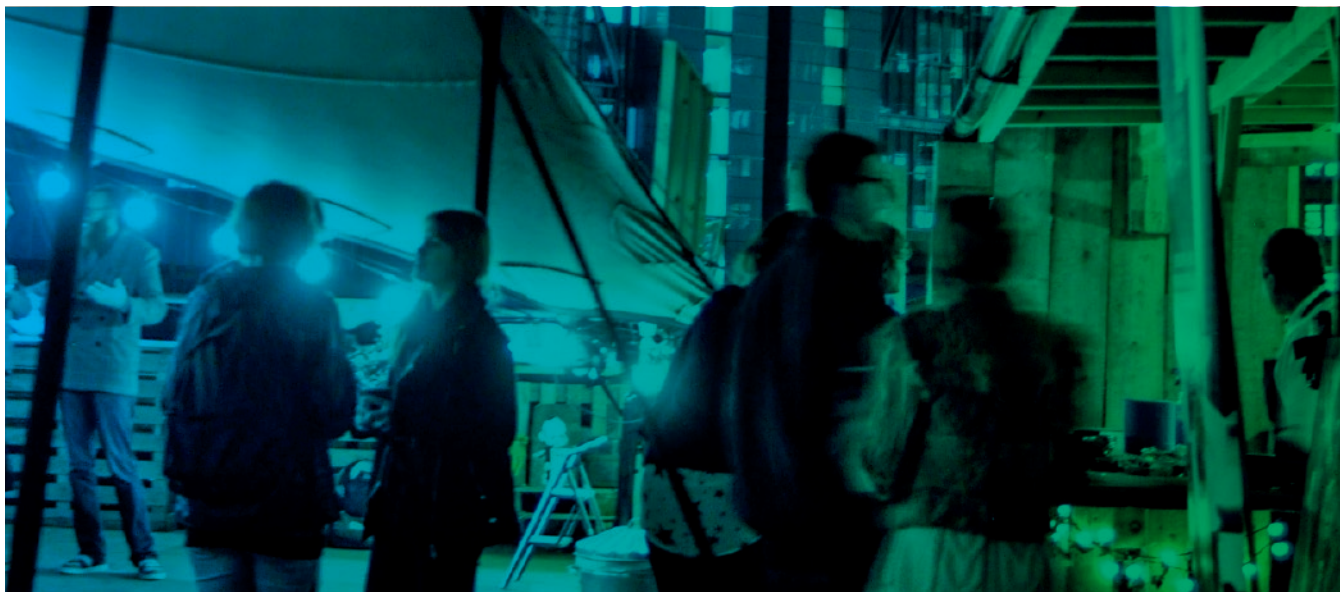
Those announcements were followed up with a significant victory: In March 2015, InterDigital Europe and a consortium of four partners (Tech4i2, Real Wireless, Rethink Wireless and Trinity College) were asked by the European Commission to lead the development of a study identifying and quantifying the key socio-economic data for the strategic planning of 5G introduction in Europe – a study that will serve as a pillar for 5G development and rollout in Europe, and which – given Europe's early start – should influence global efforts.

For InterDigital, this means a continued leadership position in leading-edge mobile standards and technologies. For shareholders, it means that InterDigital's research is, once again, working to lay the foundation for future value.



FOCUSED EFFORTS TO LEVERAGE COMMERCIAL OPPORTUNITIES

The technologies, platforms and expertise gained in research deliver valuable solutions and knowledge to the industry and to our licensees. They can also serve as the basis for commercial initiatives designed to deliver new services and unlock value. As standalone initiatives – startups – the companies have the independence, entrepreneurial spirit and incentives to succeed. Building on the InterDigital heritage and knowledge base, they have established capabilities and teams that give them a market head start.



wot.io's data service exchange™ for connected device platforms unlocks the value from IoT data. The wot.io integrated application marketplace provides a comprehensive, dynamically configurable operating environment for device platform data across verticals. Offering interoperability with approximately 70 third party data service providers, wot.io drives rapid ROI through platform-integrated hosting, device management, data management, analytics, business intelligence and web automation offerings.

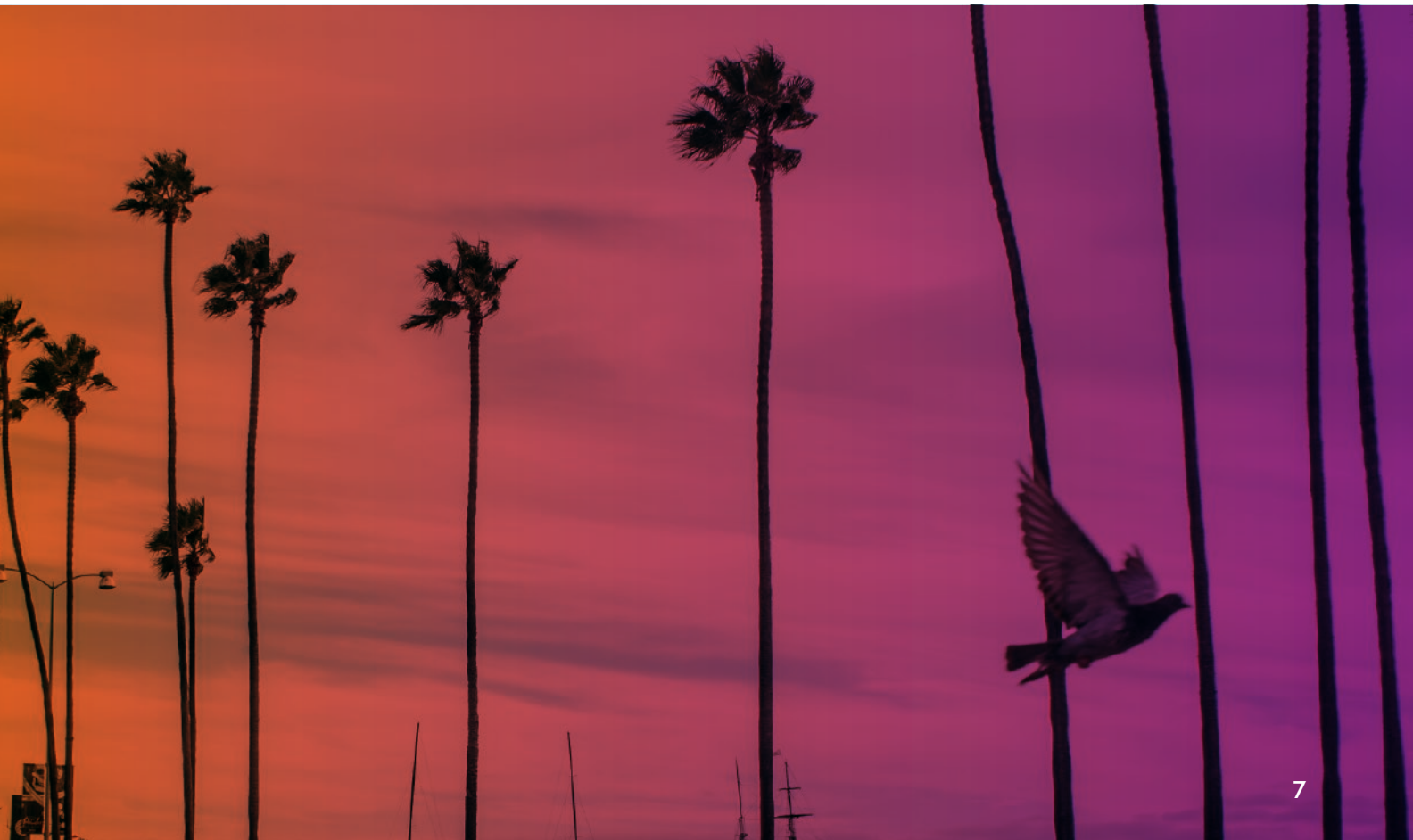
Launched in 2014 and based in New York City's Flatiron District – a hotbed for emerging tech companies – wot.io had a tremendous end of year including being named Best IoT Product at ARM TechCon, the conference organized by leading semiconductor intellectual property supplier, ARM. The company also announced multiple partnerships, including with Kinoma, a unit of semiconductor giant Marvell, and Rackspace, a leading cloud services provider.



Heterogeneous networks (HetNets) hold tremendous promise for improved service delivery, but deployment and management can be a challenge for emerging and incumbent operators alike. Building on InterDigital's research into network management, Wi-Fi/cellular integration and interoperability, XCellAir was publicly launched in 2015 at Mobile World Congress in Barcelona to bring order to the chaos of HetNet deployment and management.



Based in San Diego, XCellAir provides a cloud solution for HetNet deployment and management. The company provides comprehensive, highly automated and scalable provisioning, monitoring, troubleshooting and visualization of dense wireless access networks. XCellAir's multi-standard (e.g. Wi-Fi and LTE) radio resource management (RRM) and self-organizing network (SON) features provide dynamic interference mitigation while ensuring optimal coverage and capacity. The solution enables operators to unlock the revenue potential of a high capacity and dense wireless network through intelligent capacity management, quality of service differentiation and context-aware analytics.

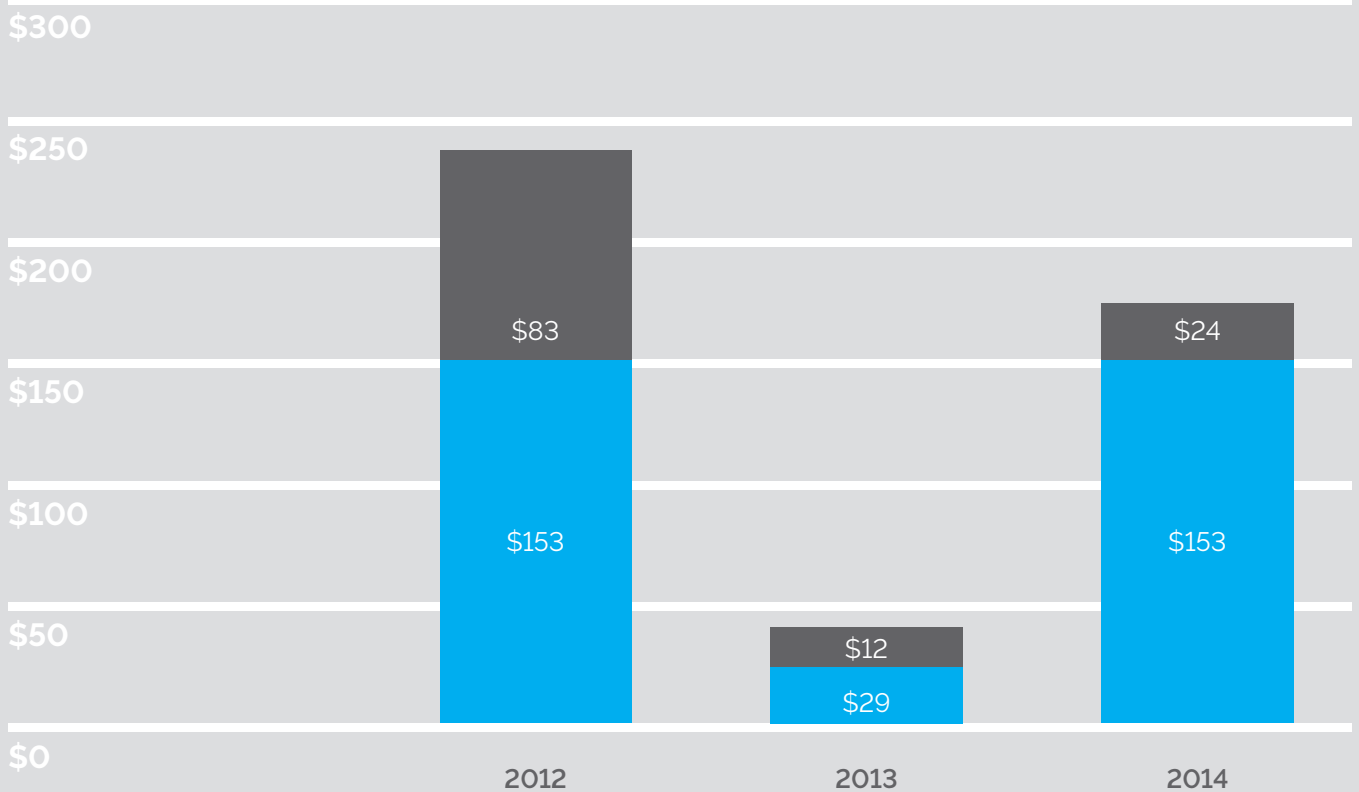


Long-Term Shareholder Value

RETURN OF CAPITAL

Share Repurchases ■
Dividends ■

\$ IN MILLIONS



FINANCIAL HIGHLIGHTS

| | 2012 | 2013 | 2014 |
|---|--------------|-----------|-----------|
| Total Revenue | \$ 663,063 | 325,361 | 415,821 |
| Income from Operations | \$ 419,030 | 84,756 | 168,960 |
| Net Income | \$ 271,804 | 35,683 | 101,420 |
| Net Income Attributable to InterDigital, Inc. | \$ 271,804 | 38,165 | 104,342 |
| Net Income Per Common Share - Diluted | \$ 6.26 | 0.92 | 2.62 |
| Total Cash, Cash Equivalents & Short-Term Investments | \$ 577,279 | 698,451 | 703,928 |
| Total Assets | \$ 1,056,609 | 1,113,183 | 1,194,591 |
| Total InterDigital, Inc. Shareholders' Equity | \$ 518,705 | 528,650 | 468,328 |
| Total Equity | \$ 518,705 | 533,820 | 475,677 |

\$ IN THOUSANDS
(except per share data)

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 our anticipated performance and prospects in 2015, our beliefs regarding the development and impact of our technologies and our plans related to our commercial initiatives, 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, 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

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

For the fiscal year ended December 31, 2014

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 [X] 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 [X]

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 [X] 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 [X] 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 [X] 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 [X]

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: \$1,907,242,992 as of June 30, 2014.

The number of shares outstanding of the registrant's common stock was 37,136,023 as of February 17, 2015.

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 2015 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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In this Form 10-K, the words “we,” “our,” “us,” “the Company” and “InterDigital” refer to InterDigital, Inc. and/or its subsidiaries, individually and/or collectively, unless otherwise indicated or the context otherwise requires. InterDigital® is a registered trademark and SlimChip™ is a trademark of InterDigital, Inc. All other trademarks, service marks and/or trade names appearing in this Form 10-K are the property of their respective holders.

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, 2014, InterDigital’s wholly owned subsidiaries held a portfolio of approximately 20,500 patents and patent applications related to a range of technologies including 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, with contributions from technology solutions licensing and sales and engineering services. In 2014, our total revenues were \$415.8 million, an increase of \$90.5 million compared to 2013. Our patent licensing revenues in 2014 were \$403.4 million, an increase of \$139.2 million compared to 2013. 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 mobile 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 mobile technology and to advance our position in the fields of the Internet of Things (IoT) and media content delivery by leveraging our expertise in digital cellular, wireless and video technologies 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 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, as well as other technologies we may develop or acquire, to market through various structures including technology licensing, stand-alone commercial initiatives, 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 mobile 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. Our efforts are guided by our vision of the future of mobile communications - The Living NetworkSM - which is articulated around the variables of content, context and connectivity, and how the interplay of these elements drives future technology capabilities and needs.

As of December 31, 2014, our patent portfolio consisted of approximately 1,700 U.S. patents (approximately 220 of which were issued in 2014) and approximately 10,600 non-U.S. patents (approximately 1,300 of which were issued in 2014). As of the same date, we also had numerous patent applications pending worldwide, with close to 1,200 applications pending in the United States and approximately 7,000 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 2015 through 2033. The company operates six research and development facilities in four countries, including the addition of research and development offices in London in 2013 and in Seoul in 2014.

InterDigital Labs

As an early and ongoing 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 mobile technologies are based on the efforts of a highly specialized engineering team, leveraging leading-edge equipment and software platforms. As of December 31, 2014, InterDigital employed over 170 engineers, approximately 80% of whom hold advanced degrees (including 54 doctorate degrees). Over the last three years, investment in development has ranged from \$64.7 million to \$75.3 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 challenges and unlock new capabilities related to connectivity, content delivery, and contextual data, particularly as they relate to handset and other connected devices, such as tablets and laptops, video content delivery, 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 a connectivity standpoint, 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. Many of these technologies are being developed within the scope of the company's efforts to define future generations of wireless including 5G, which is expected to comprise a number of these technologies. In the field of video delivery, we are developing solutions that optimize the delivery of content to a range of devices based on contextual data, as well as helping to define and develop new compression technologies. In the field of machine-to-machine (M2M) applications and 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

To supplement our own development efforts, our Innovation Partners unit pursues 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. Building on collaborations entered into in 2013 with a wholly owned subsidiary of DDD Group plc, VTT Technical Research Centre of Finland, and BIO-key International Inc., Innovation Partners added new relationships in 2014, including an expansion of our relationship with McGill University and an agreement with IfU, an elite private research institution in Germany. The unit also evaluated and engaged in targeted acquisitions and investments in areas that are complementary to InterDigital Labs' main research areas.

InterDigital's Technology Development Focus

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 Wi-Fi, WLAN, WMAN, WRAN 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., completed specifications such as 802.11n, 802.11ac, and 802.11ad and future specifications like 802.11ax and NG60), the use of lower frequency bands for IoT and other new use cases such as TV-Whitespace (802.11af) and sub 1 GHz (802.11ah), and fast initial link setup (802.11ai) to enhance hotspot operation (WFA HOTSPOT 2.0). High efficiency WLAN (HEW) and carrier grade Wi-Fi initiatives are investigating ways of bringing cellular-like quality to WLANs and we are actively participating (802.11ax). We have contributed to many earlier efforts that are complete or in the later phases of standardization such as 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), and wireless network security and broadband wireless (IEEE 802.16, including WiMAX wireless technology). 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 Samsung Electronics Co., Ltd. (“Samsung”), Sony Corporation of America (“Sony”), HTC Corporation and BlackBerry Limited, among others.

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

In 2013, InterDigital formed the Signal Trust for Wireless Innovation (the "Signal Trust"). 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 is also the primary beneficiary of the Signal Trust. The distributions from the Signal Trust will support continued research related to cellular wireless technologies. A small portion of the proceeds from the Signal Trust will be used to fund, through the Signal Foundation for Wireless Innovation, scholarly analysis of intellectual property rights and the technological, commercial and creative innovations they facilitate.

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

Our InterDigital Solutions unit is focused on incubating and commercializing market-ready technologies. These include:

- Smart Access Manager, a 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.
- Perceptual Pre-Filter and other video technologies that enhance the streaming of high quality content while reducing bandwidth requirements.

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.

Standalone Commercial Initiatives

We have identified several areas that present robust commercial opportunities. In such cases, we have chosen to establish separate commercial initiatives focused on the specific opportunity and developing

commercial products to address the identified need. While such initiatives are in their early stages, they are potential revenue sources for the company. These initiatives currently consist of:

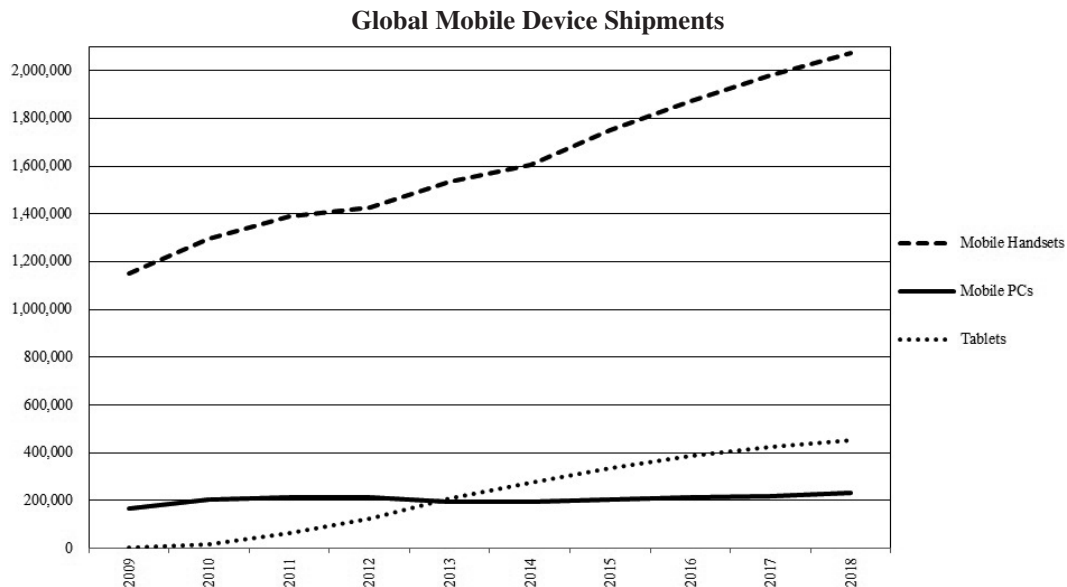
- **wot.io™**, which offers a data service exchange™ for connected device platforms. wot.io™ solves the challenge of rapidly and flexibly extracting business value from connected data. This solution is independent of individual technologies and complements existing vendor platforms for organizations operating in the IoT and M2M markets.
- **XCellAir™**, a cloud-based, multi-vendor, multi-technology mobile network management and optimization solution that enables mobile network operators, mobile system operators and Internet service providers to manage, optimize and monetize heterogeneous network resources.

Convida Wireless

During 2012, we completed the formation of a joint venture with Sony. 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.

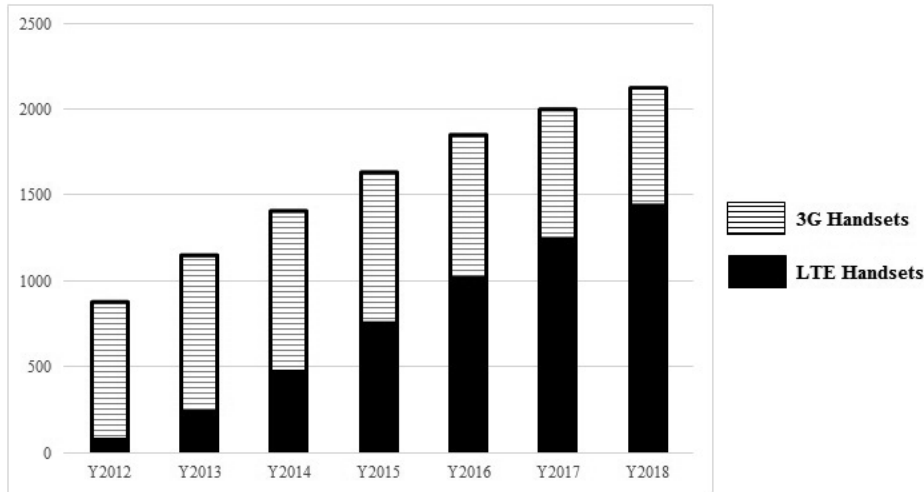
Wireless Communications Industry Overview

The wireless communications industry continues to experience rapid growth worldwide, as well as an expansion of device types entering the market. In smartphones alone, the market is seeing rapid expansion: IHS estimates that just over 480 million LTE handsets were shipped in 2014, and they expect that number to triple by 2018 (source: IHS, H2 2014 Mobile Handset Design Forecast Tool). In addition, new markets are emerging related to core wireless connectivity. IHS estimates that the IoT market will grow to more than 40 billion connected devices by 2019, and to more than 80 billion by 2025, spanning most industry segments (source: IHS—Consumer IoT, January 2015).



Worldwide shipments of mobile handsets, mobile PCs and tablets, 2009-2018 ('000s). Source: IHS Consumer, Mobile & IT Market Tracker.

Global 3G & LTE Handset Shipments



Worldwide shipments of 3G and LTE mobile handsets, 2012-2018 ('000s). Source: IHS H2 2014 Mobile Handset Design Forecast Tool.

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 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

2014 Patent Licensing Activity

During second quarter 2014, we entered into a patent license agreement with Samsung. The multi-year agreement also resolved all pending litigation between the companies. The royalty-bearing license agreement sets forth terms covering the sale by Samsung of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013.

We also entered into two additional patent license agreements during second quarter 2014, including a worldwide, non-exclusive, royalty bearing patent license agreement with Fujitsu Limited (“Fujitsu”). The agreement covers the sale of Fujitsu’s 2G, 3G and 4G terminal unit and infrastructure equipment products, including LTE and LTE-Advanced products.

Customers Generating Revenues Exceeding 10% of Total 2014 Revenues

Samsung and Pegatron Corporation (“Pegatron”) comprised approximately 33% and 18% of our total 2014 revenues, respectively.

As discussed above, in second quarter 2014, we entered into a patent license agreement with Samsung. During 2014, we recognized \$138.0 million of revenue, including \$86.3 million of past patent royalties and \$51.7 million of recurring fixed-fee royalties, associated with this agreement.

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 (“Licensed Products”). 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 Licensed Products for Apple that are not licensed under our 2007 patent license agreement with Apple (the “2007 Apple PLA”), those products are covered by the 2008 Pegatron PLA and are royalty bearing under that agreement. Upon the expiration of the 2007 Apple PLA at the end of June 2014, Apple has become unlicensed as to all products that were covered under the agreement and therefore all Apple sales are unlicensed, except to the extent certain products are licensed under the terms of our license agreements with certain Apple suppliers, including Pegatron. We recognized \$75.1 million of revenue under the 2008 Pegatron PLA in 2014, all of which was associated with sales of Apple products.

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 has typically taken 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. Parties may bring administrative and/or judicial challenges to the validity, enforceability, essentiality and/or applicability of our patents to their products. Parties may also allege 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, a 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.

Employees

As of December 31, 2014, we had approximately 320 employees. None of our employees are represented by a collective bargaining unit.

Geographic Concentrations

We have one reportable segment. During 2014, 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, | | |
|---------------------|---------------------------------|------------------|------------------|
| | 2014 | 2013 | 2012 |
| South Korea | \$144,398 | \$ 15,334 | \$118,078 |
| Taiwan | 115,955 | 128,551 | 40,394 |
| United States | 53,163 | 108,728 | 406,950 |
| Japan | 52,194 | 27,494 | 39,558 |
| Sweden | 24,530 | — | — |
| Canada | 15,422 | 36,148 | 40,667 |
| Germany | 5,293 | 4,539 | 3,470 |
| Other Europe | 4,064 | 3,004 | 4,700 |
| China | 800 | 1,563 | 9,246 |
| Other Asia | 2 | — | — |
| Total | <u>\$415,821</u> | <u>\$325,361</u> | <u>\$663,063</u> |

At December 31, 2014, 2013 and 2012, we held \$278.1 million, \$215.9 million and \$185.4 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, 2014, 2013 and 2012, we held less than \$0.1 million of property and equipment, net of accumulated depreciation, collectively, in Canada, the United Kingdom and South Korea.

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; London, England, United Kingdom; and Seoul, South Korea.

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

Potential patent and litigation reform legislation and USPTO and international patent rule changes may affect our investments in research and development and 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.

Potential 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 research and development investments, patent prosecution 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 research and development activities and patent prosecution, licensing and enforcement strategies. We continue to monitor and evaluate our strategies for research and development and patent 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.

Rulings in legal proceedings, potential legislation affecting the jurisdiction and authority of the U.S. International Trade Commission (“USITC”), and potential changes to the intellectual property rights (“IPR”) policies of worldwide standards bodies may affect our investments in research and development and 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, in recent years, the USITC and U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken some actions that have been viewed as unfavorable to patentees, including the company. Decisions that occur in these forums may change the law applicable to various patent law issues, such as, for example, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction, and damages, in ways that are detrimental to the abilities of patentees to enforce patents and obtain damages awards. Similarly, legislation designed to reduce the jurisdiction and remedial authority of the USITC has periodically been introduced in Congress. Any potential changes in the law, the IPR policies of standards bodies or other developments that reduce the number of forums available or the type of relief available in such forums (such as injunctive relief), restrict permissible licensing practices (such as our ability to license on a worldwide portfolio basis) 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 our investments in research and development and the unauthorized use of our intellectual property, developments that undermine our ability to do so could have a negative impact on the company’s revenue and future licensing efforts. 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.

Royalty rates, or other terms, under our patent license agreements could be subject to determination through arbitration or other third party adjudications or regulatory proceedings, and arbitrators or other third party adjudicators or regulators could determine that our patent royalty rates should be at levels lower than our agreed or historical rates.

Historically, the terms of our patent license agreements, including our royalty rates, have been reached through arms-length bilateral negotiations with our licensees. We could agree, as we have with Huawei pursuant to our December 2013 settlement agreement, to have royalty rates, or other terms, set by third party adjudicators

such as arbitrators, and it is also possible that courts or regulators could decide to set or otherwise determine the fair, reasonable and non-discriminatory (“FRAND”) consistency of such terms. Changes to or clarifications of our obligations to be prepared to offer licenses to standards-essential patents on FRAND terms and conditions could require such terms, including our royalty rates, to be determined through third party adjudications. Finally, our current and prospective licensees could instigate legal proceedings or regulatory proceedings requesting third party adjudicators or regulators, such as China’s National Development and Reform Commission and Taiwan’s Fair Trade Commission, to set FRAND terms and conditions for, or determine the FRAND-consistency of current terms and conditions in, our patent license agreements. To the extent that our patent royalty rates are determined through arbitration or other third party adjudications or regulatory proceedings rather than through bilateral negotiations, because such proceedings are inherently unpredictable and uncertain and there are currently few precedents for such determinations, it is possible that such rates may be lower than our agreed or historical rates, which may have an adverse effect on our revenue and cash flow.

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.

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 antitrust and other regulatory authorities, such as China’s National Development and Reform Commission and Taiwan’s Fair Trade Commission, have 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 2014, Samsung and Pegatron accounted for approximately 33% and 18% of our total revenues, respectively. In the event that we are unable to renew one or more of such license agreements upon expiration, our future revenue and cash flow could be materially adversely affected. In addition, in the event that one or more of our significant licensees or customers fail to meet their payment or reporting obligations (for example, due to a credit issue or in connection with a legal dispute or similar proceeding) under their respective license agreements, our future revenue and cash flow could be materially adversely affected. See Item 3, Legal Proceedings, in this Form 10-K for a description of our material legal proceedings. In addition, in the event that there is a material decrease in shipments of licensed products by one of our significant per-unit licensees, such as Pegatron (as a result of a change in the Apple supply chain or otherwise), our revenues from such licensee would significantly decline and our future revenue and cash flow could be materially adversely affected.

Royalty rates could decrease for future license agreements due to downward product pricing pressures and competition over a finite pool of patent royalties.

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 wireless 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 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.

Our plans to broaden our patent-based revenue sources through enhanced intellectual property sourcing, joint ventures, and developing technology in new areas 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 patent-based revenue sources through targeted acquisitions, research partnerships, joint ventures and the continued development of new technologies. There is no guarantee that we will succeed in acquiring or developing technology and patents or partnering with inventors and research organizations to add new dimensions to our existing portfolio of intellectual property and potentially create new patent licensing programs. Also, our development activities may experience delays, which could reduce our opportunities for patent sales and licensing. In the event that any of these risks materialize, our long-term business, financial condition and operating results may be materially adversely affected.

Our plans to expand our revenue sources through commercializing our market-ready technologies 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 expand our revenue sources through the continued development, commercialization and licensing of technology projects. 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 or implied license 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 investments in new commercial initiatives may not generate meaningful revenues.

We have invested, and may continue to invest, in new businesses focused on commercializing technology that we have developed, incubated internally and/or acquired. Commercial success depends on many factors, including the demand for the technology, the highly competitive markets for our technology products, regulatory issues associated with such technology products, and effective marketing and licensing or product sales. In addition, our new technology offerings may require robust ecosystems of customers and service providers that may fail to materialize. Further, the establishment and operation of these commercial initiatives requires significant support, including technical, legal and financial resources. It is possible that these commercial initiatives will not be successful and/or will not achieve meaningful revenues for a number of years, 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. If our new commercial initiatives are not successful, or are not successful in the timeframe we anticipate, we may incur significant costs, our business may not grow as anticipated and/or our reputation may be harmed. The commercialization of certain technologies could potentially lead to patent exhaustion or implied license 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 alternative 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 alternative 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.

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, (ii) a decline in

the financial condition of any licensee or (iii) 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, nature and amount of licensing revenue associated with past infringement and new licenses, strategic relationships and the resolution of legal proceedings. 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.

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 users and 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 we have not complied with certain commitments to standards-setting organizations (for example, that our royalty rates or other licensing terms and conditions are allegedly 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 may be affected by the deployment of next-generation wireless standards in place of 2G, 3G and 4G 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 2G, 3G and 4G cellular technologies and non-cellular technologies, our patent portfolio licensing program for the next-generation wireless standards may not be as successful in generating licensing income as our current licensing programs. Although we continue to participate in worldwide standards bodies and contribute our intellectual property to the next-generation wireless standards, our technologies might not be adopted by the relevant standards, we may not be as successful in the licensing of next-generation products as we have been in licensing 2G, 3G and 4G products, or we may not achieve a level of royalty revenues on such products that is comparable to that which we have historically received on 2G, 3G and 4G products.

The licenses that we grant under our patent license agreements typically only cover products designed to operate in accordance with specified cellular technologies and that were manufactured or deployed or anticipated to be manufactured or deployed at the time of entry into the agreement. 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.

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 businesses, technology and/or intellectual property, enter into joint ventures or other strategic transactions, or make investments in other entities, by purchasing minority equity interests or corporate bonds/notes in publicly traded or privately held companies. In some cases, such strategic investments may serve as consideration for a license in lieu of cash royalties. Most strategic investments entail a high degree of risk and will not become liquid for a period of time, if at all. 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 companies, businesses and/or assets 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 company or business 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 technology or intellectual property or from future technologies or products based on the acquired technology and/or intellectual property, and we may be subject to liabilities that are not covered by the indemnification protection we may obtain.

We face risks from doing business in international markets.

A significant portion of our licensees, potential licensees and customers are international, and our licensees, potential licensees and customers 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; biased enforcement of foreign laws and regulations to promote industrial or economic policies at our expense; 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, potential licensees and customers do business.

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

Our future success depends largely upon the continued service of our 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.

Our technologies may not be 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.

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 2014, Samsung, Nokia and Apple collectively accounted for 44% 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.

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, 2014 and 2013, 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.

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. Although we endeavor to renew license agreements with fixed terms prior to the expiration of the license agreements, 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 some of 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 May 2014, the FASB and International Accounting Standards Board issued revenue guidance, *Revenue from Contracts with Customers*, that, once adopted by the company in 2017, could significantly impact the timing of revenue recognition for new and existing contracts with licensees. See Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — New Accounting Guidance. 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.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated. These attempts, which in some cases could be related to industrial or other espionage, include covertly introducing malware to computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. While we have not identified any material incidents of unauthorized access to date, the theft, unauthorized use or publication of our intellectual property and/or confidential business or personal information could harm our competitive or negotiating positions, reduce the value of our investment in research and development and other strategic initiatives, compromise our patent enforcement strategies or outlook, damage our reputation or otherwise adversely affect our business. In addition, to the extent that any future security breach results in inappropriate disclosure of our employees', licensees', or customers' confidential and /or personal information, we may incur liability or additional costs to remedy any damages caused by such breach. We could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection.

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, 2012 to February 18, 2015, the trading price of our common stock has ranged from a low of \$22.37 per share to a high of \$54.90 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 commercial initiatives, joint ventures, strategic investments, acquisitions or divestitures;
- 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, 2014 was approximately \$217.8 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 current dividend policy, contemplates the payment of a regular quarterly cash dividend of \$0.20 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>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 | Office and research space | June 2016 |
| San Diego, California | 11,800 | Office and research space | April 2018 |

We are also a party to leases for several smaller spaces, including our offices in London, England, United Kingdom, and Seoul, South Korea that contain office and research space. In addition, we own a building in Washington, District of Columbia, USA, that houses administrative office 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.

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

USITC Proceeding (337-TA-868)

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

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

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

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

On March 13, 2013, InterDigital moved to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 (the “’244 patent”) by all 337-TA-868 Respondents. On March 25, 2013, the 337-TA-868 Respondents opposed InterDigital’s motion. On May 10, 2013, the ALJ denied InterDigital’s motion to amend the complaint. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which was scheduled to be completed by December 19, 2013. InterDigital opposed that motion on July 29, 2013. On August 8, 2013, the ALJ denied the motion. On June 19, 2013, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital filed an unopposed motion to partially terminate the investigation due to InterDigital’s withdrawal of over 30 collective claims from five of the seven asserted patents. The ALJ granted the motion on June 24, 2013. On August 22, 2013, InterDigital also filed an unopposed motion to partially terminate the investigation due to InterDigital’s withdrawal of eight collective claims from the other two asserted patents. The ALJ granted the motion on August 26, 2013.

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

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

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

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

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

On December 12, 2013, InterDigital moved for summary determination that the ’151 patent is not unenforceable for inequitable conduct. Respondents opposed InterDigital’s motion on January 2, 2014.

InterDigital moved for leave to file a reply on January 13, 2014, and Respondents opposed InterDigital's motion for leave on January 16, 2014. On February 4, 2014, the ALJ denied the motion.

On December 12, 2013, Samsung moved to terminate the investigation as to U.S. Patent No. 7,616,970 (the "'970 patent'") in view of the USITC's determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 6, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission's final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 6, 2014, the Commission's Office of Unfair Import Investigations responded in support of the underlying legal analysis but stated that 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. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the Federal Circuit.

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

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

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

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

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

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

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

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of the ALJ’s conclusion that claim 16 of the ’151 patent is invalid; that none of the asserted patents are infringed; that InterDigital did not establish the “technical prong” of the domestic industry requirement; and that the effective date of any exclusion order should be delayed by six months. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID’s finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues. On July 8, 2014, oppositions to the petitions were filed.

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

On August 8, 2014, the Commission determined to review in part the June 13, 2014 ID and terminated the investigation with a finding of no violation. With respect to the ’966 and ’847 patents, the Commission determined not to review the ID’s construction of “successively transmitted signals”/“successively transmits

signals,” and determined not to review the ID’s conclusion that, based on that construction, the accused products do not infringe and the domestic industry products do not practice the asserted claims of the ’966 and ’847 patents. The Commission also determined not to review the ID’s conclusion that claim 3 of the ’847 patent is not invalid for lack of written description. With respect to the ’151 patent, the Commission determined not to review the ID’s conclusion that the accused products do not infringe and the domestic industry products do not practice the “same physical downlink control channel” limitation of independent claims 1 and 16. The Commission also determined not to review the ID’s conclusion that claim 16 is invalid for indefiniteness. The Commission further determined to review the ID’s construction of “and to” in claim 16 of the ’151 patent, affording that term its plain and ordinary meaning. In view of that that construction, the Commission reversed the ID’s conclusion, which was based on the reversed claim construction, that claims 16-21 and 23-24 are not infringed. The Commission also determined to review the ID’s infringement analysis of the term “and if so” in claim 1 and, on review, took no position concerning whether the accused products practice the determining steps in sequence as required in claims 1-6 and 8-9. Except as noted above concerning whether the domestic industry products practice the asserted patents, the Commission took no position on the remaining domestic industry-related issues raised in the petitions for review. In addition, the Commission took no position on the FRAND issues raised by Respondents.

On October 10, 2014, InterDigital filed a petition for review with the Federal Circuit, appealing the adverse determinations in the Commission’s August 8, 2014 final determination. On November 5, 2014, MMO and Nokia filed a motion for leave to intervene in the appeal. On November 6, 2014, ZTE also filed a motion for leave to intervene. The Federal Circuit granted both of these motions on November 7, 2014.

On December 29, 2014, InterDigital and the USITC filed a joint unopposed motion to stay the appeal pending the Federal Circuit’s final disposition in the appeal of the 337-TA- 800 investigation (described below). InterDigital also notified the court that it would not pursue its appeal of the Commission’s determination as it relates to the ’151 patent. The appeal is thus directed only to the ’966 and ’847 patents. The court granted the motion to stay on January 9, 2015.

Related Delaware District Court Proceedings

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

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

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

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

On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of the recently issued '244 patent. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint. Samsung asserted a counterclaim for breach of contract. Samsung seeks a judgment that InterDigital has breached its purported contractual commitments, a judgment that the asserted patents are not infringed, are invalid, and unenforceable, an order that InterDigital specifically perform its purported contractual commitments, damages in an amount to be determined, attorneys' fees, costs and expenses, and any other relief as the court may deem just and proper.

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

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

On August 6, 2013, Huawei, Nokia, and ZTE filed answers and amended counterclaims for breach of contract and for declaratory judgments seeking determination of FRAND terms. The counterclaims also continue to seek declarations of noninfringement, invalidity, and unenforceability. Nokia also continued to assert a

counterclaim for a declaration of patent misuse. On August 30, 2013, InterDigital filed a motion to dismiss the declaratory judgment counterclaims relating to the request for determination of FRAND terms. On September 30, 2013, Huawei, Nokia, and ZTE filed their oppositions to this motion to dismiss. On October 17, 2013, InterDigital filed its reply. The motion was heard on November 26, 2013. On May 28, 2014, the court granted InterDigital's motion and dismissed defendants' FRAND-related declaratory judgment counterclaims, ruling that such declaratory judgments would serve no useful purpose.

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

On February 11, 2014, the Delaware District Court judge granted an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims. On January 5, 2015, the Delaware District Court entered a scheduling order that contained a schedule related to damages and FRAND-related issues. Accordingly, trials related to damages and FRAND-related issues are tentatively scheduled for March 21, 2016 with ZTE and April 11, 2016 with MMO.

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

On May 29, 2014, the court issued an order construing the claim term "circuit," which appears in the '847 patent, adopting a construction that InterDigital agreed would be acceptable to it and rejecting narrowing limitations proposed by ZTE. On June 23, 2014, the court held a supplemental claim construction hearing on the term "synchronized to [a/the] pilot signal," which appears in the '847 patent. The parties submitted supplemental letter briefs concerning construction of "synchronized to [a/the] pilot signal" on June 27 and 30, 2014. On August 8, 2014, the court issued a further claim construction ruling construing the term "synchronized to [a/the] pilot signal" to mean "establish a timing reference with a pilot signal." On September 2, 2014, Nokia and MMO moved the court for further construction of the term "logical connection" in the '244 patent. InterDigital opposed that request. On September 22, 2014, the court denied the request of Nokia and MMO, declining to construe the term further.

On June 10, 2014, InterDigital filed a motion seeking summary judgment (1) that the asserted '151 patent is not unenforceable by reason of inequitable conduct; (2) that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art; and (3) that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement or written description. Also on June 10, 2014, Nokia and ZTE filed motions

seeking summary judgment (1) that the asserted claims of the '151 patent are not infringed; (2) that the asserted claims of the '966 and '847 patents are not infringed; and (3) that the asserted claims of the '244 patent are not infringed and are invalid for lack of written description. On June 27, 2014, the parties filed oppositions to the pending motions for summary judgment. On July 10 and 11, 2014, the parties filed replies in further support of their respective motions for summary judgment. On August 28, 2014, the court (1) granted in part InterDigital's motion for summary judgment that the asserted '151 patent is not unenforceable by reason of inequitable conduct, holding that only one of the references forming the basis of defendants' allegations would remain in issue, (2) denied InterDigital's motion for summary judgment that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art, (3) granted InterDigital's motion for summary judgment that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement, but denied the motion as to written description, and (4) denied each of defendants' motions for summary judgment.

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

On July 1, 2014, InterDigital moved under Federal Rule of Civil Procedure 25(c) to join MMO into the case. On July 22, 2014 defendants Nokia Corp. and MMO filed a cross-motion seeking to substitute MMO for Nokia Corp. in this case. On August 28, 2014, the court granted InterDigital's motion to join MMO into the case, and granted in part and denied in part the cross-motion of Nokia Corp. and MMO to substitute, permitting MMO to enter the case as a defendant but declining to dismiss Nokia Corp. from the action.

On July 3, 2014, Nokia filed a motion to stay this Delaware action in view of the pending appeal of the 337-TA-800 investigation and the ID issued in the 337-TA-868 investigation. On July 8, 2014, InterDigital opposed Nokia's motion, and on July 9, 2014, Nokia filed a reply in further support of its motion. Following a hearing held on July 10, 2014, the Delaware District Court denied Nokia's motion to stay the case.

On August 29, 2014, a final pre-trial conference was held for the Nokia and MMO trial. On that same day the Delaware District Court continued the trial as to Nokia and MMO to a date to be determined. On September 4, 2014, the defendants requested that the court permit the Nokia and MMO trial to proceed in place of the ZTE trial, scheduled to commence on October 20, 2014. InterDigital opposed that request. On September 16, 2014, the court denied defendants' request. On September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO trial to commence on March 9, 2015.

The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent is required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The court issued formal judgment to this effect on October 29, 2014. As noted above, the Delaware District Court judge previously bifurcated issues relating to damages, FRAND-related affirmative defenses, and FRAND-related counterclaims, and trials related to damages and FRAND-related issues are tentatively scheduled for March 21, 2016 with ZTE and April 11, 2016 with MMO.

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

On December 12, 2014, MMO, Nokia Corp., and Nokia Inc. filed a motion for leave to file additional claim construction briefs relating to three claim terms of the '244 patent. On January 5, 2015, InterDigital opposed defendants' motion, and on January 15, 2015, defendants filed a reply in further support of their motion. On January 21, 2015, the court granted defendants' motion as to two of the claim terms, permitting additional briefing in connection with those terms, and denied the motion as to the third.

On January 5, 2015, the court issued an order scheduling a claim construction hearing on February 27, 2015 to address the further construction of certain claim terms of the '151 patent. On January 21, 2015 the court ordered that the scope of the two claim terms of the '244 patent will also be addressed at the hearing on February 27, 2015. In its January 5, 2015 order, the court also scheduled the infringement trials against ZTE as to the '151 patent for April 20, 2015, and against Nokia and MMO as to the '151 and '244 patents for April 27, 2015. In addition, the order scheduled trial involving Nokia, MMO and InterDigital on the issue of inequitable conduct on May 6, 2015.

Huawei Arbitration

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

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People's Court in China on December 5, 2011. The first complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.). This first complaint alleges that InterDigital had a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. Huawei sought relief in the amount of 20.0 million RMB (approximately \$3.2 million 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) in damages related to attorneys' fees and other charges, without disclosing a factual basis for its determination of

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

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

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

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

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

The SPC held a hearing on October 31, 2014, regarding whether to grant a retrial and requested that both parties provide additional information regarding the facts and legal theories underlying the case. The SPC may convene a further hearing before deciding whether to grant a retrial. If the retrial is granted, the SPC will likely schedule one or more additional hearings before it issues a decision on the merits of the case.

Investigation by National Development and Reform Commission of China

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

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

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

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

USITC Proceeding (337-TA-800)

On July 26, 2011, InterDigital’s wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. filed a complaint with the USITC against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the “337-TA-800 Respondents”), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G wireless devices (including WCDMA- and cdma2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices) that infringe seven of InterDigital’s U.S. patents. The action also extends to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital’s complaint with the USITC seeks an exclusion order that would bar from entry into the United States any infringing 3G wireless devices (and components) that are imported by or on behalf of the 337-TA-800 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. On October 5, 2011, InterDigital filed a motion requesting that the USITC add LG Electronics, Inc., LG Electronics U.S.A., Inc. and

LG Electronics Mobilecomm U.S.A., Inc. as 337-TA-800 Respondents to the complaint and investigation, and that the Commission add an additional patent to the complaint and investigation as well. On December 5, 2011, the ALJ overseeing the proceeding granted this motion and, on December 21, 2011, the Commission determined not to review the ALJ's determination, thus adding the LG entities as 337-TA-800 Respondents and including allegations of infringement of the additional patent.

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

On January 20, 2012, LG filed a motion to terminate the investigation as it relates to the LG entities, alleging that there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012. On July 6, 2012, the Commission determined not to review the ALJ's order, and the investigation was terminated as to LG. On August 27, 2012, InterDigital filed a petition for review of the ALJ's order in the Federal Circuit. On September 14, 2012, the Federal Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. On October 3, 2013, the Federal Circuit denied LG's petition for rehearing and rehearing en banc and issued its mandate on October 10, 2013. LG filed a petition for a writ of certiorari with the U.S. Supreme Court seeking reversal of the Federal Circuit's judgment on December 31, 2013. On January 13, 2014, InterDigital filed a motion to terminate the 337-TA-800 investigation as to the LG Respondents. No opposition to InterDigital's motion was filed. On February 12, 2014, the Commission granted InterDigital's motion to terminate the investigation as to LG. In terminating the 337-TA-800 investigation, the Commission adopted the ALJ's determination that the '830, '636 and '406 patents and U.S. Patent No. 7,706,332 (the "'332 patent'") are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues. On April 21, 2014, the Supreme Court granted LG's petition for certiorari, vacating the underlying Federal Circuit decision and remanding the case to the Federal Circuit with instructions to dismiss the case as moot (in light of InterDigital's decision to terminate the 337-TA-800 investigation as to LG).

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

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

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

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

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

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that the '830, '636, '406 and '332 patents were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of "Articles protected by the patent." Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the 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. On January 17, 2014, the Nokia and ZTE Respondents moved for leave to intervene in the appeal. On January 30, 2014, the court granted these motions. On July 2, 2014, Nokia Corporation, Nokia Inc., and MMO filed an unopposed motion to substitute MMO for Nokia Corporation as intervenor. The court granted this motion on July 11, 2014.

On April 7, 2014, InterDigital filed its opening appellate brief. The USITC and intervenors Nokia and ZTE filed responsive briefs on July 1, 2014. InterDigital filed its reply brief on August 8, 2014. Oral argument occurred on November 7, 2014. On February 18, 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337.

Related Delaware District Court Proceeding

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

ZTE China Proceedings

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China on April 3, 2014. The first complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to comply with its FRAND obligations for the licensing of its Chinese standards-essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital's standards-essential Chinese patents to ZTE and also seeks compensation for its litigation costs associated with this matter. The second complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, Inc. This complaint alleges that InterDigital has a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its dominant market position in violation of the Chinese Anti-Monopoly Law by engaging in allegedly unlawful practices, including excessively high pricing, tying, discriminatory treatment, and imposing unreasonable trading conditions. ZTE seeks relief in the amount of 20.0 million RMB (approximately \$3.3 million based on the exchange rate as of December 31, 2014), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

On August 7, 2014, InterDigital filed petitions challenging the jurisdiction of the Shenzhen Intermediate People's Court to hear the actions. On August 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the anti-monopoly law case. InterDigital filed an appeal of this decision on September 26, 2014. On September 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the FRAND case, and InterDigital filed an appeal of that decision on October 27, 2014. On December 18, 2014, the Guangdong High Court issued decisions on both appeals upholding the Shenzhen Intermediate Court's decisions that it had jurisdiction to hear these cases. The Shenzhen Court has not yet set trial dates for the anti-monopoly law or FRAND cases. InterDigital filed a petition for retrial with the Supreme People's Court regarding its jurisdictional challenges to both cases on February 10, 2015.

LG Arbitration and Related Delaware Chancery Court Proceeding

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

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

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

On June 9, 2014, the arbitration tribunal lifted the temporary stay at the request of the parties. The final evidentiary hearing is scheduled to take place July 20-23, 2015.

Also on June 9, 2014, LG filed an action in the Court of Chancery of the State of Delaware seeking a declaration that InterDigital breached a non-disclosure agreement between the parties by submitting certain evidence regarding the parties' licensing communications to the arbitration tribunal; LG also seeks related injunctive relief. On June 23, 2014, InterDigital filed a motion to dismiss LG's complaint. The court held a hearing on InterDigital's motion on July 16, 2014, and on August 20, 2014 the court dismissed the action without prejudice. On August 28, 2014, LG filed a notice of appeal to the Delaware Supreme Court. On October 13, 2014, LG filed its opening appeal brief, on November 12, 2014, InterDigital filed its answering brief and on December 1, 2014, LG filed its reply brief. The Delaware Supreme Court will hear oral argument on LG's appeal on March 11, 2015.

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.

On February 24, 2014, Nokia filed a motion for reconsideration of portions of the Commission’s February 12 order, arguing that the Commission’s remand of claims 6, 9, and 11 of the ‘847 patent was in error and seeking reconsideration of the Commission’s determination that Nokia waived certain non-infringement

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

On March 5, 2014, the ALJ issued an order establishing August 28, 2015 as the target date for completion of the investigation (which order the Commission determined not to review on April 1, 2014), and a separate order setting the hearing in the matter for January 26-30, 2015.

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

On October 6, 2014, respondents filed a motion for summary determination that the accused products do not infringe the claims of the '966 and '847 patents, and for termination of the investigation. InterDigital opposed respondents' motion on October 16, 2014, and on November 20, 2014, the ALJ denied respondents' motion.

On November 17, 2014, InterDigital filed a motion for summary determination that the accused products meet certain claim elements of the '966 and '847 patents. On December 1, 2014, respondents filed an opposition to this motion, and on December 22, 2014, the ALJ denied InterDigital's motion.

On December 1, 2014, InterDigital moved for an order substituting InterDigital Communications Corporation with InterDigital Communications, Inc. Respondents opposed the motion on December 11, 2014. The ALJ granted the motion on January 14, 2015. On January 22, 2015, respondents filed a petition for review of the ALJ's order. InterDigital opposed the petition for review on January 29, 2015. The Commission has not yet ruled on respondents' petition.

The evidentiary hearing in the remand proceeding was held January 26—28, 2015. Pursuant to the procedural schedule in issue, the ALJ's initial determination is due no later than April 27, 2015, and the Commission must determine whether to review the ALJ's initial determination no later than June 26, 2015. If the Commission determines to review the initial determination, its final determination will be due no later than August 28, 2015.

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).

Arbitration with Arima Communications Corporation

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

After InterDigital submitted an application for fees and costs, on July 1, 2014, the panel issued a final award, which was subsequently modified on July 14, 2014, resulting in an award of approximately \$23.6 million. On July 2, 2014, InterDigital commenced an action in the Delaware District Court to confirm the arbitration award, and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately \$23.6 million (which will continue to accrue interest until payment by Arima). On August 21, 2014, Arima filed a cross-petition to vacate, or in the alternative to modify, the arbitration award. The parties have fully briefed their respective petitions, and on December 11, 2014, the parties submitted a joint status report to the court. The parties are awaiting a decision from the court.

On September 10, 2014, InterDigital filed a petition for recognition of its arbitration award against Arima in the Shilin District Court in Taiwan. Arima filed an opposition to that petition for recognition on January 14, 2015, including a motion to stay the enforcement proceeding, and InterDigital filed its brief in opposition to the motion to stay the proceeding on February 2, 2015. The petition is under consideration by the Taiwan court.

Investigation by Taiwan Fair Trade Commission

On December 6, 2013, InterDigital received notice from the Taiwan Fair Trade Commission (“TFTC”) that the TFTC had initiated an investigation to examine alleged anti-competitive behavior under Taiwan’s Fair Trade Act (FTA). Companies found to violate the FTA may be ordered to cease and rectify the unlawful conduct, take other necessary corrective action, and/or pay an administrative fine. InterDigital is fully cooperating with the TFTC’s investigation.

Arima Taiwan Proceedings

On December 18, 2014, InterDigital was served with a complaint filed by Arima in Taiwan’s Intellectual Property Court on July 25, 2014. The complaint names as defendants InterDigital’s wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. The complaint alleges that InterDigital abused its dominant position by forcing Arima to sign its patent license agreement with InterDigital in 2005, setting an unreasonably high and discriminatory royalty rate, and including other abusive and discriminatory provisions in the license agreement, in violation of the Fair Trade Act of Taiwan. The complaint seeks damages in the amount of NTD 100,000,000 (approximately \$3.2 million based on the exchange rate as of December 31, 2014), and that this amount be trebled as an intentional violation. On December 18, 2014, InterDigital was also served with a motion filed by Arima on July 25, 2014 to enjoin its wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. from enforcing the terms of their patent license agreement with Arima. On December 23, 2014, there was an initial hearing on these matters. InterDigital filed jurisdictional objections and an opposition to the injunction motion on January 23, 2015. On February 3, 2015, the Intellectual Property Court held a hearing on the jurisdictional issues and the injunction motion, during which Arima submitted a supplemental brief on jurisdiction. The court set of deadline of March 3, 2015 for Arima to submit its next brief, and March 19, 2015 for InterDigital to submit its response to Arima’s brief. Another hearing on those issues has been set for March 24, 2015.

Arima China Proceeding

On September 22, 2014, InterDigital was served with a complaint filed by Arima and Arima Communications (Jiangsu) Co., Ltd. in the Jiangsu High People’s Court in China on July 9, 2014. The complaint names as defendants InterDigital, Inc., InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. The complaint alleges that InterDigital has abused its dominant market position and violated China’s anti-monopoly laws by licensing its patents at excessively high prices, engaging in discriminatory treatment, and imposing unreasonable trading conditions. Arima seeks relief in the amount of 120.0 million RMB (approximately \$19.5 million based on the exchange rate as of December 31, 2014), and an order requiring InterDigital to license all of its patents to Arima on a fair, reasonable and non-discriminatory basis. On October 22, 2014, InterDigital filed a petition challenging the jurisdiction of the Jiangsu High People’s Court to hear the action. On December 11, 2014, Arima served an opposition to this jurisdictional challenge, and on January 9, 2015, InterDigital filed its reply to Arima’s opposition. On January 16, 2015, the court held a hearing on the jurisdictional petition. On February 2, 2015, InterDigital filed a post-hearing statement on the jurisdictional challenge, along with a rebuttal opinion regarding Arima’s evidence related to the jurisdictional challenge. The court’s decision on the jurisdictional issue is pending.

Pegatron Civil Suit

We recently learned that on or about February 3, 2015, Pegatron Corporation, one of our licensees, filed a civil suit in Taiwan Intellectual Property Court against InterDigital, Inc. and certain of its subsidiaries alleging breach of the Taiwan Fair Trade Act. We have not yet been served with or otherwise received a copy of the complaint.

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.

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 2014 and 2013, as reported by NASDAQ.

| | <u>High</u> | <u>Low</u> |
|----------------------|-------------|------------|
| 2014 | | |
| First quarter | \$33.60 | \$26.25 |
| Second quarter | 49.10 | 31.45 |
| Third quarter | 48.93 | 39.40 |
| Fourth quarter | 54.90 | 38.64 |
| | <u>High</u> | <u>Low</u> |
| 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 |

Holders

As of February 17, 2015, there were 692 holders of record of our common stock.

Dividends

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

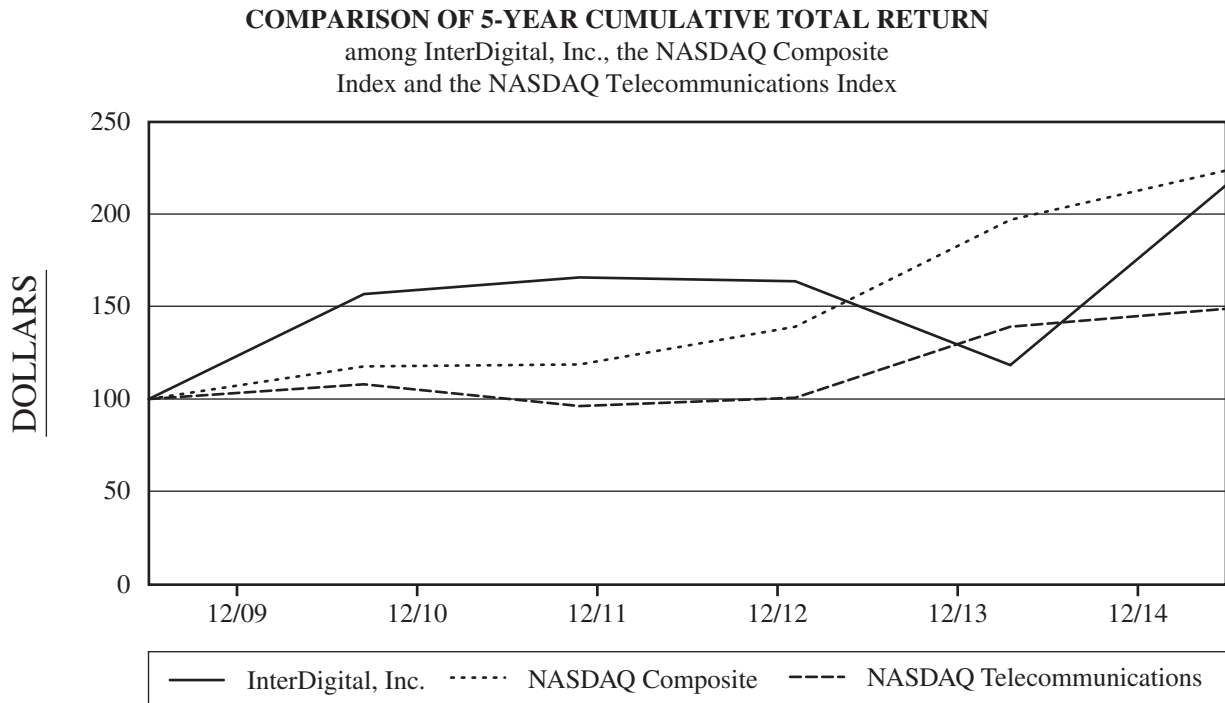
| | <u>Per Share</u> | <u>Total</u> | <u>Cumulative by Fiscal Year</u> |
|----------------------|------------------|-----------------|--------------------------------------|
| 2014 | | | |
| First quarter | \$0.10 | 3,954 | \$ 3,954 |
| Second quarter | 0.20 | 8,033 | 11,987 |
| Third quarter | 0.20 | 7,666 | 19,653 |
| Fourth quarter | 0.20 | 7,500 | 27,153 |
| | <u>\$0.70</u> | <u>\$27,153</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> | |

In June 2014, we announced that our Board of Directors had approved a 100% increase in the Company's quarterly cash dividend, to \$0.20 per share. We currently expect to continue to pay dividends comparable to our quarterly \$0.20 per share cash dividend in the future; however, continued payment of cash dividends and changes

in the Company’s dividend policy will depend on the Company’s earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

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, 2009 and that all dividends were re-invested. Such returns are based on historical results and are not intended to suggest future performance.



| | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| InterDigital, Inc. | 100.00 | 156.78 | 165.84 | 163.70 | 118.38 | 215.71 |
| NASDAQ Composite | 100.00 | 117.61 | 118.70 | 139.00 | 196.83 | 223.74 |
| NASDAQ Telecommunications | 100.00 | 107.95 | 96.16 | 100.40 | 139.11 | 148.69 |

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 2014.

| <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, 2014 — October 31, 2014 | 1,415,000 | \$41.20 | 1,415,000 | \$154,432,447 |
| November 1, 2014 — November 30, 2014 . . . | 138,600 | \$49.21 | 138,600 | \$147,639,950 |
| December 1, 2014 — December 31, 2014 | 5,300 | \$49.95 | 5,300 | \$147,375,338 |
| Total | <u>1,558,900</u> | <u>\$44.96</u> | <u>1,558,900</u> | <u>\$147,375,338</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 \$300.0 million share repurchase program (the "2014 Repurchase Program"), which was authorized by the company's Board of Directors on June 11, 2014 and announced on June 12, 2014. The 2014 Repurchase Program has no expiration date. The company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases.
- (3) Amounts shown in this column reflect the amounts remaining under the 2014 Repurchase Program.

In addition, from January 1, 2015 through February 18, 2015, we repurchased less than 0.1 million shares at a cost of \$2.2 million under the 2014 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>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|--------------------------------------|-------------|--------------|-------------|-------------|
| | (in thousands except per share data) | | | | |
| Consolidated statements of operations data: | | | | | |
| Revenues(a) | \$ 415,821 | \$ 325,361 | \$ 663,063 | \$ 301,742 | \$ 394,545 |
| Income from operations(b) | \$ 168,960 | \$ 84,756 | \$ 419,030 | \$ 134,757 | \$ 235,873 |
| Income tax provision(c) | \$ (52,108) | \$ (25,836) | \$ (136,830) | \$ (35,140) | \$ (84,831) |
| Net income applicable to Interdigital, Inc. | | | | | |
| common shareholders | \$ 104,342 | \$ 38,165 | \$ 271,804 | \$ 89,468 | \$ 153,616 |
| Net income per common share — basic | \$ 2.65 | \$ 0.93 | \$ 6.31 | \$ 1.97 | \$ 3.48 |
| Net income per common share — diluted | \$ 2.62 | \$ 0.92 | \$ 6.26 | \$ 1.94 | \$ 3.43 |
| Weighted average number of common shares | | | | | |
| outstanding — basic | 39,420 | 41,115 | 43,070 | 45,411 | 44,084 |
| Weighted average number of common shares | | | | | |
| outstanding — diluted | 39,879 | 41,424 | 43,396 | 46,014 | 44,824 |
| Cash dividends declared per common share(d) .. | \$ 0.70 | \$ 0.40 | \$ 1.90 | \$ 0.40 | \$ 0.10 |
| Consolidated balance sheets data: | | | | | |
| Cash and cash equivalents | \$ 428,567 | \$ 497,714 | \$ 349,843 | \$ 342,211 | \$ 215,451 |
| Short-term investments | 275,361 | 200,737 | 227,436 | 335,783 | 326,218 |
| Working capital | 638,010 | 731,076 | 641,434 | 595,734 | 440,996 |
| Total assets | 1,194,591 | 1,113,183 | 1,056,609 | 996,968 | 874,643 |
| Total debt | 217,835 | 208,813 | 200,391 | 192,709 | 468 |
| Total InterDigital, Inc. shareholders' equity | 468,328 | 528,650 | 518,705 | 471,682 | 353,116 |
| Noncontrolling interest | 7,349 | 5,170 | — | — | — |
| Total shareholders' equity | \$ 475,677 | \$ 533,820 | \$ 518,705 | \$ 471,682 | \$ 353,116 |

- (a) In 2014, our revenues included \$125.0 million in past sales primarily related to newly signed license agreements. In 2013, our revenues included \$127.0 million of past sales primarily related to 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 and \$12.5 million in 2013 and 2012, respectively, associated with actions to reposition the company's operations.
- (c) In 2014, our income tax provision included the impact of a \$4.2 million net tax benefit, primarily attributable to available U.S. federal research and development tax credits, which was partially offset by an audit settlement. 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. See Note 11 to the Consolidated Financial Statements for further discussion on these foreign tax credits.
- (d) In June 2014, we announced that our Board of Directors had approved a 100% increase in the Company's quarterly cash dividend, to \$0.20 per share. 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 special cash 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.

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

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, 2014, InterDigital’s wholly owned subsidiaries held a portfolio of approximately 20,500 patents and patent applications related to a range of technologies including 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 2014, 2013, and 2012, our total revenues were \$415.8 million, \$325.4 million and \$663.1 million, respectively. Our revenues in 2012 included \$384.0 million related to the sale of less than ten percent of our patent portfolio. Our recurring revenues in 2014, 2013, and 2012 were \$288.8 million, \$198.3 million and \$252.8 million, respectively.

In 2014, the amortization of fixed-fee royalty payments accounted for approximately 42% of our recurring 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 recurring revenue is variable in nature due to the per-unit structure of the related license agreements. Approximately 70% of this per-unit, variable portion for 2014 related to sales by our collection of Taiwanese licensees, the majority of which revenue was derived from the sale of Apple products.

New Agreements

During second quarter 2014, we entered into a patent license agreement with Samsung. The multi-year agreement resolved all pending litigation between the companies and set forth terms covering Samsung’s sales of 3G, 4G and certain future generation wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013. For the period through the earlier of any exercise or expiration of Samsung’s termination right, we expect to recognize revenue associated with this agreement on a straight-line basis. The amount of revenue we will recognize after 2017 will depend on, among other things, whether or not Samsung elects to terminate certain rights and obligations under the license and amounts payable in 2017 and thereafter. During 2014, we recognized \$138.0 million of revenue, including \$86.2 million of past patent royalties and \$51.8 million in recurring fixed-fee royalties associated with this agreement. Consistent with our accounting policies, we have not recorded in accounts receivable any amounts due more than twelve months from the balance sheet date.

Additionally, during second quarter 2014, we entered into patent license agreements with two additional licensees. Both of these agreements cover infrastructure equipment and one of the agreements also covers

terminal units. We recognized past sales from each agreement in second quarter 2014 and are recognizing future revenue from these agreements on a straight-line basis over their respective expected terms, beginning with second quarter 2014. A portion of the consideration received under these agreements was in the form of patents. In 2014, these two agreements contributed \$48.1 million of revenue, including \$16.0 million of recurring revenue and \$32.1 million of past patent royalties.

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 completed in 2015.

Arbitration with Arima Communications Corporation

On July 1, 2014, a panel convened by the American Arbitration Association's International Centre for Dispute Resolution issued a final award in a dispute between InterDigital and Arima Communications Corporation ("Arima"), headquartered in Taiwan, regarding the obligations of the parties relating to Arima's patent license agreement with the Company. This award was subsequently modified on July 14, 2014, resulting in an award to InterDigital of approximately \$23.6 million (which included \$14.5 million of unpaid patent license fees plus interest and related fees and costs). On July 2, 2014, we commenced an action in the Delaware District Court to confirm the arbitration award, and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately \$23.6 million (which will continue to accrue interest until payment by Arima). On August 21, 2014, Arima filed a cross-petition to vacate, or in the alternative to modify, the arbitration award. The parties have fully briefed their respective petitions and are awaiting a decision from the Delaware District Court. On September 10, 2014, InterDigital filed a petition for recognition of its arbitration award against Arima in the Shilin District Court in Taiwan. Arima filed an opposition to that petition for recognition on January 14, 2015. The petition is under consideration by the Taiwan court. We will recognize any related revenue in the period in which collectability is reasonably assured.

Expiration and Termination of Patent License Agreements

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

In addition, on October 31, 2014, we received notice of the termination of the patent license agreement from the court receiver for one of our fixed-fee licensees. As of November 1, 2014, all sales of products that were covered by such license are unlicensed. As of June 30, 2014, we had determined that the patent license agreement with such licensee no longer met all of the revenue recognition criteria and, as a result, we reduced both accounts receivable and deferred revenue by \$15.0 million. This amount represented the amount due to us over the next twelve months from such licensee.

Together, the two agreements mentioned above contributed approximately \$11.0 million to our patent licensing royalties during 2014.

Our patent license agreement with Sony expires at the end of November 2015. This is a fixed-fee agreement and, as a result, we continue to recognize revenue associated with this agreement on a straight-line basis over the life of the agreement. Upon expiration of this agreement, Sony will become unlicensed as to all products covered under the agreement. Including Sony, five patent license agreements, or portions of such agreements, are scheduled to expire during 2015, and, accordingly, we may not recognize revenue from each such license in every period in 2015. Collectively, these agreements contributed approximately \$46.3 million of revenue to our patent licensing royalties in 2014.

Revenue

Recurring revenue in 2014 of \$288.8 million increased 46% from the prior year. This \$90.5 million year-over-year increase in recurring revenue was primarily driven by an increase in fixed-fee revenues attributable to new patent license agreements signed during 2014, as discussed above, as well as increased per-unit royalties that are primarily attributable to Pegatron.

Additionally, during 2014, we recognized \$125.0 million of past sales revenue, primarily attributable to the new agreements discussed above, as compared to \$127.0 million recognized in 2013. The 2013 past sales amount was primarily attributable to revenue recognized as a result of arbitration awards.

Refer to “Results of Operations — 2014 Compared with 2013” for further discussion of our 2014 revenue.

USITC Proceedings

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

On January 2, 2013, the company’s wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed a complaint with the USITC against Samsung Electronics Co., Ltd., Samsung Electronics America, Inc. and Samsung Telecommunications America (collectively, “Samsung”), LLC, Nokia Corporation and Nokia Inc. (collectively, “Nokia”), Huawei Technologies Co., Ltd., Huawei Device USA, Inc. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, “Huawei”) and ZTE Corporation and ZTE (USA) Inc. (collectively, “ZTE” and together with Samsung, Nokia and Huawei the “337-TA-868 Respondents”), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G and 4G wireless devices (including WCDMA-, cdma2000- and LTE-capable mobile phones, USB sticks, mobile hotspots, laptop computers and tablets and components of such devices) that infringe certain of InterDigital’s U.S. patents. The complaint also extends to certain WCDMA and cdma2000 devices incorporating Wi-Fi functionality. InterDigital’s complaint with the USITC seeks an exclusion order that would bar from entry into the United States infringing 3G or 4G wireless devices (and components), including LTE devices, that are imported by or on behalf of the 337-TA-868 Respondents, and also seeks a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. On January 16, 2014, the Administrative Law Judge (“ALJ”) overseeing the proceeding granted a joint motion by InterDigital and Huawei to terminate the investigation as to Huawei, and on February 12, 2014, the USITC determined not to review the initial determination terminating the investigation as to Huawei. Certain of the asserted patents have been asserted against Nokia and ZTE in earlier pending USITC proceedings (including the Nokia and ZTE 2011 USITC Proceeding (337-TA-800) and the Nokia 2007 USITC Proceeding (337-TA-613), as set forth below) and therefore are not being asserted against those 337-TA-868 Respondents in this investigation. On June 3, 2014, InterDigital and Samsung filed a joint motion to terminate the investigation as to Samsung on the basis of settlement. The ALJ granted the joint motion by initial determination issued on June 9, 2014, and the USITC determined not to review the initial determination on June 30, 2014. On June 13, 2014, the ALJ issued an Initial Determination (“ID”) in the in the 337-TA-868 investigation. On August 8, 2014, the Commission determined to review in part the ID and terminated the investigation with a finding of no violation. On October 10, 2014, InterDigital filed a petition for review with the Federal Circuit, appealing the adverse determinations in the Commission’s August 8, 2014 final determination. On December 29, 2014, InterDigital and the USITC filed a joint unopposed motion to stay the appeal pending the Federal Circuit’s final disposition in the appeal of the 337-TA- 800 investigation (described below). The court granted the motion to stay on January 9, 2015.

On January 2, 2013, the company’s wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the Delaware District Court against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the same patents with respect to the same products alleged in the

complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement and recovery of reasonable attorneys' fees and costs. On March 13, 2013, InterDigital filed an amended complaint against Nokia and Samsung, respectively, in Delaware District Court to assert allegations of infringement of the recently issued '244 patent. On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of the '244 patent. On December 30, 2013, the Delaware District Court granted the stipulation of dismissal filed by InterDigital and Huawei, terminating the Huawei district court action. On August 5, 2014, InterDigital and Samsung filed a stipulation of dismissal in light of the parties' settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice. On September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO trial to commence on March 9, 2015. The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent is required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The Delaware District Court judge previously bifurcated issues relating to damages, FRAND-related affirmative defenses, and FRAND-related counterclaims, which will be addressed at a later phase of the case. The court has scheduled the infringement trials against ZTE as to the '151 patent for April 20, 2015, and against Nokia and MMO as to the '151 and '244 patents for April 27, 2015. Trials related to damages and FRAND-related issues are tentatively scheduled for March 2016 with ZTE and April 2016 with MMO.

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

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

The ALJ's Initial Determination issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Petitions for review of the Initial Determination ("ID") to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety. On December 19, 2013, the Commission issued its final determination. The Commission adopted, with some modification, the ALJ's finding of no violation of section 337 as to Nokia, Huawei, and ZTE. The Commission did not rule on any other issue, including FRAND and domestic industry, and stated that all other issues remain under review. In December 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. In January 2014, the court granted motions filed by the Nokia and ZTE Respondents for leave to intervene in the appeal. Oral argument in the appeal occurred in November 2014. On February 18, 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337.

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 February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. The evidentiary hearing in the remand proceeding was held January 26—28, 2015. The ALJ has set August 28, 2015 as the target date for completion of the investigation.

Please see Part I, Item 3, of this Form 10-K for a fuller discussion of our USITC proceedings.

Cash and Short-Term Investments

At December 31, 2014, we had \$703.9 million of cash and short-term investments and up to an additional \$527.7 million of payments due under signed agreements, including \$51.7 million recorded in accounts receivable that is due within twelve months of the balance sheet date. A substantial portion of our cash and short-term investments 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 lower than if the royalty payments were structured to coincide with the underlying sales. During 2014, we recorded \$560.6 million of cash receipts related to patent licensing, technology solutions agreements and patent sales as follows (in thousands):

| | Cash In |
|--|------------------|
| Fixed royalty payments | \$285,041 |
| Past fixed royalty payments | 103,959 |
| Current royalties | 151,706 |
| Technology solutions | 11,649 |
| Past per-unit patent royalties | 3,726 |
| Prepaid royalties | 2,500 |
| Patent sales | 1,999 |
| | <u>\$560,580</u> |

The \$287.5 million of fixed-fee and prepaid royalty cash receipts, together with a \$48.7 million accrual of accounts receivable related to scheduled payments, more than offset the \$163.1 million in deferred revenue recognized, resulting in a net \$114.0 million increase in deferred revenue to \$418.0 million at December 31, 2014. Approximately \$223.7 million of our \$418.0 million deferred revenue balance relates to fixed royalty payments that are scheduled to amortize as follows (in thousands):

| | |
|----------------------|------------------|
| 2015 | \$124,695 |
| 2016 | 80,635 |
| 2017 | 15,823 |
| 2018 | 858 |
| 2019 | 858 |
| Thereafter | 857 |
| | <u>\$223,726</u> |

The remaining \$194.3 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”). We 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 share repurchase program, which was then expanded in June 2012 to increase the amount of the program from \$100 million to \$200 million (the “2012 Repurchase Program”). Of the \$200 million authorized under the 2012 Repurchase Program, \$106.8 million was utilized prior to the termination of the program in June 2014. In June 2014, our Board of Directors authorized a new \$300 million share repurchase program (the “2014 Repurchase Program”). We may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below sets forth for the periods presented the number of shares repurchased and the dollar value of shares repurchased under the 2009 Repurchase Program, the 2012 Repurchase Program and the 2014 Repurchase Program, in thousands.

| | 2009 Repurchase Program | | 2012 Repurchase Program | | 2014 Repurchase Program | | Total All Programs | |
|---------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|--------------------|------------------|
| | # of Shares | Value | # of Shares | Value | # of Shares | Value | # of Shares | Value |
| 2014 | — | \$ — | — | \$ — | 3,554 | \$152,625 | 3,554 | \$152,625 |
| 2013 | — | — | 917 | 29,135 | — | — | 917 | 29,135 |
| 2012 | 2,286 | 75,000 | 2,552 | 77,694 | — | — | 4,838 | 152,694 |
| Prior to 2012 | 1,012 | 25,000 | — | — | — | — | 1,012 | 25,000 |
| Total | <u>3,298</u> | <u>\$100,000</u> | <u>3,469</u> | <u>\$106,829</u> | <u>3,554</u> | <u>\$152,625</u> | <u>10,321</u> | <u>\$359,454</u> |

In addition, from January 1, 2015 through February 18, 2015, we repurchased less than 0.1 million shares at a cost of \$2.2 million under the 2014 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 2014, our intellectual property enforcement costs decreased to \$52.1 million from \$75.0 million and \$52.7 million in 2013 and 2012, respectively. This represented 39% of our 2014 total patent administration and licensing costs of \$133.8 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 2014 financial results against other periods, the following items should be taken into consideration:

- Our 2014 revenue includes:
 - \$125.0 million of past sales primarily related to the new patent license agreements signed during the year; and
 - \$2.0 million of patent sale revenue.

- Our 2014 operating expenses include:
 - \$6.4 million of expenses to increase certain accrual rates under our incentive compensation plans;
 - a \$1.2 million adjustment related to payroll taxes and employment level tax credits, primarily due to an ongoing audit; and
 - \$0.7 million of non-cash cost of patents sold during the year.
- Our 2014 other expense includes:
 - a charge of \$0.6 million related to an impairment of an investment.
- Our 2014 income tax provision includes:
 - a \$5.8 million net tax benefit, primarily attributable to available U.S. federal research and development tax credits; and
 - a \$1.6 million, net of federal benefit, charge related to an audit settlement.

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.

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 royalty payments. We recognize revenue from royalty payments using the same methods described above under our policy for recognizing revenue from patent license agreements. Technology solutions revenues also consist of revenues 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.

2014 Multiple Element Arrangements

During 2014, we signed three patent license agreements that were considered multiple-element arrangements for accounting purposes. In accordance with our revenue recognition policy, we identified each element of the arrangement, estimated its relative value for purposes of allocating the arrangement consideration and determined when each of those elements should be recognized. Using the accounting guidance applicable to multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of the term and value of each element. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the assumed royalty rates, sales volumes, discount rate and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the relative fair value assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transactions.

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

| | <u>Change in estimate</u> | |
|---|---------------------------|------------|
| | <u>+5%</u> | <u>-%5</u> |
| Allocation to past patent royalties | \$5,343 | \$(5,343) |

Revenue from Non-financial Sources

During 2014, 2013, and 2012 our patent licensing royalties were derived from patent license agreements (“PLAs”) with 25, 21, and 24 independent licensees, respectively. During 2014, 2013 and 2012, we recognized revenue from two PLAs, one PLA and one PLA, respectively, for which patents comprised less than one-third of the total consideration paid or due to us under those agreements. In addition, during 2014, we recognized revenue from one PLA that was executed in connection with a patent purchase agreement (“PPA”) with the licensee. Total cash paid or due to our licensee under this PPA is approximately 56% of the total cash due to us under this licensee’s PLA. During 2014, 2013, and 2012 approximately 7%, 3%, 2% respectively, of our total revenue was based on the estimated fair value of the patents in the above transactions. We estimated the fair value of the patents in the above transactions by a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others. For the market approach, judgment was applied as to which market transactions were most comparable to this transaction. The development of a number of these inputs and assumptions requires a significant amount of management judgment and is based upon a number of factors, including the selection of industry comparables, assumed royalty rates, sales volumes, economic lives of the patents and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the fair value assigned to the patents for accounting purposes. These inputs and assumptions represent management’s best estimates at the time of the transaction. The impact that a five percent change in the estimated value of the patents would have had on 2014 revenue, patent amortization and pre-tax income is summarized in the following table (in thousands):

| | <u>Change in estimate</u> | |
|---------------------------------|---------------------------|------------------|
| | <u>+5%</u> | <u>-%5</u> |
| Revenue | \$1,507 | \$(1,507) |
| Less: Patent amortization | 332 | (332) |
| Pre-tax income | <u>\$1,175</u> | <u>\$(1,175)</u> |

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 under our long-term compensation program (“LTCP”). Our LTCP typically includes annual grants with a three-year vesting period; as a result, in any one year, we are typically accounting for three active LTCP cycles.

The aggregate amount of performance compensation expense we record in a period, under both short-term and long-term performance compensation programs, requires the input of subjective assumptions and is a function of our estimated progress toward performance compensation goals at the beginning of the period, and our estimated progress or final assessment of progress toward performance compensation goals at the end of the period. Our estimated progress toward goals under performance equity grants is based on a meeting a minimum confidence level in accordance with ASC 718. Achievement rates can vary by performance cycle and from period to period, resulting in variability in our compensation expense.

If we had accrued all performance compensation cost throughout 2014 on the assumption that all plans would be paid out at 100%, we would have recorded \$10.3 million less in compensation expense in 2014 than we actually recorded. There are two LTCP cycles that will carry over into 2015, for which if we record the performance-based incentive components at a 100% accrual rate during 2015, we estimate that we will record \$4.5 million in incentive-based compensation for those cycles in 2015.

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. This requires us to make subjective assumptions around the value of the equity at the time of issuance and the expected forfeiture rates, which in both cases are generally based on historical experience. The estimated value of stock options includes assumptions around expected life, stock volatility, and dividends. The expected life of our stock option awards are based on the simplified method as prescribed by Staff Accounting Bulletin Topic 14. In all periods, our policy has been to set the value of RSUs 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 that cliff vest, we amortize the associated unrecognized compensation cost on a straight-line basis over their vesting term. 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.

The below table summarizes our performance-based and other share-based compensation expense for 2014, 2013 and 2012, in thousands:

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-----------------|-----------------|-----------------|
| Short-term incentive compensation | \$20,404 | \$10,550 | \$ 8,469 |
| Time-based awards | 6,734 | 4,641 | 4,761 |
| Performance-based awards(d) | 8,947 a | 7,260 b | 8,204 c |
| Other share-based compensation | <u>2,814</u> | <u>4,039</u> | <u>1,702</u> |
| Total performance-based and other share-based compensation expense | <u>\$38,899</u> | <u>\$26,490</u> | <u>\$23,136</u> |

- (a) Included in 2014 is a charge of \$4.8 million to increase the accrual rates under our LTCP driven by the company’s success toward achieving goals for the related cycles.
- (b) Included in 2013 is a charge of \$6.5 million to increase the accrual rates under our LTCP driven by the company’s success toward achieving goals for the related cycles.
- (c) Included in 2012 is a charge of \$4.4 million to increase the accrual rates under our LTCP driven by the company’s success toward achieving goals for the related cycles.
- (d) In January 2013, the Compensation Committee of our Board of Directors determined that the performance-based component of two then existing performance cycles would be paid out in equity (as opposed to making the determination at the end of the respective cycles as to whether to pay out in cash or equity), and, therefore, performance-based RSUs for such cycles were immediately granted. As the determination was made subsequent to December 31, 2012, the performance-based awards for such cycles were accounted for as cash awards during 2012 and as equity awards in 2013 and 2014.

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.

Between 2006 and 2014, we paid approximately \$239.8 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 net interest expense and/or foreign currency gain or loss.

During 2014, we completed research and development credit studies for the periods from 2010 through 2013. As a result of the study, we amended our United States federal income tax returns for the periods from 2010 through 2012 to claim the research and development credit for those periods. After all periods were amended and the 2013 federal income tax return was filed, we recognized a net benefit after consideration of any unrecognized tax benefits from the tax credits in the amount of \$5.7 million. Additionally, in 2014, we recognized a benefit after consideration of any unrecognized tax benefits of \$0.9 million for the estimated research and development credit for 2014. In addition, in 2014 we recorded \$0.7 million of unrecognized tax benefits related to other matters.

New Accounting Guidance

Accounting Standards Update: Discontinued Operations

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

Accounting Standards Update: Revenue Recognition

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an

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

Legal Proceedings

We are routinely involved in disputes associated with enforcement and licensing activities regarding our intellectual property, including litigations, arbitrations and other proceedings. These litigations, arbitrations 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. 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 program and dividend program for the next twelve months. We also may from time to time access the capital markets to augment our liquidity position as our business dictates and to take advantage of favorable interest rate environments or other market conditions.

Cash, cash equivalents and short-term investments

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

| | <u>December 31, 2014</u> | <u>December 31, 2013</u> | <u>Increase / (Decrease)</u> |
|---|------------------------------|------------------------------|----------------------------------|
| Cash and cash equivalents | \$428,567 | \$497,714 | \$(69,147) |
| Short-term investments | <u>275,361</u> | <u>200,737</u> | <u>74,624</u> |
| Total cash and cash equivalents and short-term investments | <u>\$703,928</u> | <u>\$698,451</u> | <u>\$ 5,477</u> |

The increase in cash, cash equivalents and short-term investments was primarily attributable to \$242.0 million of cash provided by operating activities, which was partially offset by the cost of repurchasing common stock of \$152.6 million, dividend payments of \$23.7 million and \$65.3 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 2014 and 2013 (in thousands):

| | <u>For the Year Ended December 31,</u> | | |
|---|--|------------------|----------------------------------|
| | <u>2014</u> | <u>2013</u> | <u>Increase / (Decrease)</u> |
| Cash flows provided by operating activities | <u>\$242,013</u> | <u>\$218,175</u> | <u>\$23,838</u> |

Our cash flows provided by operating activities are principally derived from cash receipts from patent license and technology solutions agreements offset by cash operating expenses and income tax payments. The increase in cash flows provided by operating activities of \$23.8 million was primarily attributable to an increase in cash receipts of \$119.6 million primarily from new agreements signed during the year. These cash receipts were offset by an increase in cash outflows of \$71.5 million primarily due to income taxes paid. The table below provides the significant items comprising our cash flows provided by operating activities during the years ended December 31, 2014 and 2013 (in thousands).

| | For the Year Ended December 31, | | |
|--|--|-------------------|----------------------------------|
| | 2014 | 2013 | Increase / (Decrease) |
| Cash Receipts: | | | |
| Fixed fee royalty payments a | \$ 389,000 | \$ 42,150 | \$ 346,850 |
| Current royalties b | 155,432 | 132,518 | 22,914 |
| Technology solutions | 11,649 | 19,882 | (8,233) |
| Prepaid royalties | 2,500 | 242,401 | (239,901) |
| Patent Sales | 1,999 | 4,000 | (2,001) |
| Total cash receipts | \$ 560,580 | \$ 440,951 | \$ 119,629 |
| Cash Outflows: | | | |
| Cash operating expenses c | (185,421) | (191,280) | 5,859 |
| Income taxes paid d | (114,876) | (24,961) | (89,915) |
| VERP payments | — | (12,600) | 12,600 |
| Total cash outflows | (300,297) | (228,841) | (71,456) |
| Other working capital adjustments | (18,270) | 6,065 | (24,335) |
| Cash flows provided by operating activities | \$ 242,013 | \$ 218,175 | \$ 23,838 |

- (a) Fixed fee royalty payments for the year ended December 31, 2014 include \$118.4 million of cash receipts recognized as past sales revenue.
- (b) Current patent royalty payments for the years ended December 31, 2014 and 2013 include \$3.7 million and \$73.8 million, respectively, of cash receipts recognized as past sales revenue.
- (c) Cash operating expenses include operating expenses less depreciation of fixed assets, amortization of patents, and non-cash compensation.
- (d) Income taxes paid include foreign withholding taxes.

Working capital

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

| | <u>December 31, 2014</u> | <u>December 31, 2013</u> | <u>Increase / (Decrease)</u> |
|--|------------------------------|------------------------------|----------------------------------|
| Current assets | \$843,179 | \$857,514 | \$(14,335) |
| Less: current liabilities | <u>205,169</u> | <u>126,438</u> | <u>78,731</u> |
| Working capital | 638,010 | 731,076 | (93,066) |
| Subtract: | | | |
| Cash and cash equivalents | 428,567 | 497,714 | (69,147) |
| Short-term investments | 275,361 | 200,737 | 74,624 |
| Add: | | | |
| Current deferred revenue | <u>124,695</u> | <u>60,176</u> | <u>64,519</u> |
| Adjusted working capital | <u>\$ 58,777</u> | <u>\$ 92,801</u> | <u>\$(34,024)</u> |

The \$34.0 million decrease in adjusted working capital in 2014 compared to 2013 is primarily attributable to decreases in accounts receivable from patent license agreements, as well as a net increase in current liabilities. The decrease in accounts receivable is primarily attributable to the collection of per-unit receivables as well as a decrease associated with the previously discussed terminated patent license agreement with one of our fixed-fee licensees. The net increase in current liabilities is primarily attributable to higher accounts payable, related to a payment due on a patent purchase, and higher accrued compensation, due to higher achievement levels with respect to our short-term incentive compensation goals. These decreases to adjusted working capital were partially offset by an increase in deferred tax assets related to the expected utilization of timing differences between book and tax recognition.

Cash used in or provided by investing and financing activities

We used net cash in investing activities of \$140.3 million and \$38.3 million, respectively, in 2014 and 2013. We purchased \$75.0 million, net of sales, and sold \$25.3 million, net of purchases, of short-term marketable securities in 2014 and 2013, respectively. The change was primarily due to higher cash receipts in 2014. Investment costs associated with capitalized patent costs and acquisition of patent costs decreased to \$58.2 million in 2014 from \$59.1 million in 2013, primarily due to a decreased investment in patent acquisitions in 2014.

Net cash used in financing activities increased by \$138.9 million in 2014 primarily due to an increase in repurchases of common stock of \$123.5 million, an increase in dividend payments of \$11.4 million, and a decrease in proceeds from non-controlling interests of \$2.6 million.

Other

Our combined short-term and long-term deferred revenue balance at December 31, 2014 was approximately \$418.0 million, an increase of \$114.0 million from December 31, 2013. 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 \$272.9 million, primarily associated with new prepayments, which was partially offset by \$163.1 million of deferred revenue recognized. This deferred revenue recognized was comprised of \$121.9 million of amortized fixed-fee royalty payments and \$26.2 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, 2014 deferred revenue balance of \$418.0 million by \$124.7 million over the next twelve months. Additional reductions to deferred revenue over the next twelve months 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, 2014 (in thousands):

| | Payments Due by Period | | | | |
|---|-------------------------------|-----------------------------|------------------|------------------|-------------------|
| | Total | Less Than 1 year | 1-3 Years | 3-5 Years | Thereafter |
| 2.50% Senior Convertible Notes due 2016 | \$230,000 | \$ — | \$230,000 | \$ — | \$— |
| Contractual interest payments on Notes | 7,188 | 5,750 | 1,438 | — | — |
| Operating lease obligations | 15,016 | 3,121 | 7,176 | 4,719 | — |
| Purchase obligations(a) | 37,132 | 37,132 | — | — | — |
| Total contractual obligations | <u>\$289,336</u> | <u>\$46,003</u> | <u>\$238,614</u> | <u>\$4,719</u> | <u>\$—</u> |

(a) Purchase obligations consist of agreements to purchase goods and services that are legally binding on us, as well as accounts payable. Our consolidated balance sheet at December 31, 2014 included a \$1.4 million noncurrent liability for uncertain tax positions. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

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

2014 Compared with 2013

Revenues

The following table compares 2014 revenues to 2013 revenues (in thousands):

| | For the Year Ended December 31, | | (Decrease)/Increase | |
|---|------------------------------------|------------------|---------------------|------------|
| | 2014 | 2013 | | |
| Per-unit royalty revenue | \$157,250 | \$122,709 | \$ 34,541 | 28% |
| Fixed-fee amortized royalty revenue | 121,903 | 67,658 | 54,245 | 80% |
| Current patent royalties(a) | 279,153 | 190,367 | 88,786 | 47% |
| Past patent royalties(b) | 124,236 | 73,808 | 50,428 | 68% |
| Total patent licensing royalties | 403,389 | 264,175 | 139,214 | 53% |
| Patent sales | 1,999 | — | 1,999 | 100% |
| Current technology solutions revenue(a) | 9,633 | 7,960 | 1,673 | 21% |
| Past technology solutions revenue(b) | 800 | 53,226 | (52,426) | (98)% |
| Total revenue | <u>\$415,821</u> | <u>\$325,361</u> | <u>\$ 90,460</u> | <u>28%</u> |

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

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

The \$90.5 million increase in total revenue was primarily attributable to the \$88.8 million increase in current patent royalties and a \$50.4 million increase in past patent royalties. The new patent license agreements signed during 2014, as discussed above, contributed \$186.1 million in total to the increased fixed-fee and past patent royalties. These increases were partially offset by a decrease of \$13.6 million in fixed-fee amortized royalty revenue related to agreements that have expired or were terminated, and past patent royalties in 2013 included approximately \$71.4 million recognized as a result of arbitration awards received in 2013. Additionally, per-unit royalty revenue increased \$34.5 million, and was primarily related to a \$49.8 million increase associated with increased shipments by, and the coverage of additional products under, our agreement with Pegatron. This increase in per-unit royalties from Pegatron was partially offset by a total decrease of \$15.3 million attributable to certain of our other per-unit licensees with concentrations in the smartphone market. Current technology solutions revenue increased by \$1.7 million primarily due to the inclusion of royalties on certain products upon the resolution in 2013 of our arbitration with Intel Mobile Communications GmbH (“Intel”). These increases were partially offset by a decrease in past technology solutions revenue of \$52.4 million, primarily due to revenue that was recognized in 2013 as a result of the award received upon the resolution of the Intel arbitration.

In 2014 and 2013, 51% and 60% of our total revenues, respectively, were attributable to companies that individually accounted for 10% or more of our total revenues. In 2014 and 2013, the following licensees or customers accounted for 10% or more of our total revenues:

| | For the Year Ended December 31, | |
|-----------------------|------------------------------------|------|
| | 2014 | 2013 |
| Samsung(a) | 33% | —% |
| Pegatron(b) | 18% | 30% |
| Intel(c) | < 10% | 18% |
| Sony | < 10% | 12% |

(a) 2014 revenues include \$86.3 million of past patent royalties.

- (b) 2013 revenues include \$71.4 million of past patent royalties.
- (c) 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 thousands):

| | For the Year Ended December 31, | | Increase/(Decrease) | |
|---|--|------------------|----------------------------|-----------|
| | 2014 | 2013 | | |
| Patent administration and licensing | \$133,808 | \$143,037 | \$ (9,229) | (6)% |
| Development | 75,300 | 64,729 | 10,571 | 16% |
| Selling, general and administrative | 37,753 | 31,295 | 6,458 | 21% |
| Repositioning | — | 1,544 | (1,544) | (100)% |
| Total operating expenses | <u>\$246,861</u> | <u>\$240,605</u> | <u>\$ 6,256</u> | <u>3%</u> |

Operating expenses increased 3% to \$246.9 million in 2014 from \$240.6 million in 2013. The \$6.3 million increase in total operating expenses was primarily due to increases/(decreases) in the following items (in thousands):

| | Increase/ (Decrease) |
|---|---------------------------------|
| Performance-based incentive compensation | \$ 13,441 |
| Depreciation and amortization | 8,490 |
| Consulting services | 4,603 |
| Commercial initiatives and Signal Trust | 4,460 |
| Personnel-related costs | 1,844 |
| Cost of patent sales | 700 |
| Other | 120 |
| Patent maintenance and evaluation | (2,963) |
| Intellectual property enforcement | (22,895) |
| Total increase in operating expenses not including repositioning charge | <u>7,800</u> |
| Repositioning charge | <u>(1,544)</u> |
| Total increase in operating expenses | <u>\$ 6,256</u> |

The \$13.4 million increase in performance-based incentive compensation, including both short-term and long-term compensation, was primarily attributable to both a true-up to increase the beginning period compensation to the current accrual rate and higher accrual rates in 2014 as compared to significantly lower accrual rates in 2013. The \$8.5 million increase in depreciation and amortization was primarily due to patent acquisitions made during the past two years, along with the organic annual growth of our patent portfolio. The \$4.6 million increase in consulting services was primarily related to the support of research and development projects and corporate initiatives that have ramped up over the last twelve months. The \$4.5 million increase in commercial initiatives and Signal Trust expense was related to a new commercial initiative launched in 2014 and the Signal Trust for Wireless Innovation (the “Signal Trust”), which was created in fourth quarter 2013. Personnel-related costs increased \$1.8 million primarily due to hiring activity during 2014. The \$0.7 million increase in cost of patent sales was related to patents sold during the year, and represents the remaining net book value of the patents sold. The \$3.0 million decrease in patent maintenance and evaluation costs was primarily related to decreased due diligence costs associated with both patent acquisition and patent sale activities. The \$22.9 million decrease in intellectual property enforcement and non-patent litigation primarily related to decreased costs associated with the USITC actions and licensee arbitrations.

Patent administration and licensing expense: The \$9.2 million decrease in patent administration and licensing expense primarily resulted from the above-noted decreases in intellectual property enforcement and patent maintenance and evaluation costs, partially offset by increases in performance-based incentive compensation and patent amortization described above.

Development expense: The \$10.6 million increase in development expense was primarily attributable to the above-noted increases in performance-based compensation, consulting services, and costs related to commercial initiatives and the Signal Trust as described above.

Selling, general and administrative expense: The \$6.5 million increase in selling, general and administrative expense was primarily attributable to the above-noted increases in performance-based compensation and personnel-related costs.

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 zero and \$1.5 million in 2014 and 2013, respectively.

Other (Expense) Income

The following table compares 2014 other (expense) income to 2013 other (expense) income (in thousands):

| | For the Year Ended December 31, | | (Decrease)/Increase | |
|---|--|-------------------|----------------------------|--------------|
| | 2014 | 2013 | | |
| Interest expense | \$(16,084) | \$(15,475) | \$ (609) | 4% |
| Other than temporary impairment and other | (747) | (22,058) | 21,311 | (97)% |
| Interest and investment income | 1,399 | 14,296 | (12,897) | (90)% |
| | <u>\$(15,432)</u> | <u>\$(23,237)</u> | <u>\$ 7,805</u> | <u>(34)%</u> |

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

Income Taxes

In 2014, our effective tax rate was approximately 33.9% as compared to 42.0% in 2013, based on the statutory federal tax rate net of discrete federal and state taxes. The decrease in the effective tax rate from 2013 to 2014 resulted primarily from a \$6.3 million net benefit from research and development tax credits covering the periods 2010 through 2014, which was partially offset by an audit settlement. The decrease in the effective tax rate also resulted from the impact of lower forecasted state tax expense resulting, in part, from the Company’s income mix between patent licensing royalties and technology solutions revenue.

2013 Compared with 2012

Revenues

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

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|------------------------------------|------------------|----------------------|--------------|
| | 2013 | 2012 | | |
| Per-unit royalty revenue | \$122,709 | \$115,295 | \$ 7,414 | 6% |
| Fixed-fee amortized royalty revenue | 67,658 | 135,056 | (67,398) | (50)% |
| Current patent royalties(a) | 190,367 | 250,351 | (59,984) | (24)% |
| Past patent royalties(b) | 73,808 | 26,238 | 47,570 | 181% |
| Total patent licensing royalties | 264,175 | 276,589 | (12,414) | (4)% |
| Patent sales | — | 384,000 | (384,000) | (100)% |
| Current technology solutions revenue(a) | 7,960 | 2,474 | 5,486 | 222% |
| Past technology solutions revenue(b) | 53,226 | — | 53,226 | 100% |
| Total revenue | <u>\$325,361</u> | <u>\$663,063</u> | <u>\$(337,702)</u> | <u>(51)%</u> |

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

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

The \$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 resolution of arbitrations during 2013. The decrease in patent sales was due to the company's 2012 sales of patents to Intel Corporation (the "Intel patent sale") 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 2013 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 licensees or customers accounted for 10% or more of our total revenues:

| | For the Year Ended December 31, | |
|-------------------------------------|------------------------------------|-------|
| | 2013 | 2012 |
| Pegatron(a) | 30% | < 10% |
| Intel Mobile Communications GmbH(b) | 18% | < 10% |
| Sony | 12% | < 10% |
| Samsung | —% | 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 thousands):

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|------------------------------------|------------------|-------------------------|-------------|
| | 2013 | 2012 | | |
| Patent administration and licensing | \$143,037 | \$126,284 | \$ 16,753 | 13% |
| Development | 64,729 | 67,862 | (3,133) | (5)% |
| Selling, general and administrative | 31,295 | 37,351 | (6,056) | (16)% |
| Repositioning | 1,544 | 12,536 | (10,992) | (88)% |
| Total operating expenses | <u>\$240,605</u> | <u>\$244,033</u> | <u>\$ (3,428)</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 \$3.4 million decrease in total operating expenses was primarily due to increases/ (decreases) in the following items (in thousands):

| | Increase/ (Decrease) |
|---|-------------------------|
| Cost of patent sales | (16,644) |
| Personnel-related costs | (4,734) |
| Performance-based incentive compensation | (1,075) |
| Other | 1,466 |
| Consulting services | 2,513 |
| Patent maintenance and evaluation | 4,123 |
| Depreciation and amortization | 6,991 |
| Intellectual property enforcement and non-patent litigation | 14,924 |
| Total decrease in operating expenses not including repositioning charge | <u>7,564</u> |
| Repositioning Charge | <u>(10,992)</u> |
| Total decrease in operating expenses | <u>\$ (3,428)</u> |

The \$16.6 million decrease in costs from patent sales primarily related to the Intel patent sale. 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 performance-based incentive 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 2012 and 2013. 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 Intel arbitration proceeding.

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 performance-based incentive 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 performance-based incentive compensation, partially offset by an increase 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 thousands):

| | For the Year Ended December 31, | | (Decrease)/Increase | |
|---|--|-------------------|----------------------------|-------------|
| | 2013 | 2012 | | |
| Interest expense | \$(15,475) | \$(14,920) | \$ (555) | 4% |
| Other than temporary impairment and other | (22,058) | (214) | (21,844) | 10,207% |
| Interest and investment income | 14,296 | 4,738 | 9,558 | 202% |
| | <u>\$(23,237)</u> | <u>\$(10,396)</u> | <u>\$(12,841)</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.

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 mobile 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 develop and 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 and worldwide standards bodies;

(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 the 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) Our belief that our standalone commercial initiatives are potential sources of revenue;

(vii) The predicted increases in worldwide mobile device shipments, including shipments of handsets, mobile PCs and tablets, and the estimated growth of the IoT market over the next several years;

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

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

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

(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 belief that intellectual property enforcement costs will likely continue to be a significant cost for us in the future;

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

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

(xv) Our expectation that for the period through the earlier of any exercise or expiration of Samsung's termination right we will recognize revenue associated with the Samsung patent license agreement on a straight-line basis;

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

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

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 determination of royalty rates, or other terms, under our patent license agreements through arbitration or other third party adjudications, or the establishment by arbitrators or other third party adjudicators of patent royalty rates at levels lower than our agreed or historical rates;

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

(xi) the impact of rulings in legal proceedings, potential legislation affecting the jurisdiction and authority of the USITC and potential changes to the IPR policies of worldwide standards bodies on our investments in research and development and our strategies for patent prosecution, licensing and enforcement;

(xii) 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;

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

(xiv) decreased liquidity in the capital markets; and

(xv) 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 \$703.9 million at December 31, 2014. 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 investment

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, 2014. 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 thousands) | | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
| Money market and demand | | | | | | | |
| accounts | \$307,995 | \$ — | \$ — | \$— | \$ — | \$ — | \$307,995 |
| Cash equivalents | \$120,572 | \$ — | \$ — | \$— | \$ — | \$ — | \$120,572 |
| Short-term investments | \$151,382 | \$79,988 | \$43,903 | \$— | \$ 4 | \$ 84 | \$275,361 |
| Average Interest rate | 0.4% | 0.7% | 1.2% | —% | 0.4% | 1.1% | 0.6% |

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

Bank Liquidity Risk — As of December 31, 2014 we had approximately \$117.8 million in operating accounts 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 2014, we paid approximately \$239.8 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 \$275.4 million as of December 31, 2014.

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> |
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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, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014 based on criteria established in *Internal Control—Integrated Framework (2013)* 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 19, 2015

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

| | <u>DECEMBER 31,</u> <u>2014</u> | <u>DECEMBER 31,</u> <u>2013</u> |
|---|------------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 428,567 | \$ 497,714 |
| Short-term investments | 275,361 | 200,737 |
| Accounts receivable, less allowances of \$1,654 and \$1,750 | 51,702 | 92,830 |
| Deferred tax assets | 54,019 | 26,197 |
| Prepaid and other current assets | 33,530 | 40,036 |
| Total current assets | 843,179 | 857,514 |
| PROPERTY AND EQUIPMENT, NET | 12,546 | 9,535 |
| PATENTS, NET | 265,540 | 206,371 |
| DEFERRED TAX ASSETS | 71,783 | 36,626 |
| OTHER NON-CURRENT ASSETS | 1,543 | 3,137 |
| | 351,412 | 255,669 |
| TOTAL ASSETS | \$1,194,591 | \$1,113,183 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 34,654 | 24,504 |
| Accrued compensation and related expenses | 27,089 | 15,403 |
| Deferred revenue | 124,695 | 60,176 |
| Taxes payable | — | 7,056 |
| Dividend payable | 7,456 | 4,031 |
| Other accrued expenses | 11,275 | 15,268 |
| Total current liabilities | 205,169 | 126,438 |
| LONG-TERM DEBT | 217,835 | 208,813 |
| LONG-TERM DEFERRED REVENUE | 293,342 | 243,864 |
| OTHER LONG-TERM LIABILITIES | 2,568 | 248 |
| TOTAL LIABILITIES | 718,914 | 579,363 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding | — | — |
| Common Stock, \$0.01 par value, 100,000 shares authorized, 69,800 and 69,614 shares issued and 36,920 and 40,288 shares outstanding | 698 | 696 |
| Additional paid-in capital | 614,162 | 598,325 |
| Retained earnings | 757,050 | 680,718 |
| Accumulated other comprehensive income (loss) | 118 | (14) |
| | 1,372,028 | 1,279,725 |
| Treasury stock, 32,880 and 29,326 shares of common held at cost | 903,700 | 751,075 |
| Total InterDigital, Inc. shareholders' equity | 468,328 | 528,650 |
| Noncontrolling interest | 7,349 | 5,170 |
| Total equity | 475,677 | 533,820 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,194,591 | \$1,113,183 |

The accompanying notes are an integral part of these statements.

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

| | FOR THE YEAR ENDED DECEMBER 31, | | |
|---|--|------------------|-------------------|
| | 2014 | 2013 | 2012 |
| REVENUES: | | | |
| Patent licensing royalties | \$403,389 | \$264,174 | \$ 276,547 |
| Patent sales | 1,999 | — | 384,000 |
| Technology solutions | 10,433 | 61,187 | 2,516 |
| Total Revenue | <u>415,821</u> | <u>325,361</u> | <u>663,063</u> |
| OPERATING EXPENSES: | | | |
| Patent administration and licensing | 133,808 | 143,037 | 126,284 |
| Development | 75,300 | 64,729 | 67,862 |
| Selling, general and administrative | 37,753 | 31,295 | 37,351 |
| Repositioning | — | 1,544 | 12,536 |
| Total Operating Expenses | <u>246,861</u> | <u>240,605</u> | <u>244,033</u> |
| Income from operations | 168,960 | 84,756 | 419,030 |
| OTHER EXPENSE (NET) | <u>(15,432)</u> | <u>(23,237)</u> | <u>(10,396)</u> |
| Income before income taxes | 153,528 | 61,519 | 408,634 |
| INCOME TAX PROVISION | <u>(52,108)</u> | <u>(25,836)</u> | <u>(136,830)</u> |
| NET INCOME | <u>\$101,420</u> | <u>\$ 35,683</u> | <u>\$ 271,804</u> |
| Net loss attributable to noncontrolling interest | (2,922) | (2,482) | — |
| NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC. | <u>\$104,342</u> | <u>\$ 38,165</u> | <u>\$ 271,804</u> |
| NET INCOME PER COMMON SHARE — BASIC | <u>\$ 2.65</u> | <u>\$ 0.93</u> | <u>\$ 6.31</u> |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC | <u>39,420</u> | <u>41,115</u> | <u>43,070</u> |
| NET INCOME PER COMMON SHARE — DILUTED | <u>\$ 2.62</u> | <u>\$ 0.92</u> | <u>\$ 6.26</u> |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED | <u>39,879</u> | <u>41,424</u> | <u>43,396</u> |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | <u>\$ 0.70</u> | <u>\$ 0.40</u> | <u>\$ 1.90</u> |

The accompanying notes are an integral part of these statements.

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

| | For the Year Ended December 31, | | |
|---|--|-----------------|------------------|
| | 2014 | 2013 | 2012 |
| Net income | \$101,420 | \$35,683 | \$271,804 |
| Unrealized gain (loss) investments, net of tax | 12 | (878) | 1,303 |
| Other-than-temporary impairment losses related to available for sale securities, net of income taxes of \$65, \$0, \$0 | 120 | — | — |
| Comprehensive income | <u>\$101,552</u> | <u>\$34,805</u> | <u>\$273,107</u> |
| Comprehensive loss attributable to noncontrolling interest | <u>(2,922)</u> | <u>(2,482)</u> | <u>—</u> |
| Total comprehensive income attributable to InterDigital, Inc. | <u>\$104,474</u> | <u>\$37,287</u> | <u>\$273,107</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, 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 |
| Net income attributable to InterDigital, Inc. | — | — | — | 104,342 | — | — | — | — | 104,342 |
| Proceeds from noncontrolling interests | — | — | — | — | — | — | — | 5,101 | 5,101 |
| Net (loss) income attributable to noncontrolling interest | — | — | — | — | — | — | — | (2,922) | (2,922) |
| Net change in unrealized gain on short-term investments | — | — | — | — | 132 | — | — | — | 132 |
| Dividends Declared | — | — | 857 | (28,010) | — | — | — | — | (27,153) |
| Exercise of Common Stock options | 21 | — | 402 | — | — | — | — | — | 402 |
| Issuance of Common Stock, net | 165 | 2 | (2,740) | — | — | — | — | — | (2,738) |
| Tax benefit from exercise of stock options | — | — | (1,176) | — | — | — | — | — | (1,176) |
| Amortization of unearned compensation | — | — | 18,494 | — | — | — | — | — | 18,494 |
| Repurchase of Common Stock | — | — | — | — | — | 3,554 | (152,625) | — | (152,625) |
| BALANCE, DECEMBER 31, 2014 | 69,800 | \$698 | \$614,162 | \$757,050 | \$ 118 | 32,880 | \$(903,700) | \$ 7,349 | \$ 475,677 |

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, | | |
|---|--|-------------------|-------------------|
| | 2014 | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$ 101,420 | \$ 35,683 | \$ 271,804 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 42,246 | 33,385 | 26,248 |
| Amortization of deferred financing fees and accretion of debt discount | 10,325 | 9,726 | 9,165 |
| Deferred revenue recognized | (163,139) | (174,014) | (223,419) |
| Increase in deferred revenue | 272,885 | 209,930 | 174,604 |
| Deferred income taxes | (62,979) | 4,861 | 40,416 |
| Tax benefit from share-based compensation | (1,176) | — | — |
| Share-based compensation | 18,494 | 15,940 | 6,495 |
| Impairment of investments | 559 | 21,720 | — |
| Non-cash cost of patent sales | 700 | — | 10,654 |
| Other | 572 | 424 | 90 |
| Decrease (Increase) in assets: | | | |
| Receivables | 26,128 | 77,044 | (141,795) |
| Deferred charges and other assets | 6,156 | (9,753) | (21,651) |
| (Decrease) Increase in liabilities: | | | |
| Accounts payable | (10,396) | 14,655 | 2,453 |
| Accrued compensation and other expenses | 5,853 | (24,522) | 21,849 |
| Accrued taxes payable and other tax contingencies | (5,635) | 3,096 | 695 |
| Net cash provided by operating activities | <u>242,013</u> | <u>218,175</u> | <u>177,608</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of short-term investments | (438,157) | (417,728) | (331,828) |
| Sales of short-term investments | 363,175 | 443,074 | 442,182 |
| Purchases of property and equipment | (7,095) | (4,591) | (3,621) |
| Capitalized patent costs | (31,932) | (34,057) | (28,317) |
| Acquisition of patents | (26,300) | (25,013) | (15,450) |
| Net cash (used in) provided by investing activities | <u>(140,309)</u> | <u>(38,315)</u> | <u>62,966</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net proceeds from exercise of stock options | 402 | 1,032 | 2,111 |
| Payments on long-term debt, including capital lease obligations | — | — | (180) |
| Proceeds from non-controlling interests | 5,101 | 7,652 | — |
| Dividends paid | (23,729) | (12,354) | (83,077) |
| Tax benefit from share-based compensation | — | 815 | 898 |
| Repurchase of common stock | (152,625) | (29,134) | (152,694) |
| Net cash (used in) financing activities | <u>(170,851)</u> | <u>(31,989)</u> | <u>(232,942)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (69,147) | 147,871 | 7,632 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 497,714 | 349,843 | 342,211 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 428,567</u> | <u>\$ 497,714</u> | <u>\$ 349,843</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Interest paid | 5,750 | 5,750 | 5,754 |
| Income taxes paid, including foreign withholding taxes | 114,876 | 24,961 | 116,871 |
| Non-cash investing and financing activities: | | | |
| Dividend payable | 7,456 | 4,031 | — |
| Non-cash acquisition of patents | 19,250 | — | 28,900 |
| Accrued capitalized patent costs and acquisition of patents | 20,546 | (452) | (286) |

The accompanying notes are an integral part of these statements.

INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

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.

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 a variable interest 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, 2014 and 2013 consisted of the following (in thousands):

| | December 31, | |
|--|--------------|-----------|
| | 2014 | 2013 |
| Money market and demand accounts | \$307,995 | \$465,722 |
| Commercial paper | 120,572 | 31,992 |
| | \$428,567 | \$497,714 |

Short-Term Investments

At December 31, 2014 and 2013, 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. 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. During 2014, we recorded an other-than-temporary impairment of approximately \$0.6 million. Net unrealized loss on short-term investments was \$0.1 million and \$0.9 million at December 31, 2014 and 2013, respectively. Net unrealized gain on short-term investments was \$1.3 million at December 31, 2012. Realized gains and losses for 2014, 2013 and 2012 were as follows (in thousands):

| <u>Year</u> | <u>Gains</u> | <u>Losses</u> | <u>Net</u> |
|-------------|--------------|---------------|------------|
| 2014 | \$ 48 | \$(681) | \$(633) |
| 2013 | \$166 | \$(678) | \$(512) |
| 2012 | \$ 14 | \$(249) | \$(235) |

Short-term investments as of December 31, 2014 and 2013 consisted of the following (in thousands):

| | <u>December 31,</u> | |
|---|---------------------|------------------|
| | <u>2014</u> | <u>2013</u> |
| Commercial paper | \$ 86,877 | \$160,486 |
| U.S. government agency instruments | 151,618 | 31,688 |
| Corporate bonds and asset backed securities | 36,866 | 8,563 |
| | <u>\$275,361</u> | <u>\$200,737</u> |

At December 31, 2014 and 2013, \$151.4 million and \$189.5 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, 2014, three licensees comprised 94% of our net accounts receivable balance. At December 31, 2013, five licensees represented 96% of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

Fair Value Measurements

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, 2014 and December 31, 2013 (in thousands):

| | Fair Value as of December 31, 2014 | | | |
|--|------------------------------------|------------------|------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Money market and demand accounts(a) | \$307,995 | \$ — | \$— | \$307,995 |
| Commercial paper(b) | — | 207,449 | — | 207,449 |
| U.S. government securities | — | 151,618 | — | 151,618 |
| Corporate bonds, asset backed and other securities . . . | 671 | 36,195 | — | 36,866 |
| | <u>\$308,666</u> | <u>\$395,262</u> | <u>\$—</u> | <u>\$703,928</u> |

(a) Included within cash and cash equivalents.

(b) Includes \$120.6 million of commercial paper that is included within cash and cash equivalents.

| | Fair Value as of December 31, 2013 | | | |
|---|------------------------------------|------------------|------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Money market and demand accounts(a) | \$465,722 | \$ — | \$— | \$465,722 |
| Commercial paper(b) | — | 192,478 | — | 192,478 |
| U.S. government securities | — | 31,688 | — | 31,688 |
| Corporate bonds and asset backed 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.

The carrying amount of long-term debt reported in the consolidated balance sheet as of December 31, 2014 and December 31, 2013 was \$217.8 million and \$208.8 million, respectively. Using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources, we determined the fair value of the Notes (as defined in Note 6, *Obligations*) to be \$255.3 million and \$234.0 million as of December 31, 2014 and December 31, 2013, respectively.

As discussed in Note 3, “Significant Events,” we acquired patents associated with patent license agreements signed during second quarter 2014. We have recorded these patents based on their total estimated fair value of \$64.3 million and are amortizing them over their estimated useful lives. We estimated the fair value of the patents in these transactions by a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, the inputs and assumptions used to develop these estimates were based on a market participant perspective and included estimates of projected royalties, discount rates, economic lives and income tax rates, among others. For the market approach, judgment was applied as to which market transactions were most comparable to the transaction.

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. We charge the impairment to the *Other Expense (Net)* 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 (Net)* on our Consolidated Statements of Income.

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):

| | December 31, | |
|--|-------------------|-------------------|
| | 2014 | 2013 |
| Weighted average estimated useful life (years) | 10.0 | 10.2 |
| Gross patents | \$ 455,447 | \$ 358,793 |
| Accumulated amortization | (189,907) | (152,422) |
| Patents, net | <u>\$ 265,540</u> | <u>\$ 206,371</u> |

Amortization expense related to capitalized patent costs was \$38.4 million, \$29.8 million and \$22.7 million in 2014, 2013 and 2012, respectively. These amounts are recorded within the *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, 2014 is as follows (in thousands):

| | |
|----------------|----------|
| 2015 | \$39,902 |
| 2016 | 38,485 |
| 2017 | 35,686 |
| 2018 | 31,124 |
| 2019 | 28,650 |

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.

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 royalty payments. We recognize revenue from royalty payments using the same methods described above under our policy for recognizing revenue from patent license agreements. Technology solutions revenues also consist of revenues 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.

Deferred Charges

From time to time, we use sales agents to assist us in our licensing and/or patent sale 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 or patent sale 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 2014, 2013 and 2012, we paid cash commissions of approximately \$0.3 million, less than \$0.1 million and \$4.7 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. There were no direct contract origination costs incurred during 2014, 2013, or 2012.

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 2014, 2013 or 2012.

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

| | December 31, | |
|---|---------------------|-------------|
| | 2014 | 2013 |
| Prepaid and other current assets | | |
| Deferred commission expense | \$ 342 | \$ 290 |
| Deferred contract origination costs | 79 | 79 |
| Deferred financing costs | 1,303 | 1,303 |
| Other non-current assets | | |
| Deferred commission expense | 495 | 750 |
| Deferred contract origination costs | 79 | 158 |
| Deferred financing costs | 326 | 1,629 |

Commission expense was approximately \$0.4 million, \$0.3 million and \$5.0 million in 2014, 2013 and 2012, respectively. Commission expense is included within the *Patent administration and licensing* line of our Consolidated Statements of Income. Deferred contract origination expense recognized in 2014, 2013 and 2012 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 each of 2014, 2013 and 2012. Deferred financing expense is included within the *Other Expense (Net)* 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 that 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 \$75.3 million, \$64.7 million and \$67.9 million in 2014, 2013 and 2012, respectively.

Compensation Programs

Our compensation 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 under our long-term compensation program ("LTCP"). Our LTCP typically includes annual grants with a three-year vesting period; as a result, in any one year, we are typically accounting for three active LTCP cycles.

The aggregate amount of performance compensation expense we record in a period, under both short-term and long-term performance compensation programs, requires the input of subjective assumptions and is a function of our estimated progress toward performance compensation goals at the beginning of the period, and our estimated progress or final assessment of progress toward performance compensation goals at the end of the

period. Our estimated progress toward goals under performance equity grants is based on a meeting a minimum confidence level in accordance with ASC 718. Achievement rates can vary by performance cycle and from period to period, resulting in variability in our compensation expense.

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. This requires us to make subjective assumptions around the value of the equity at the time of issuance and the expected forfeiture rates, which in both cases are generally based on historical experience. At December 31, 2014, 2013 and 2012, 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. The estimated value of stock options includes assumptions around expected life, stock volatility, and dividends. The expected life of our stock option awards are based on the simplified method as prescribed by Staff Accounting Bulletin Topic 14. In all periods, our policy has been to set the value of RSUs 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 that cliff vest, we amortize the associated unrecognized compensation cost on a straight-line basis over their vesting term. 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.

Impairment of Long-Lived Assets

We evaluate long-lived 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 2014, 2013 or 2012.

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.

Between 2006 and 2014, we paid approximately \$239.8 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 net interest expense and/or foreign currency gain or loss.

During 2014, we completed research and development credit studies for the periods from 2010 through 2013. As a result of the study, we amended our United States federal income tax returns for the periods from 2010 through 2012 to claim the research and development credit for those periods. After all periods were amended and the 2013 federal income tax return was filed, we recognized a net benefit after consideration of any unrecognized tax benefits from the tax credits in the amount of \$5.7 million. Additionally, in 2014, we recognized a benefit after consideration of any unrecognized tax benefits of \$0.9 million for the estimated research and development credit for 2014. In addition, in 2014 we recorded \$0.7 million of unrecognized tax benefits related to other matters.

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, | | | | | |
|---|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2014 | | 2013 | | 2012 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Numerator: | | | | | | |
| Net income applicable to common shareholders | \$104,342 | \$104,342 | \$38,165 | \$38,165 | \$271,804 | \$271,804 |
| Denominator: | | | | | | |
| Weighted-average shares outstanding: | | | | | | |
| Basic | <u>39,420</u> | 39,420 | <u>41,115</u> | 41,115 | <u>43,070</u> | 43,070 |
| Dilutive effect of stock options, RSUs and convertible securities | | <u>459</u> | | <u>309</u> | | <u>326</u> |
| Weighted-average shares outstanding: | | | | | | |
| Diluted | | <u>39,879</u> | | <u>41,424</u> | | <u>43,396</u> |
| Earnings Per Share: | | | | | | |
| Net income: Basic | <u>\$ 2.65</u> | 2.65 | <u>\$ 0.93</u> | 0.93 | <u>\$ 6.31</u> | 6.31 |
| Dilutive effect of stock options, RSUs and convertible securities | | <u>(0.03)</u> | | <u>(0.01)</u> | | <u>(0.05)</u> |
| Net income: Diluted | | <u>\$ 2.62</u> | | <u>\$ 0.92</u> | | <u>\$ 6.26</u> |

Certain shares of common stock issuable upon the exercise or conversion of certain securities have been excluded from our computation of earnings per share because the strike price or conversion rate, as applicable, of such securities was less than the average market price of our common stock at December 31, 2014, 2013 and 2012, and, as a result, the effect of such exercise or conversion would have been anti-dilutive. Set forth below are the securities and the number of shares of common stock underlying such securities that were excluded from our computation of earnings per share for the periods presented (in thousands):

| | For the Year Ended December 31, | | |
|------------------------------|--|--------------|--------------|
| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
| Stock options | 75 | 79 | — |
| Convertible securities | 4,000 | 4,000 | 4,000 |
| Warrants | 4,000 | 4,000 | 4,000 |
| Total | <u>8,075</u> | <u>8,079</u> | <u>8,000</u> |

New Accounting Guidance

Accounting Standards Update: Discontinued Operations

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

Accounting Standards Update: Revenue Recognition

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

3. SIGNIFICANT EVENTS

Patent License Agreements

During second quarter 2014, we entered into a patent license agreement with Samsung Electronics Co., Ltd. ("Samsung"). The multi-year agreement also resolved all pending litigation between the companies. The royalty-bearing license agreement sets forth terms covering the sale by Samsung of 3G, 4G and certain future generation

wireless products. The agreement provides Samsung the ability to terminate certain rights and obligations under the license for the period after 2017 but has the potential to provide a license to Samsung for a total of ten years, including 2013. For the period through the earlier of any exercise or expiration of Samsung's termination right, we expect to recognize revenue associated with this agreement on a straight-line basis. The amount of revenue we will recognize after 2017 will depend on, among other things, whether or not Samsung elects to terminate certain rights and obligations under the license and amounts payable in 2017 and thereafter. During 2014, we recognized \$138.0 million of revenue, including \$86.2 million of past patent royalties and \$51.8 million of recurring fixed-fee royalties, associated with this agreement.

Additionally, during second quarter 2014, the company's patent-holding subsidiaries entered into patent license agreements with two additional licensees. Both of these agreements cover infrastructure equipment and one of the agreements also covers terminal units. We recognized past sales from each agreement in second quarter 2014 and are recognizing future revenue from these agreements on a straight-line basis over their respective expected terms, beginning with second quarter 2014. These two agreements contributed \$48.1 million of revenue in the year, including \$16.0 million of recurring revenue and \$32.1 million of past sales. A portion of the consideration received under these agreements was in the form of patents. Refer to Note 2, "Summary of Significant Accounting Policies," for additional information related to the estimates and methods used to determine the fair value of the patents acquired.

Each of the three patent license agreements signed during second quarter 2014, as discussed above, is a multiple-element arrangement for accounting purposes. Consistent with the revenue recognition policy disclosed in Note 2, "Summary of Significant Accounting Policies," for each agreement, we identified each element of the arrangement, estimated its relative value for purposes of allocating the arrangement consideration and determined when each of those elements should be recognized. Using the accounting guidance applicable to multiple-element revenue arrangements, we allocated the consideration to each element for accounting purposes using our best estimate of the term and value of each element. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the assumed royalty rates, sales volumes, discount rate and other relevant factors. Changes in any of a number of these assumptions could have had a substantial impact on the relative fair value assigned to each element for accounting purposes. These inputs and assumptions represent management's best estimates at the time of the transactions.

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 completed in 2015.

4. GEOGRAPHIC / CUSTOMER CONCENTRATION

We have one reportable segment. During 2014 and 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>2014</u> | <u>2013</u> | <u>2012</u> |
| South Korea | 144,398 | 15,334 | 118,078 |
| Taiwan | 115,955 | 128,551 | 40,394 |
| United States | 53,163 | 108,728 | 406,950 |
| Japan | 52,194 | 27,494 | 39,558 |
| Sweden | 24,530 | — | — |
| Canada | 15,422 | 36,148 | 40,667 |
| Germany | 5,293 | 4,539 | 3,470 |
| Other Europe | 4,064 | 3,004 | 4,700 |
| China | 800 | 1,563 | 9,246 |
| Other Asia | 2 | — | — |
| Total | <u>\$415,821</u> | <u>\$325,361</u> | <u>\$663,063</u> |

During 2014, 2013 and 2012, the following licensees or customers accounted for 10% or more of total revenues:

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|-------------|
| Samsung(a) | 33% | —% | 15% |
| Pegatron Corporation(b) | 18% | 30% | < 10% |
| Intel Mobile Communications GmbH(c) | < 10% | 18% | < 10% |
| Sony Corporation of America | < 10% | 12% | < 10% |
| Intel Corporation | —% | —% | 57% |

(a) 2014 revenues include \$86.2 million of past patent royalties.

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

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

At December 31, 2014, 2013 and 2012, we held \$278.1 million, \$215.9 million and \$185.4 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, 2014, 2013 and 2012, we held less than \$0.1 million of property and equipment, net of accumulated depreciation, collectively, in Canada, the United Kingdom and South Korea.

5. PROPERTY AND EQUIPMENT

| | December 31, | |
|---------------------------------------|------------------|-----------------|
| | 2014 | 2013 |
| Computer equipment and software | \$ 27,678 | \$ 25,368 |
| Engineering and test equipment | 11,970 | 11,631 |
| Building and improvements | 11,076 | 7,902 |
| Leasehold improvements | 7,406 | 6,477 |
| Furniture and fixtures | 1,292 | 1,166 |
| Land | 695 | 695 |
| Property and equipment, gross | 60,117 | 53,239 |
| Less: accumulated depreciation | (47,571) | (43,704) |
| Property and equipment, net | <u>\$ 12,546</u> | <u>\$ 9,535</u> |

Depreciation expense was \$3.9 million, \$3.6 million and \$3.6 million in 2014, 2013 and 2012, respectively. Depreciation expense included depreciation of computer software costs of \$1.4 million, \$1.0 million and \$1.0 million in 2014, 2013 and 2012, respectively. Accumulated depreciation related to computer software costs was \$14.3 million and \$12.7 million at December 31, 2014 and 2013, respectively. The net book value of our computer software was \$2.2 million and \$2.5 million at December 31, 2014 and 2013, respectively.

6. OBLIGATIONS

| | December 31, | |
|---|------------------|------------------|
| | 2014 | 2013 |
| 2.50% Senior Convertible Notes due 2016 | \$230,000 | \$230,000 |
| Unamortized interest discount | (12,165) | (21,187) |
| Total debt obligations | 217,835 | 208,813 |
| Less: Current portion | — | — |
| Long-term debt obligations | <u>\$217,835</u> | <u>\$208,813</u> |

There were no capital leases remaining at December 31, 2014 and December 31, 2013.

Maturities of principal of the long-term debt obligations of the company as of December 31, 2014 are as follows (in thousands):

| | |
|------------------|------------------|
| 2015 | \$ — |
| 2016 | 230,000 |
| 2017 | — |
| 2018 | — |
| 2019 | — |
| Thereafter | — |
| | <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, 2014, 2013 and 2012 related to the contractual interest coupon, accretion of the debt discount and the amortization of financing costs (in thousands).

| | For the Year Ended December 31, | | |
|---------------------------------------|--|-----------------|-----------------|
| | 2014 | 2013 | 2012 |
| Contractual coupon interest | \$ 5,750 | \$ 5,750 | \$ 5,750 |
| Accretion of debt discount | 9,022 | 8,423 | 7,862 |
| Amortization of financing costs | 1,303 | 1,303 | 1,303 |
| Total | <u>\$16,075</u> | <u>\$15,476</u> | <u>\$14,915</u> |

7. COMMITMENTS

Leases

We have entered into various operating lease agreements. Total rent expense, primarily for office space, was \$3.2 million, \$3.3 million and \$3.4 million in 2014, 2013 and 2012, respectively. Minimum future rental payments for operating leases as of December 31, 2014 are as follows (in thousands):

| | |
|------------|---------|
| 2015 | \$3,121 |
| 2016 | 2,852 |
| 2017 | 2,298 |
| 2018 | 2,027 |
| 2019 | 1,966 |
| Thereafter | 2,753 |

8. LITIGATION AND LEGAL PROCEEDINGS

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

USITC Proceeding (337-TA-868)

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

On February 6, 2013, the Administrative Law Judge ("ALJ") overseeing the proceeding issued an order setting a target date of June 4, 2014 for the Commission's final determination in the investigation, with the ALJ's Initial Determination on alleged violation due on February 4, 2014. On September 26, 2013, the ALJ issued an order modifying the procedural schedule and extending the target date for completion of the investigation. The ALJ set new dates for the evidentiary hearing of February 10 to February 21, 2014, moved the due date for the ALJ's Final Initial Determination ("ID") to April 25, 2014 and extended the target date for the Commission's completion of the investigation to August 25, 2014. On October 18, 2013, the ALJ issued an order, in light of the 16-day federal government shutdown, modifying the date for the ALJ's Final ID and extending the target date for completion of the investigation. The date for the ALJ's Final ID and the target date for the Commission's final determination were set for May 12, 2014 and September 10, 2014, respectively. The trial dates were unchanged, and the trial commenced on February 10, 2014 and ended on February 20, 2014. On April 18, 2014, the ALJ issued an initial determination extending the target date for completion of the investigation by approximately one

month to October 14, 2014, thereby moving the due date for the ALJ's final initial determination to June 13, 2014. On May 16, 2014, the Commission determined not to review the ALJ's initial determination extending the target date.

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

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

On March 13, 2013, InterDigital moved to amend the USITC complaint and notice of investigation to assert allegations of infringement of recently-issued U.S. Patent No. 8,380,244 (the "'244 patent") by all 337-TA-868 Respondents. On March 25, 2013, the 337-TA-868 Respondents opposed InterDigital's motion. On May 10, 2013, the ALJ denied InterDigital's motion to amend the complaint. On July 18, 2013, Samsung moved to stay the 337-TA-868 investigation pending disposition by the Commission of the 337-TA-800 investigation, which was scheduled to be completed by December 19, 2013. InterDigital opposed that motion on July 29, 2013. On August 8, 2013, the ALJ denied the motion. On June 19, 2013, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of over 30 collective claims from five of the seven asserted patents. The ALJ granted the motion on June 24, 2013. On August 22, 2013, InterDigital also filed an unopposed motion to partially terminate the investigation due to InterDigital's withdrawal of eight collective claims from the other two asserted patents. The ALJ granted the motion on August 26, 2013.

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

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

On December 12, 2013, Samsung moved for partial summary determination that, in view of the Commission's claim construction and determination in the 337-TA-800 investigation, it does not infringe the asserted claims of U.S. Patent No. 8,009,636 (the "'636 patent"), and the '830, '966, and '847 patents. Huawei and ZTE joined Samsung's motion on December 12, 2013 and December 13, 2013, respectively. InterDigital opposed Samsung's motion on January 2, 2014. On February 5, 2014, the ALJ granted in part and denied in part

the motion. Specifically, the ALJ granted the motion with respect to the '830 and '636 patents, and denied the motion with respect to the '966 and '847 patents. On February 14, 2014, InterDigital petitioned the USITC for review of the initial determination terminating the 337-TA-868 investigation as to the '830 and '636 Patents. On March 5, 2014, the Commission denied this petition. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the Federal Circuit.

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

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

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

On December 12, 2013, Samsung moved to terminate the investigation as to U.S. Patent No. 7,616,970 (the "'970 patent") in view of the USITC's determination in the 337-TA-800 investigation that the asserted claims of the '970 patent are not valid. On January 6, 2014, InterDigital responded to this motion and stated that, subject to its objection to the Commission's final determination in the 337-TA-800 investigation and reserving its right to appeal that determination, InterDigital acquiesced to the termination of the 337-TA-868 investigation as to the '970 patent. On January 6, 2014, the Commission's Office of Unfair Import Investigations responded in support of the underlying legal analysis but stated that 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. On April 14, 2014, InterDigital filed a petition for review of the Commission's determination with the Federal Circuit.

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

On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing disputes (see "Huawei Arbitration" below). Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties except the action filed by Huawei in China to set a FRAND rate for the licensing of InterDigital's Chinese standards-essential patents (discussed below under "Huawei China Proceedings"), the decision in which InterDigital is permitted to further appeal. On January 2, 2014, InterDigital and Huawei filed a joint motion to

terminate the 337-TA-868 investigation as to the Huawei Respondents on the basis of this confidential settlement agreement between the parties. On the same day, InterDigital and Huawei also moved to stay the procedural schedule with respect to the Huawei Respondents pending the parties' motion to terminate. On January 6, 2014, the ALJ granted the motion to stay, and on January 16, 2014, the ALJ granted the joint motion to terminate the 337-TA-868 investigation as to the Huawei Respondents. On February 12, 2014, the USITC determined not to review the initial determination terminating the Huawei Respondents from the 337-TA-868 investigation.

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

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

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

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

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

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of the ALJ's conclusion that claim 16 of the '151 patent is invalid; that none of the asserted patents are infringed; that InterDigital did not establish the "technical prong" of the domestic industry requirement; and that the

effective date of any exclusion order should be delayed by six months. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID's finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues. On July 8, 2014, oppositions to the petitions were filed.

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

On August 8, 2014, the Commission determined to review in part the June 13, 2014 ID and terminated the investigation with a finding of no violation. With respect to the '966 and '847 patents, the Commission determined not to review the ID's construction of "successively transmitted signals"/"successively transmits signals," and determined not to review the ID's conclusion that, based on that construction, the accused products do not infringe and the domestic industry products do not practice the asserted claims of the '966 and '847 patents. The Commission also determined not to review the ID's conclusion that claim 3 of the '847 patent is not invalid for lack of written description. With respect to the '151 patent, the Commission determined not to review the ID's conclusion that the accused products do not infringe and the domestic industry products do not practice the "same physical downlink control channel" limitation of independent claims 1 and 16. The Commission also determined not to review the ID's conclusion that claim 16 is invalid for indefiniteness. The Commission further determined to review the ID's construction of "and to" in claim 16 of the '151 patent, affording that term its plain and ordinary meaning. In view of that that construction, the Commission reversed the ID's conclusion, which was based on the reversed claim construction, that claims 16-21 and 23-24 are not infringed. The Commission also determined to review the ID's infringement analysis of the term "and if so" in claim 1 and, on review, took no position concerning whether the accused products practice the determining steps in sequence as required in claims 1-6 and 8-9. Except as noted above concerning whether the domestic industry products practice the asserted patents, the Commission took no position on the remaining domestic industry-related issues raised in the petitions for review. In addition, the Commission took no position on the FRAND issues raised by Respondents.

On October 10, 2014, InterDigital filed a petition for review with the Federal Circuit, appealing the adverse determinations in the Commission's August 8, 2014 final determination. On November 5, 2014, MMO and Nokia filed a motion for leave to intervene in the appeal. On November 6, 2014, ZTE also filed a motion for leave to intervene. The Federal Circuit granted both of these motions on November 7, 2014.

On December 29, 2014, InterDigital and the USITC filed a joint unopposed motion to stay the appeal pending the Federal Circuit's final disposition in the appeal of the 337-TA- 800 investigation (described below). InterDigital also notified the court that it would not pursue its appeal of the Commission's determination as it relates to the '151 patent. The appeal is thus directed only to the '966 and '847 patents. The court granted the motion to stay on January 9, 2015.

Related Delaware District Court Proceedings

On January 2, 2013, the Company's wholly owned subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc. and InterDigital Holdings, Inc. filed four related district court actions in the United States District Court for the District of Delaware (the "Delaware District Court") against the 337-TA-868 Respondents. These complaints allege that each of the defendants infringes the

same patents with respect to the same products alleged in the complaint filed by InterDigital in USITC Proceeding (337-TA-868). The complaints seek permanent injunctions and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement, and recovery of reasonable attorneys' fees and costs.

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

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

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

On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of the recently issued '244 patent. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint. Samsung asserted a counterclaim for breach of contract. Samsung seeks a judgment that InterDigital has breached its purported contractual commitments, a judgment that the asserted patents are not infringed, are invalid, and unenforceable, an order that InterDigital specifically perform its purported contractual commitments, damages in an amount to be determined, attorneys' fees, costs and expenses, and any other relief as the court may deem just and proper.

On March 21, 2013, pursuant to stipulation, the Delaware District Court granted InterDigital leave to file an amended complaint against Huawei and ZTE, respectively, to assert allegations of infringement of the '244 patent. On March 22, 2013, Huawei and ZTE filed their respective answers and counterclaims to InterDigital's

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

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

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

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

On February 11, 2014, the Delaware District Court judge granted an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims. On January 5, 2015, the Delaware District Court entered a scheduling order that contained a schedule related to damages and FRAND-related issues. Accordingly, trials related to damages and FRAND-related issues are tentatively scheduled for March 21, 2016 with ZTE and April 11, 2016 with MMO.

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

weight by the USITC and its ALJs, as well as other courts, at their discretion. The court also found claim 16 of the asserted '151 patent to be invalid as indefinite. InterDigital can appeal the court's indefiniteness ruling as to claim 16 upon issuance of judgment by the court.

On May 29, 2014, the court issued an order construing the claim term "circuit," which appears in the '847 patent, adopting a construction that InterDigital agreed would be acceptable to it and rejecting narrowing limitations proposed by ZTE. On June 23, 2014, the court held a supplemental claim construction hearing on the term "synchronized to [a/the] pilot signal," which appears in the '847 patent. The parties submitted supplemental letter briefs concerning construction of "synchronized to [a/the] pilot signal" on June 27 and 30, 2014. On August 8, 2014, the court issued a further claim construction ruling construing the term "synchronized to [a/the] pilot signal" to mean "establish a timing reference with a pilot signal." On September 2, 2014, Nokia and MMO moved the court for further construction of the term "logical connection" in the '244 patent. InterDigital opposed that request. On September 22, 2014, the court denied the request of Nokia and MMO, declining to construe the term further.

On June 10, 2014, InterDigital filed a motion seeking summary judgment (1) that the asserted '151 patent is not unenforceable by reason of inequitable conduct; (2) that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art; and (3) that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement or written description. Also on June 10, 2014, Nokia and ZTE filed motions seeking summary judgment (1) that the asserted claims of the '151 patent are not infringed; (2) that the asserted claims of the '966 and '847 patents are not infringed; and (3) that the asserted claims of the '244 patent are not infringed and are invalid for lack of written description. On June 27, 2014, the parties filed oppositions to the pending motions for summary judgment. On July 10 and 11, 2014, the parties filed replies in further support of their respective motions for summary judgment. On August 28, 2014, the court (1) granted in part InterDigital's motion for summary judgment that the asserted '151 patent is not unenforceable by reason of inequitable conduct, holding that only one of the references forming the basis of defendants' allegations would remain in issue, (2) denied InterDigital's motion for summary judgment that the asserted claims of the '244 patent are not anticipated or obvious in view of the prior art, (3) granted InterDigital's motion for summary judgment that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement, but denied the motion as to written description, and (4) denied each of defendants' motions for summary judgment.

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

On July 1, 2014, InterDigital moved under Federal Rule of Civil Procedure 25(c) to join MMO into the case. On July 22, 2014 defendants Nokia Corp. and MMO filed a cross-motion seeking to substitute MMO for Nokia Corp. in this case. On August 28, 2014, the court granted InterDigital's motion to join MMO into the case, and granted in part and denied in part the cross-motion of Nokia Corp. and MMO to substitute, permitting MMO to enter the case as a defendant but declining to dismiss Nokia Corp. from the action.

On July 3, 2014, Nokia filed a motion to stay this Delaware action in view of the pending appeal of the 337-TA-800 investigation and the ID issued in the 337-TA-868 investigation. On July 8, 2014, InterDigital opposed Nokia's motion, and on July 9, 2014, Nokia filed a reply in further support of its motion. Following a hearing held on July 10, 2014, the Delaware District Court denied Nokia's motion to stay the case.

On August 29, 2014, a final pre-trial conference was held for the Nokia and MMO trial. On that same day the Delaware District Court continued the trial as to Nokia and MMO to a date to be determined. On September 4, 2014, the defendants requested that the court permit the Nokia and MMO trial to proceed in place

of the ZTE trial, scheduled to commence on October 20, 2014. InterDigital opposed that request. On September 16, 2014, the court denied defendants' request. On September 26, 2014, the Delaware District Court re-scheduled the Nokia and MMO trial to commence on March 9, 2015.

The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent is required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The court issued formal judgment to this effect on October 29, 2014. As noted above, the Delaware District Court judge previously bifurcated issues relating to damages, FRAND-related affirmative defenses, and FRAND-related counterclaims, and trials related to damages and FRAND-related issues are tentatively scheduled for March 21, 2016 with ZTE and April 11, 2016 with MMO.

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

On December 12, 2014, MMO, Nokia Corp., and Nokia Inc. filed a motion for leave to file additional claim construction briefs relating to three claim terms of the '244 patent. On January 5, 2015, InterDigital opposed defendants' motion, and on January 15, 2015, defendants filed a reply in further support of their motion. On January 21, 2015, the court granted defendants' motion as to two of the claim terms, permitting additional briefing in connection with those terms, and denied the motion as to the third.

On January 5, 2015, the court issued an order scheduling a claim construction hearing on February 27, 2015 to address the further construction of certain claim terms of the '151 patent. On January 21, 2015 the court ordered that the scope of the two claim terms of the '244 patent will also be addressed at the hearing on February 27, 2015. In its January 5, 2015 order, the court also scheduled the infringement trials against ZTE as to the '151 patent for April 20, 2015, and against Nokia and MMO as to the '151 and '244 patents for April 27, 2015. In addition, the order scheduled trial involving Nokia, MMO and InterDigital on the issue of inequitable conduct on May 6, 2015.

Huawei Arbitration

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

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People's Court in China on December 5, 2011. The first complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.). This first complaint alleges that InterDigital had a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. Huawei sought relief in the amount of 20.0 million RMB (approximately \$3.2 million 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) in damages related to attorneys' fees and other charges, without disclosing a factual basis for its determination of damages. The court dismissed Huawei's remaining allegations, including Huawei's claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies. With respect to the second complaint, the court determined that, despite the fact that the FRAND requirement originates from ETSI's Intellectual Property Rights policy, which refers to French law, InterDigital's license offers to Huawei should be evaluated under Chinese law. Under Chinese law, the court concluded that the offers did not comply with FRAND. The court further ruled that the royalties to be paid by Huawei for InterDigital's 2G, 3G and 4G essential Chinese patents under Chinese law should not exceed 0.019% of the actual sales price of each Huawei product, without explanation as to how it arrived at this calculation.

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

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

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

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

The SPC held a hearing on October 31, 2014, regarding whether to grant a retrial and requested that both parties provide additional information regarding the facts and legal theories underlying the case. The SPC may convene a further hearing before deciding whether to grant a retrial. If the retrial is granted, the SPC will likely schedule one or more additional hearings before it issues a decision on the merits of the case.

Investigation by National Development and Reform Commission of China

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

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

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

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

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

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

On January 20, 2012, LG filed a motion to terminate the investigation as it relates to the LG entities, alleging that there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012. On July 6, 2012, the Commission determined not to review the ALJ's order, and the investigation was terminated as to LG. On August 27, 2012, InterDigital filed a petition for review of the ALJ's order in the Federal Circuit. On September 14, 2012, the Federal Circuit granted LG's motion to intervene. On October 23, 2012, InterDigital filed its opening brief. Responsive briefs were filed on January 22, 2013, and InterDigital's reply brief was filed on February 8, 2013. The Federal Circuit heard oral argument on April 4, 2013. On June 7, 2013, the Federal Circuit reversed the termination of the investigation as to LG, finding that LG's request for termination and arbitration was wholly groundless, and remanded to the Commission for further proceedings. On July 19, 2013, LG filed a petition for rehearing and rehearing en banc. On October 3, 2013, the Federal Circuit denied LG's petition for rehearing and rehearing en banc and issued its mandate on October 10, 2013. LG filed a petition for a writ of certiorari with the U.S. Supreme Court seeking reversal of the Federal Circuit's judgment on December 31, 2013. On January 13, 2014, InterDigital filed a motion to terminate the 337-TA-800 investigation as to the LG Respondents. No opposition to InterDigital's motion was filed. On February 12, 2014, the Commission granted InterDigital's motion to terminate the investigation as to LG. In terminating the 337-TA-800 investigation, the Commission adopted the ALJ's determination that the '830, '636 and '406 patents and U.S. Patent No. 7,706,332 (the "'332 patent'") are not invalid. The Commission declined to take a position regarding InterDigital's domestic industry or FRAND issues. On April 21, 2014, the Supreme Court granted LG's petition for certiorari, vacating the underlying Federal Circuit decision and remanding the case to the Federal Circuit with instructions to dismiss the case as moot (in light of InterDigital's decision to terminate the 337-TA-800 investigation as to LG).

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

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

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

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

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

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. InterDigital requested review of certain limited erroneous claim constructions and the ALJ's resulting erroneous determinations that the '830, '636, '406 and '332 patents were not infringed and that the claims of the '970 patent are invalid. The 337-TA-800 Respondents requested review of the ALJ's determination that a domestic industry exists as to each of the asserted patents. In addition, the 337-TA-800 Respondents requested review of a number of alleged claims construction errors and the impact of such alleged errors on the infringement and validity of the patents listed above, as well as review of the ALJ's determination

that Respondents are not licensed under certain of the asserted patents through a third party. Responses to the various petitions were filed on July 23, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety and requested limited briefing on the issue of whether licensing-based domestic industry requires proof of “Articles protected by the patent.” Opening briefs were submitted on September 27, 2013 and replies were submitted on October 21, 2013 after the end of the government shutdown. The target date for the Commission to issue its Final Determination, which was October 28, 2013 prior to the federal government shutdown, was extended to November 13, 2013 by operation of the notice issued by the Commission on September 30, 2013 tolling all schedules and deadlines during the pendency of the federal government shutdown. On October 23, 2013, the Commission issued a Notice further extending the target date for the 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. On January 17, 2014, the Nokia and ZTE Respondents moved for leave to intervene in the appeal. On January 30, 2014, the court granted these motions. On July 2, 2014, Nokia Corporation, Nokia Inc., and MMO filed an unopposed motion to substitute MMO for Nokia Corporation as intervenor. The court granted this motion on July 11, 2014.

On April 7, 2014, InterDigital filed its opening appellate brief. The USITC and intervenors Nokia and ZTE filed responsive briefs on July 1, 2014. InterDigital filed its reply brief on August 8, 2014. Oral argument occurred on November 7, 2014. On February 18, 2015, the Federal Circuit issued a decision affirming the USITC’s determinations that the claims of the ’830, ’636, ’406 and ’332 patents were not infringed, that the claims of the ’970 patent are invalid, and that the Respondents did not violate Section 337.

Related Delaware District Court Proceeding

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

ZTE China Proceedings

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People’s Court in China on April 3, 2014. The first complaint names as defendants the Company’s wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to

comply with its FRAND obligations for the licensing of its Chinese standards-essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital's standards-essential Chinese patents to ZTE and also seeks compensation for its litigation costs associated with this matter. The second complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, Inc. This complaint alleges that InterDigital has a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its dominant market position in violation of the Chinese Anti-Monopoly Law by engaging in allegedly unlawful practices, including excessively high pricing, tying, discriminatory treatment, and imposing unreasonable trading conditions. ZTE seeks relief in the amount of 20.0 million RMB (approximately \$3.3 million based on the exchange rate as of December 31, 2014), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

On August 7, 2014, InterDigital filed petitions challenging the jurisdiction of the Shenzhen Intermediate People's Court to hear the actions. On August 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the anti-monopoly law case. InterDigital filed an appeal of this decision on September 26, 2014. On September 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the FRAND case, and InterDigital filed an appeal of that decision on October 27, 2014. On December 18, 2014, the Guangdong High Court issued decisions on both appeals upholding the Shenzhen Intermediate Court's decisions that it had jurisdiction to hear these cases. The Shenzhen Court has not yet set trial dates for the anti-monopoly law or FRAND cases. InterDigital filed a petition for retrial with the Supreme People's Court regarding its jurisdictional challenges to both cases on February 10, 2015.

The Company has not recorded any accrual at December 31, 2014 for contingent losses associated with this matter, as the matter is still in a preliminary stage.

LG Arbitration and Related Delaware Chancery Court Proceeding

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

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

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

On June 9, 2014, the arbitration tribunal lifted the temporary stay at the request of the parties. The final evidentiary hearing is scheduled to take place July 20-23, 2015.

Also on June 9, 2014, LG filed an action in the Court of Chancery of the State of Delaware seeking a declaration that InterDigital breached a non-disclosure agreement between the parties by submitting certain evidence regarding the parties' licensing communications to the arbitration tribunal; LG also seeks related injunctive relief. On June 23, 2014, InterDigital filed a motion to dismiss LG's complaint. The court held a hearing on InterDigital's motion on July 16, 2014, and on August 20, 2014 the court dismissed the action without prejudice. On August 28, 2014, LG filed a notice of appeal to the Delaware Supreme Court. On October 13, 2014, LG filed its opening appeal brief, on November 12, 2014, InterDigital filed its answering brief and on December 1, 2014, LG filed its reply brief. The Delaware Supreme Court will hear oral argument on LG's appeal on March 11, 2015.

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.

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

On March 5, 2014, the ALJ issued an order establishing August 28, 2015 as the target date for completion of the investigation (which order the Commission determined not to review on April 1, 2014), and a separate order setting the hearing in the matter for January 26-30, 2015.

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

On October 6, 2014, respondents filed a motion for summary determination that the accused products do not infringe the claims of the ‘966 and ‘847 patents, and for termination of the investigation. InterDigital opposed respondents’ motion on October 16, 2014, and on November 20, 2014, the ALJ denied respondents’ motion.

On November 17, 2014, InterDigital filed a motion for summary determination that the accused products meet certain claim elements of the '966 and '847 patents. On December 1, 2014, respondents filed an opposition to this motion, and on December 22, 2014, the ALJ denied InterDigital's motion.

On December 1, 2014, InterDigital moved for an order substituting InterDigital Communications Corporation with InterDigital Communications, Inc. Respondents opposed the motion on December 11, 2014. The ALJ granted the motion on January 14, 2015. On January 22, 2015, respondents filed a petition for review of the ALJ's order. InterDigital opposed the petition for review on January 29, 2015. The Commission has not yet ruled on respondents' petition.

The evidentiary hearing in the remand proceeding was held January 26—28, 2015. Pursuant to the procedural schedule in issue, the ALJ's initial determination is due no later than April 27, 2015, and the Commission must determine whether to review the ALJ's initial determination no later than June 26, 2015. If the Commission determines to review the initial determination, its final determination will be due no later than August 28, 2015.

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).

Arbitration with Arima Communications Corporation

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

After InterDigital submitted an application for fees and costs, on July 1, 2014, the panel issued a final award, which was subsequently modified on July 14, 2014, resulting in an award of approximately \$23.6 million. On July 2, 2014, InterDigital commenced an action in the Delaware District Court to confirm the arbitration award, and, on July 28, 2014, InterDigital filed an amended petition in the Delaware District Court to reflect the revised award of approximately \$23.6 million (which will continue to accrue interest until payment by Arima). On August 21, 2014, Arima filed a cross-petition to vacate, or in the alternative to modify, the arbitration award. The parties have fully briefed their respective petitions, and on December 11, 2014, the parties submitted a joint status report to the court. The parties are awaiting a decision from the court.

On September 10, 2014, InterDigital filed a petition for recognition of its arbitration award against Arima in the Shilin District Court in Taiwan. Arima filed an opposition to that petition for recognition on January 14, 2015, including a motion to stay the enforcement proceeding, and InterDigital filed its brief in opposition to the motion to stay the proceeding on February 2, 2015. The petition is under consideration by the Taiwan court.

The Company will recognize any related revenue in the period in which collectability is reasonably assured.

Investigation by Taiwan Fair Trade Commission

On December 6, 2013, InterDigital received notice from the Taiwan Fair Trade Commission ("TFTC") that the TFTC had initiated an investigation to examine alleged anti-competitive behavior under Taiwan's Fair Trade Act (FTA). Companies found to violate the FTA may be ordered to cease and rectify the unlawful conduct, take other necessary corrective action, and/or pay an administrative fine. InterDigital is fully cooperating with the TFTC's investigation.

Arima Taiwan Proceedings

On December 18, 2014, InterDigital was served with a complaint filed by Arima in Taiwan's Intellectual Property Court on July 25, 2014. The complaint names as defendants InterDigital's wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. The complaint alleges that InterDigital abused its dominant position by forcing Arima to sign its patent license agreement with InterDigital in 2005, setting an unreasonably high and discriminatory royalty rate, and including other abusive and discriminatory provisions in the license agreement, in violation of the Fair Trade Act of Taiwan. The complaint seeks damages in the amount of NTD 100,000,000 (approximately \$3.2 million based on the exchange rate as of December 31, 2014), and that this amount be trebled as an intentional violation. On December 18, 2014, InterDigital was also served with a motion filed by Arima on July 25, 2014 to enjoin its wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. from enforcing the terms of their patent license agreement with Arima. On December 23, 2014, there was an initial hearing on these matters. InterDigital filed jurisdictional objections and an opposition to the injunction motion on January 23, 2015. On February 3, 2015, the Intellectual Property Court held a hearing on the jurisdictional issues and the injunction motion, during which Arima submitted a supplemental brief on jurisdiction. The court set of deadline of March 3, 2015 for Arima to submit its next brief, and March 19, 2015 for InterDigital to submit its response to Arima's brief. Another hearing on those issues has been set for March 24, 2015.

Arima China Proceeding

On September 22, 2014, InterDigital was served with a complaint filed by Arima and Arima Communications (Jiangsu) Co., Ltd. in the Jiangsu High People's Court in China on July 9, 2014. The complaint names as defendants InterDigital, Inc., InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. The complaint alleges that InterDigital has abused its dominant market position and violated China's anti-monopoly laws by licensing its patents at excessively high prices, engaging in discriminatory treatment, and imposing unreasonable trading conditions. Arima seeks relief in the amount of 120.0 million RMB (approximately \$19.5 million based on the exchange rate as of December 31, 2014), and an order requiring InterDigital to license all of its patents to Arima on a fair, reasonable and non-discriminatory basis. On October 22, 2014, InterDigital filed a petition challenging the jurisdiction of the Jiangsu High People's Court to hear the action. On December 11, 2014, Arima served an opposition to this jurisdictional challenge, and on January 9, 2015, InterDigital filed its reply to Arima's opposition. On January 16, 2015, the court held a hearing on the jurisdictional petition. On February 2, 2015, InterDigital filed a post-hearing statement on the jurisdictional challenge, along with a rebuttal opinion regarding Arima's evidence related to the jurisdictional challenge. The court's decision on the jurisdictional issue is pending.

The Company has not recorded any accrual at December 31, 2014 for contingent losses associated with this matter, as the matter is still in a preliminary stage.

Pegatron Civil Suit

We recently learned that on or about February 3, 2015, Pegatron Corporation, one of our licensees, filed a civil suit in Taiwan Intellectual Property Court against InterDigital, Inc. and certain of its subsidiaries alleging breach of the Taiwan Fair Trade Act. We have not yet been served with or otherwise received a copy of the complaint.

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.

9. RELATED PARTY TRANSACTIONS

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. During 2014, we sold approximately 1.4 million of such shares, which had been initially valued at approximately \$0.2 million. In 2014 and 2013, we paid zero and less than \$0.1 million, respectively, 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 2014 and 2013, we paid zero to DDD in relation to the development agreement previously discussed.

10. COMPENSATION PLANS AND PROGRAMS

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 under our long-term compensation program (“LTCP”). Our LTCP typically includes annual grants with a three-year vesting period; as a result, in any one year, we are typically accounting for three active LTCP cycles. 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 below. However, our Board of Directors has the right to authorize the issuance of treasury shares to satisfy such obligations in the future.

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 December 31, 2014, no further grants were permitted under any previously existing stock plans (the “Pre-existing Plans”). The company’s shareholders re-approved the material terms of the 2009 Plan on June 12, 2014. 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, 2013 | 2,005 |
| RSUs granted(a) | (840) |
| Options granted | (140) |
| Options expired and RSUs canceled | 420 |
| Balance at December 31, 2014 | <u>1,445</u> |

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

RSUs and Restricted Stock

Under the 2009 Plan, we may issue 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 2014 and 2013, we granted approximately 0.6 million and 0.9 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, 2014 and 2013, we had unrecognized compensation cost related to share-based awards of \$17.9 million and \$11.2 million, respectively. For grants made in 2014, 2013 and 2012 that cliff vest, we expect to amortize the associated unrecognized compensation cost at December 31, 2014 on a straight-line basis over a three-year period.

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 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):

| | <u>Number of Unvested RSUs</u> | <u>Weighted Average Per Share Grant Date Fair Value</u> |
|---|--|---|
| Balance at December 31, 2013 | 1,632 | \$42.04 |
| Granted* | 840 | 34.42 |
| Forfeited* | (312) | 45.01 |
| Vested* | <u>(258)</u> | <u>31.29</u> |
| Balance at December 31, 2014 | <u>1,902</u> | <u>\$35.73</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. Granted amounts include performance-based RSU awards at their maximum potential payout level of 200%.

The total vest date fair value of the RSUs that vested in 2014, 2013 and 2012 was \$7.7 million, \$6.5 million and \$12.9 million, respectively. The weighted average per share grant date fair value in 2014, 2013 and 2012 was \$31.29, \$42.34 and \$39.35, 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.

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 3.0 million shares of common stock pursuant to incentive stock options. 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 and 2014, both incentive and non-qualified stock options were granted pursuant to the 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, 2013 | 245 | \$22.61 |
| Granted | 140 | 30.69 |
| Canceled | (28) | 38.78 |
| Exercised | <u>(21)</u> | <u>20.13</u> |
| Balance at December 31, 2014 | <u>336</u> | <u>\$24.90</u> |

The weighted average remaining contractual life of our outstanding options was 15.12 years as of December 31, 2014. 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 \$8.00 and \$11.63. The total intrinsic value of stock options exercised during the years ended December 31, 2014, 2013 and 2012 was \$0.3 million, \$1.0 million and \$2.8 million, respectively. The total intrinsic value of our options outstanding at December 31, 2014 was \$9.4 million. In 2014, we recorded cash received from the exercise of options of \$0.4 million. Upon option exercise, we issued new shares of stock.

At both December 31, 2014 and 2013, we had approximately 0.3 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 \$8.4 million and \$1.7 million, respectively, if they had been fully exercised on those dates.

401(k)

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 2014, 2013 and 2012. At its discretion, the company may also make a profit-sharing contribution to our employees’ 401(k) accounts.

11. TAXES

Our income tax provision consists of the following components for 2014, 2013 and 2012 (in thousands):

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--------------------------------------|------------------|------------------|------------------|
| Current | | | |
| Federal | \$ 49,049 | \$ (6,093) | \$ 93,441 |
| State | 2,499 | 225 | 44 |
| Foreign source withholding tax | <u>70,703</u> | <u>23,269</u> | <u>4,173</u> |
| | <u>122,251</u> | <u>17,401</u> | <u>97,658</u> |
| Deferred | | | |
| Federal | (121,937) | (18,727) | 22,209 |
| State | (437) | 2,614 | (4,494) |
| Foreign source withholding tax | <u>52,231</u> | <u>24,548</u> | <u>21,457</u> |
| | <u>(70,143)</u> | <u>8,435</u> | <u>39,172</u> |
| Total | <u>\$ 52,108</u> | <u>\$ 25,836</u> | <u>\$136,830</u> |

The deferred tax assets and liabilities are comprised of the following components at December 31, 2014 and 2013 (in thousands):

| | 2014 | | | |
|---------------------------------|------------------|-----------------|-----------------|------------------|
| | <u>Federal</u> | <u>State</u> | <u>Foreign</u> | <u>Total</u> |
| Net operating losses | \$ — | \$ 71,837 | \$ 4 | \$ 71,841 |
| Deferred revenue, net | 50,575 | 41 | 22,657 | 73,273 |
| Stock compensation | 10,567 | 1,751 | — | 12,318 |
| Patent amortization | 18,337 | — | — | 18,337 |
| Depreciation | 1,110 | 29 | — | 1,139 |
| Other-than-temporary impairment | 10,010 | 154 | — | 10,164 |
| Other accrued liabilities | 1,097 | (28) | — | 1,069 |
| Other employee benefits | 8,784 | 668 | — | 9,452 |
| | <u>100,480</u> | <u>74,452</u> | <u>22,661</u> | <u>197,593</u> |
| Less: valuation allowance | — | (71,731) | — | (71,731) |
| Net deferred tax asset | <u>\$100,480</u> | <u>\$ 2,721</u> | <u>\$22,661</u> | <u>\$125,862</u> |

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

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, 2014, 2013 and 2012 (in thousands):

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------|--------------|--------------|
| Tax at U.S. statutory rate | 35.0% | 35.0% | 35.0% |
| State tax provision | 0.1% | 4.1% | (1.1)% |
| Change in federal and state valuation allowance | —% | 0.4% | (0.5)% |
| Research and development tax credits | (4.7)% | —% | —% |
| Uncertain tax positions | 0.9% | —% | —% |
| Permanent differences | 1.5% | 3.5% | 0.1% |
| Settlement with taxing authorities | 1.1% | —% | —% |
| Other | 0.1% | (1.1)% | 0.1% |
| Total tax provision | <u>34.0%</u> | <u>41.9%</u> | <u>33.6%</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 we have maintained a near full valuation allowance against our state deferred tax assets as of December 31, 2014. All other deferred tax assets are fully benefited.

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 2014, we realized \$1.2 million of tax shortfalls and accordingly recorded a corresponding debit to additional paid-in capital. We had sufficient windfall benefits previously recorded in additional paid-in capital to offset the shortfall in the current year. During 2013 and 2012, we realized \$0.8 million and \$0.9 million, respectively, of such excess tax benefits for federal purposes, and accordingly recorded a corresponding credit to additional paid-in capital. As of both December 31, 2014 and 2013, we had \$12.2 million 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 December 31, 2014, the company had \$1.4 million of unrecognized tax expense. At December 31, 2013 and 2012, the company had zero unrecognized tax benefits. The total amount of unrecognized tax benefits could change 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.

During 2014, we established a reserve of \$0.7 million related to the recognition of a gross benefit for research and development credits. We also recorded \$0.7 million of unrecognized tax benefits related to certain deductions that may not be allowed by the Internal Revenue Code.

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 2012 through 2014 (in thousands):

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|----------------|-------------|-------------|
| Balance as of January 1 | \$ — | \$— | \$— |
| Tax positions related to current year: | | | |
| Additions | 95 | — | — |
| Reductions | — | — | — |
| Tax positions related to prior years: | | | |
| Additions | 1,266 | — | — |
| Reductions | — | — | — |
| Settlements | — | — | — |
| Lapses in statutes of limitations | — | — | — |
| Balance as of December 31 | <u>\$1,361</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 and 2012, we also had zero accrued interest as of the same dates. For certain positions that related to years prior to 2014, we have recorded less than \$0.1 million of accrued interest during 2014.

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 2018. The 2014 return is expected to be filed by September 15, 2015 and the statute of limitations will expire three years from the date it is filed. Specific tax treaty procedures remain open for certain jurisdictions for 2006, 2007 and 2008. 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. The total amount of state net operating losses is \$1.3 billion.

Currently, the company is under audit by the U.S. Internal Revenue Service for the tax year ended December 31, 2010. To date, there have not been any identified issues. The company is also under audit by the State of New York for tax years 2009 through 2012. No other federal, state or foreign audits are in process.

The IRS examination for 2011 was closed in 2014 resulting in no changes. The New York State audit for the years 2002 to 2008 was concluded in 2014 resulting in a \$2.5 million settlement with the state.

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 2014, 2013 and 2012, we paid \$70.7 million, \$23.3 million and \$3.6 million in foreign source withholding taxes, respectively, and applied these payments as credits against our United States federal tax obligation. We previously accrued approximately \$5.7 million of the 2014 foreign source withholding payments and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes.

Between 2006 and 2014, we paid approximately \$239.8 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”). We 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 share repurchase program, which was then expanded in June 2012 to increase the amount of the program from \$100 million to \$200 million (the “2012 Repurchase Program”). Of the \$200 million authorized under the 2012 Repurchase Program, \$106.8 million was utilized prior to the termination of the program in June 2014. In June 2014, our Board of Directors authorized a new \$300 million share repurchase program (the “2014 Repurchase Program”). We may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below sets forth for the periods presented the number of shares repurchased and the dollar value of shares repurchased under the 2009 Repurchase Program, the 2012 Repurchase Program and the 2014 Repurchase Program, in thousands.

| | 2009 Repurchase Program | | 2012 Repurchase Program | | 2014 Repurchase Program | | Total All Programs | |
|----------------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|--------------------|------------------|
| | # of Shares | Value | # of Shares | Value | # of Shares | Value | # of Shares | Value |
| 2014 | — | \$ — | — | \$ — | 3,554 | \$152,625 | 3,554 | \$152,625 |
| 2013 | — | — | 917 | 29,135 | — | — | 917 | 29,135 |
| 2012 | 2,286 | 75,000 | 2,552 | 77,694 | — | — | 4,838 | 152,694 |
| Prior to 2012 | 1,012 | 25,000 | — | — | — | — | 1,012 | 25,000 |
| Total | <u>3,298</u> | <u>\$100,000</u> | <u>3,469</u> | <u>\$106,829</u> | <u>3,554</u> | <u>\$152,625</u> | <u>10,321</u> | <u>\$359,454</u> |

Dividends

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

| | Per Share | Total | Cumulative by Fiscal Year |
|----------------------|---------------|-----------------|---------------------------|
| 2014 | | | |
| First quarter | \$0.10 | \$ 3,954 | \$ 3,954 |
| Second quarter | 0.20 | 8,033 | 11,987 |
| Third quarter | 0.20 | 7,666 | 19,653 |
| Fourth quarter | <u>0.20</u> | <u>7,500</u> | <u>27,153</u> |
| | <u>\$0.70</u> | <u>\$27,153</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 | <u>0.10</u> | <u>4,031</u> | <u>16,383</u> |
| | <u>\$0.40</u> | <u>\$16,383</u> | |

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

Common Stock Warrants

On March 29, 2011 and March 30, 2011, we entered into privately negotiated warrant transactions with Barclays Bank PLC through its agent, Barclays Capital Inc., whereby we sold to Barclays Bank PLC warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.5 million and approximately 0.5 million shares of our common stock, respectively, at a strike price of \$64.0909 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, 2014 and 2013:

| | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|---|--|---------------|--------------|---------------|
| | <u>(In thousands, except per share amounts, unaudited)</u> | | | |
| 2014 | | | | |
| Revenues(a) | \$ 57,844 | \$ 194,234 | \$ 77,622 | \$ 86,121 |
| Net income applicable to InterDigital, Inc.'s common shareholders | \$ (1,861) | \$ 78,901 | \$ 13,512 | \$ 13,790 |
| Net income per common share — basic | \$ (0.05) | \$ 1.95 | \$ 0.34 | \$ 0.37 |
| Net income per common share — diluted | \$ (0.05) | \$ 1.93 | \$ 0.34 | \$ 0.36 |
| 2013 | | | | |
| Revenues(b) | \$ 47,363 | \$ 67,692 | \$ 110,623 | \$ 99,683 |
| Net income applicable to InterDigital, Inc.'s common shareholders(c) | \$(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 |

- (a) In second quarter 2014, we recognized \$119.9 million of past patent royalties primarily due to new patent license agreements.
- (b) 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.
- (c) 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.

14. VARIABLE INTEREST ENTITIES

As further discussed below, we are the primary beneficiary of two variable interest entities. As of December 31, 2014, the combined book values of the assets and liabilities associated with these variable interest entities included in our Consolidated Balance Sheet were \$15.3 million and \$0.4 million, respectively. Assets include \$11.4 million of cash and cash equivalents and \$3.9 million of patents, net. The impact of consolidating these variable interest entities on our Consolidated Statements of Income was not significant.

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 year ended December 31, 2014, we have allocated approximately \$2.9 million of Convida Wireless's net loss to noncontrolling interests held by other parties.

Signal Trust for Wireless Innovation

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

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

InterDigital has committed funding to the Signal Trust to help ensure its successful launch. The company is also 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.

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, 2014. 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, 2014. 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 (2013). Based on this assessment, management determined that, as of December 31, 2014, 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, 2014 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 2014 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 2015 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 80.

(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> |
|--|--|---------------------------------|--|----------------------------------|
| 2014 valuation allowance for deferred tax assets | \$70,492 | \$ 1,187(a) | \$ — | \$71,679 |
| 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 |
| 2014 reserve for uncollectible accounts . . . | \$ 1,750 | \$ (96) | \$ — | \$ 1,654 |
| 2013 reserve for uncollectible accounts . . . | \$ 1,750 | \$ — | \$ — | \$ 1,750 |
| 2012 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 3.1 to InterDigital’s Current Report on Form 8-K dated January 30, 2015). |
| | *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 Quarterly Report on Form 10-Q dated April 28, 2011). |

| <u>Exhibit Number</u> | <u>Exhibit Description</u> |
|---------------------------|---|
| 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)). |
| †*10.20 | 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). |
| †*10.21 | 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). |
| †*10.22 | 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). |
| †*10.23 | 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). |
| †*10.24 | 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). |
| †*10.25 | 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). |
| †*10.26 | 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). |
| †*10.27 | 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). |
| †*10.28 | 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). |
| †*10.29 | Deferred Compensation Plan (Exhibit 10.1 to InterDigital’s Current Report on Form 8-K dated June 18, 2013). |
| Employment-Related Agreements | |
| †*10.30 | 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, S. Douglas Hutcheson, Edward B. Kamins, John A. Kritzmacher, Scott A. McQuilkin, William J. Merritt, James J. Nolan, Kai O. Öistämö, 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). |

| <u>Exhibit Number</u> | <u>Exhibit Description</u> |
|---------------------------|---|
| †*10.31 | 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). |
| †*10.32 | 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). |
| †*10.33 | 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). |
| †*10.34 | 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). |
| †*10.35 | 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). |
| †*10.36 | 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 |
| *10.37 | 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). |
| *10.38 | 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). |
| *10.39 | 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). |
| *10.40 | 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, 2014, filed with the SEC on February 19, 2015, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets at December 31, 2014 and December 31, 2013, (ii) Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012, (iii) Consolidated Shareholders' Equity and Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012, and (v) Notes to Consolidated Financial Statements. |

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- * 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 19, 2015

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 19, 2015

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

Date: February 19, 2015

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

Date: February 19, 2015

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

Date: February 19, 2015

/s/ S. Douglas Hutcheson
S. Douglas Hutcheson,
Director

Date: February 19, 2015

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

Date: February 19, 2015

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

Date: February 19, 2015

/s/ Kai O. Öistämö
Kai O. Öistämö,
Director

Date: February 19, 2015

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

Date: February 19, 2015

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

Date: February 19, 2015

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

Date: February 19, 2015

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

INTERDIGITAL®

InterDigital, Inc.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS To Be Held June 10, 2015

TO THE SHAREHOLDERS OF INTERDIGITAL, INC.:

We are pleased to invite you to attend our 2015 annual meeting of shareholders, which will be held on Wednesday, June 10, 2015, at 11:00 AM Eastern Time. This year's annual meeting will be held as a virtual meeting. You will be able to attend and participate in the annual meeting online via a live webcast by visiting www.virtualshareholdermeeting.com/IDCC. In addition to voting by submitting your proxy prior to the annual meeting, you also will be able to vote your shares electronically during the annual meeting. Further details regarding the virtual meeting are included in the accompanying proxy statement. At the annual meeting, the holders of our outstanding common stock will act on the following matters:

1. Election of the seven director nominees named in the proxy statement, each for a term of one year;
2. Advisory resolution to approve executive compensation;
3. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015; and
4. 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. We also believe that hosting a virtual meeting will enable participation by more of our shareholders in our annual meeting while lowering the cost of conducting the meeting. On or about April 27, 2015, we began mailing our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access our 2015 proxy statement and 2014 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, 2015 proxy statement, 2014 annual report and proxy card.

All holders of record of shares of our common stock (NASDAQ: IDCC) at the close of business on April 14, 2015, are entitled to vote at the annual meeting and at any postponements or adjournments of the annual meeting. Your vote is important. Regardless of whether you plan to attend the annual meeting, 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 at the annual meeting if you decide to attend the virtual meeting through www.virtualshareholdermeeting.com/IDCC. 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, which 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:

The annual meeting will be held as a virtual meeting and begin promptly at 11:00 AM Eastern Time. In order to attend and participate in the annual meeting, you will need to visit www.virtualshareholdermeeting.com/IDCC and follow the instructions that are included in the Notice, on your proxy card or in the instructions accompanying your proxy materials. You will also need the 16-digit code, or control number, provided therein. Online check-in will begin at 10:30 AM Eastern Time. Please allow sufficient time to complete the online check-in process.

By Order of the Board of Directors,



JANNIE K. LAU

Executive Vice President, General Counsel and Secretary

April 27, 2015
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 Wednesday, June 10, 2015, at 11:00 AM Eastern Time, and at any postponements or adjournments of the annual meeting. This year's annual meeting of shareholders will be held as a virtual meeting. You will be able to attend and participate in the annual meeting online via a live webcast by visiting www.virtualshareholdermeeting.com/IDCC. In addition to voting by submitting your proxy prior to the annual meeting, you also will be able to vote your shares electronically during the annual meeting. Your proxy for the annual meeting is being solicited by our Board of Directors (the "Board").

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 27, 2015, 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 10, 2015: The 2015 proxy statement and 2014 annual report to shareholders are available at <http://ir.interdigital.com/annuals-proxies.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 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?

You are entitled to participate in the annual meeting only if you were a stockholder of record as of the close of business on April 14, 2015 or if you hold a valid proxy for the annual meeting. As noted above, this year's annual meeting will be held as a virtual meeting that you may attend online via a live webcast by visiting www.virtualshareholdermeeting.com/IDCC.

In order to attend and participate in the annual meeting, you will need to visit www.virtualshareholdermeeting.com/IDCC and follow the instructions that are included in the Notice, on your proxy card or in the instructions accompanying your proxy materials. You will also need the 16-digit code, or

control number, provided therein. The meeting will begin promptly at 11:00 AM Eastern Time. You are required to complete an online check-in process once you have connected to www.virtualshareholdermeeting.com/IDCC. Online check-in will begin at 10:30 AM Eastern Time. Please allow sufficient time to complete the online check-in process.

Instructions on how to attend and participate via the Internet, including how to demonstrate proof of stock ownership, are posted at www.virtualshareholdermeeting.com/IDCC. In addition, questions regarding how to attend and participate via the Internet will be answered by calling 855-449-0991 (international: 720-378-5962) on the day before the 2015 annual meeting and the day of the meeting.

Who is entitled to vote at the annual meeting?

Only shareholders of record at the close of business on April 14, 2015, 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 36,309,543 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, which includes participation by electronic means such as a live webcast, 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, voting by Internet or telephone or, if you requested a paper copy of the proxy materials, by mail, or attendance at the annual meeting in person, will cause you 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 PM Eastern Time on June 9, 2015. The designated proxy will vote according to your instructions. If you attend the live webcast of the annual meeting you also will be able to vote your shares electronically at the meeting up until the time the polls are closed.

If you are a street name holder, 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 in advance of the meeting and whether, if you attend the live webcast of the annual meeting, you will be able to vote your shares electronically at the meeting up until the time the polls are closed.

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 PM Eastern Time on June 7, 2015. 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.

Even if you plan to attend the annual meeting, we recommend that you also submit your proxy card or vote by Internet or telephone by the applicable deadline so that your vote will be counted if you later decide not to attend the 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 live webcast of the annual meeting you may revoke your proxy or change your proxy vote by voting electronically at the meeting. 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 advisory resolution to approve executive compensation (see Proposal 2); and
- ***For*** ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015 (see Proposal 3).

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.

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, or Proposal 2, the approval of the advisory resolution on executive compensation. Broker non-votes will have no effect on the outcome of Proposal 1 or Proposal 2. If you do not provide specific voting instructions, your broker or nominee may exercise voting discretion with respect to Proposal 3, 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, S. Douglas Hutcheson, Edward B. Kamins, John A. Kritzmacher and Kai O. Öistämö 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. In September 2014, we announced that Mr. Clontz would be retiring from the Board at the end of his term in June 2015, and that Mr. Hutcheson, who is also an independent director, would be assuming the role of Chairman upon Mr. Clontz’s departure. 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 and 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 quarterly, 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 ten directors. Concurrent with the retirements of Dr. Amelio and Messrs. Clontz and Kamins at the end of their current terms, the size of the Board will be reduced from ten to seven members as of the date of the 2015 annual meeting of shareholders. All directors are subject to election for one-year terms at each annual meeting of shareholders.

How often did the Board meet during 2014?

The Board met 8 times during 2014. 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 2014. 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. Eight directors, constituting all of our current directors (with the exception of Messrs. Hutcheson and Öistämö, who joined the Board after the annual meeting of shareholders in 2014), attended the 2014 annual meeting of shareholders.

What are the roles of the primary Board committees?

The Board has standing Audit, Compensation and Nominating and Corporate Governance Committees. In 2014, the Board also had a standing Finance and Investment Committee, which was renamed the Investment Committee in 2015 (as discussed further below). 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 Board 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 2014.

| <u>Name</u> | <u>Audit Committee</u> | <u>Compensation Committee</u> | <u>Nominating and Corporate Governance Committee</u> | <u>Investment Committee</u> |
|---|------------------------|-------------------------------|--|-----------------------------|
| Gilbert F. Amelio | | X | Chair | |
| Jeffrey K. Belk | | | | Chair |
| Steven T. Clontz | | X | | |
| S. Douglas Hutcheson | | X | | X |
| Edward B. Kamins | | Chair | | |
| John A. Kritzmacher | Chair | | X | X |
| Kai O. Öistämö | X | | | X |
| Jean F. Rankin | X | | X | |
| Robert S. Roath | | | | X |
| Number of Meetings in 2014 | 9 | 8 | 15 | 11 |

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 the company's 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;
- Oversees and monitors the company's ERM efforts; and
- Reviews and provides guidance to the Board with respect to:
 - Shareholder distributions;
 - The integrity of the company's financial models, as appropriate;
 - Tax planning;
 - Foreign currency management policies;

- Corporate insurance coverage; and
- Cash management investment policies.

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 of a publicly traded company.

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 chair 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 supplemental 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

Dr. Amelio and Messrs. Clontz, Hutcheson and Kamins served on the Compensation Committee during all or part of 2014. No director serving on the Compensation Committee during any part of 2014 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.

In recruiting the directors who joined the Board in 2014, the Nominating and Corporate Governance Committee retained DavenportMajor Executive Search to help identify director prospects, perform candidate outreach, assist in reference and background checks, and provide other related services. The recruiting process typically involves either the search firm or a member of the Nominating and Corporate Governance Committee contacting a prospect to gauge his or her interest and availability. A candidate will then meet with several members of the Board, including Mr. Merritt. At the same time, the Nominating and Corporate Governance Committee or other Board members, as appropriate, and the search firm will contact references for the prospect. A background check is completed before the Board approves any final recommendation from the committee to appoint a candidate to the Board.

Finance and Investment Committee / Investment Committee

The primary role of the Finance and Investment Committee was to assist 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 reviewed and provided 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.

In 2015, the Finance and Investment Committee was renamed the Investment Committee and the Board approved significant changes its charter to shift the committee's focus to be more aligned with the company's current needs and strategy. The primary function of this committee is now to monitor, and provide guidance to the company's management team and recommend actions to the Board with respect to, certain investment and divestment activities of the company and funding for certain affiliated entities of the company. Among its specific duties and responsibilities, the committee:

- Approves minority investments in other companies by the company;
- Approves divestments of minority equity interests in other companies; and
- Approves the establishment of non-core operating businesses as entities partially owned by the company, including approval of contributions to such entities and the ownership structure of such entities.

The committee may delegate authority to the committee chair 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 2014, 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. During 2014, additional compensation was 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 |

In light the new focus of and responsibilities delegated to the Investment Committee (discussed above) and based on the recommendation of the Compensation Committee, the Board approved and adopted the following compensation for the members of the Investment Committee effective January 1, 2015:

- The chairman of the Investment Committee receives an annual cash retainer of \$25,000;
- The other members of the Investment Committee each receive an annual cash retainer of \$10,000; and
- Each member receives a \$1,000 per meeting fee for participation in excess of eight Investment Committee meetings during the Board term.

For his or her service during the 2014-2015 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. Upon their respective initial appointments to the Board in 2014, Messrs. Hutcheson and Öistämö each received a pro-rated RSU award for their partial service during the 2014-2015 Board term, as well as an initial appointment award of RSUs 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, 2015, all of the non-management directors except Mr. Öistämö (who was appointed to the Board in November 2014) 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 2014. For more information about the deferred compensation plan, see “Executive Compensation – Nonqualified Deferred Compensation.”

2014 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 2014 for their service in 2014. 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 | 58,000 | 187,026 | 245,026 |
| Jeffrey K. Belk | 57,699 | 187,026 | 244,725 |
| Steven T. Clontz | 103,666 | 187,026 | 290,692 |
| S. Douglas Hutcheson | 26,250 | 320,451 | 346,701 |
| Edward B. Kamins | 61,166 | 187,026 | 248,192 |
| John A. Kritzmacher | 75,820 | 187,026 | 262,846 |
| Kai O. Öistämö | 5,878 | 257,282 | 263,160 |
| Jean F. Rankin | 57,000 | 187,026 | 244,026 |
| Robert S. Roath | 51,500 | 187,026 | 238,526 |

- (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 2014, plus any fees earned for attendance at additional meetings during the 2013-2014 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 2014. 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, 2014. The following table sets forth the grant date fair value of each RSU award granted to our non-management directors in 2014.

| <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 | 6/12/2014 | 3,877 | 187,026 |
| Jeffrey K. Belk | 6/12/2014 | 3,877 | 187,026 |
| Steven T. Clontz | 6/12/2014 | 3,877 | 187,026 |
| S. Douglas Hutcheson | 6/30/2014 | 3,438 | 164,336 |
| | 6/30/2014 | 3,266 | 156,115 |
| Edward B. Kamins | 6/12/2014 | 3,877 | 187,026 |
| John A. Kritzmacher | 6/12/2014 | 3,877 | 187,026 |
| Kai O. Öistämö | 11/17/2014 | 3,303 | 163,928 |
| | 11/17/2014 | 1,881 | 93,354 |
| Jean F. Rankin | 6/12/2014 | 3,877 | 187,026 |
| Robert S. Roath | 6/12/2014 | 3,877 | 187,026 |

As of December 31, 2014, each person who served as a non-management director of the company in 2014 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, 2014. This table does not include RSUs that, as of December 31, 2014, had vested according to their vesting schedule, but had been deferred.

| <u>Name</u> | <u>Outstanding Restricted Stock Units (#)</u> |
|----------------------------|---|
| Gilbert F. Amelio | 3,912 |
| Jeffrey K. Belk | 3,912 |
| Steven T. Clontz | 3,912 |
| S. Douglas Hutcheson | 6,765 |
| Edward B. Kamins | 3,912 |
| John A. Kritzmacher | 3,912 |
| Kai O. Öistämö | 5,184 |
| Jean F. Rankin | 3,912 |
| Robert S. Roath | 3,912 |

PROPOSALS TO BE VOTED ON

Election of Directors (Proposal 1)

Description

Which directors are nominated for election?

Messrs. Jeffrey K. Belk, S. Douglas Hutcheson, John A. Kritzmacher, William J. Merritt, Kai O. Öistämö and Robert S. Roath and Ms. Jean F. Rankin are recommended by the Nominating and Corporate Governance Committee and nominated by the Board for election at the 2015 annual meeting, each to serve a one-year term until our annual meeting in 2016 and until his or her successor is elected and qualified. Messrs. Hutcheson and Öistämö are each standing for election to the Board for the first time. Both were identified as director candidates by an executive search firm retained by the company in 2014 to identify potential director candidates.

Dr. Gilbert F. Amelio and Messrs. Steven T. Clontz and Edward B. Kamins are retiring upon the expiration of their current terms and are not standing for re-election at the 2015 annual meeting. As a result, as of the date of the 2015 annual meeting, the size of the Board will be reduced from ten to seven members.

Set forth below is biographical information about the seven nominees, each of whose current terms of office expire at the 2015 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?

Jeffrey K. Belk, 52, 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 social customer relationship management and 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 (“Qualcomm”), 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 Qualcomm’s corporate messaging, communications and marketing worldwide. He also served on the board of directors of Peregrine Semiconductor Corp. from 2008 until it was acquired by Murata Corporation in 2014. 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.

S. Douglas Hutcheson, 59, has been a director of the company since July 2014. Mr. Hutcheson is CEO and a director of Laser, Inc., a corporation created in connection with the acquisition of Leap Wireless International, Inc. (“Leap Wireless”), a wireless communications carrier, by AT&T in March 2014. Since January 2015, Mr. Hutcheson has also served as a senior advisor of Technology, Media and Telecom (TMT) for Searchlight Capital, a global private investment firm. Prior to March 2014, Mr. Hutcheson served as CEO of Leap Wireless and its operating subsidiary, Cricket Communications, for nine years, where he was responsible for developing and implementing strategy, all operations, and the oversight of all relationships and partnerships. Before serving as CEO, Mr. Hutcheson held other executive positions at Leap Wireless, including President and Chief Financial Officer. Prior to joining Leap Wireless, he was Vice President of Marketing in the wireless infrastructure division at Qualcomm for three years, where he led multiple teams. Since 2012, Mr. Hutcheson has also served on the

board of directors of Pitney Bowes Inc., and currently serves on the audit and finance committees of such board. He previously served on the board of directors of Leap Wireless from 2005 to 2014. The Board has concluded that Mr. Hutcheson should serve as a director of the company because, with his significant operational and financial expertise as an experienced former chief executive officer of a wireless communications company and his broad business background, which includes strategic planning and product and business development and marketing, he brings valuable insight that is needed to evolve and execute the company's strategy.

John A. Kritzmacher, 54, 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 ("Global Crossing"), 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 Inc. ("Lucent"), 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 it was acquired 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, 56, 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 prior to that served as the company's General Patent Counsel for four years. Since 2014, Mr. Merritt has been 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.

Kai O. Öistämö, 50, has been a director of the company since November 2014. Mr. Öistämö led corporate strategy and business development at Nokia Corporation ("Nokia"), a leader in the fields of network infrastructure, location-based technologies and advanced technologies and a former wireless handset manufacturer, as Executive Vice President, Chief Development Officer from 2010 until his departure in 2014, with responsibility for strategic partnerships and alliances. Previous roles during his 23-year tenure at Nokia included the position of Executive Vice President, Devices, from 2008 to 2010. Mr. Öistämö was also a member of the Nokia leadership team from 2005 to 2014. Mr. Öistämö serves on the board of directors of two Finnish public companies: Sanoma Corporation since 2011 and Digia Plc since March 2015. He is also Chairman of the Board of the Funding Agency for Technology and Innovation in Finland (Tekes) and of Tampere University in Finland. The Board has concluded that Mr. Öistämö should serve as a director of the company because his extensive global experience in the wireless communications industry and executive leadership and corporate strategy background serve as a great asset to the company and the Board and enable him to contribute guidance and advice relating to the development and execution of the company's strategy and the assessment of the challenges and opportunities facing the company.

Jean F. Rankin, 56, has been a director of the company since June 2010. Ms. Rankin served as Executive Vice President, General Counsel and Secretary at LSI Corporation (“LSI”), a leading provider of innovative silicon, systems and software technologies for the global storage and networking markets, from 2007 to May 2014, when LSI was acquired by Avago Technologies Limited (“Avago”). In this role, she served 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 Inc. (“Agere”), 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, 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, 72, 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 Company, General Foods Corporation, GAF Corporation and Price Waterhouse. He has been a director of SP Plus Corporation (formerly Standard Parking Corporation) since its initial public offering in May 2004 and currently serves as chairman of SP Plus’ compensation and audit committees. 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.**

Advisory Resolution to Approve Executive Compensation (Proposal 2)

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 align management's interests with those of its shareholders and 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," the achievement of corporate and shared executive goals, as well as departmental and individual performance, determine the short-term and long-term incentive compensation paid to our executives. 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 2015 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 2015 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 2016 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 3)**

Description

The Audit Committee has appointed PricewaterhouseCoopers LLP (“PwC”) as the company’s independent registered public accounting firm for the year ending December 31, 2015. 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, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|---------------------------------|-------------|-------------|
| Type of Fees | | |
| Audit Fees(1) | \$ 850,000 | \$ 899,000 |
| Audit-Related Fees(2) | \$ 381,425 | \$ 161,900 |
| Tax Fees(3) | \$ 85,940 | \$ 67,325 |
| All Other Fees(4) | \$ 1,800 | \$ 1,800 |
| Total | \$1,319,165 | \$1,130,025 |

- (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. Such fees also include fees billed by PwC in connection with its audit of the financial statements of Convida Wireless, LLC (“Convida Wireless”), the company’s joint venture with Sony Corporation of America (“Sony”).
- (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.” Such fees relate to consultation concerning financial accounting and reporting standards and field verification of royalties from certain licensees and other contract compliance reviews. In addition, for 2014, such fees also include fees billed by PwC in connection with its audit of the financial statements of the Signal Trust for Wireless Innovation, a Delaware statutory trust formed in 2013.
- (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, 2015.

**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, 2015.**

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, 2014, 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, 2014 for filing with the SEC, and we retained PwC as the company's independent registered public accounting firm for the year ending December 31, 2015.

AUDIT COMMITTEE:

John K. Kritzmacher, Chairman
Kai O. Öistämö
Jean F. Rankin

EXECUTIVE OFFICERS

Set forth below is certain information concerning our executive officers as of March 31, 2015:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------------------|------------|---|
| William J. Merritt | 56 | President and Chief Executive Officer |
| Richard J. Brezski | 42 | Chief Financial Officer and Treasurer |
| Jannie K. Lau | 39 | Executive Vice President, General Counsel and Secretary |
| Marie H. MacNichol | 51 | Chief Licensing Counsel and Chief Licensing Officer |
| Scott A. McQuilkin | 60 | Senior Executive Vice President, Innovation |
| James J. Nolan | 54 | Executive Vice President, InterDigital Solutions |
| Lawrence F. Shay | 56 | Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel |
| Byung K. Yi | 64 | Executive Vice President, InterDigital Labs, and Chief Technology Officer |

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, corporate development, 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 government affairs functions. Ms. Lau joined InterDigital in 2008 as Associate General Counsel and was promoted to Deputy General Counsel in 2010. She was appointed to her current position 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 an 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 funds. Ms. Lau serves on the Greater Philadelphia Area board of directors of the American Cancer Society, the board of directors of Jobs for Delaware Graduates and the development committee of the Pennsylvania Academy of the Fine Arts. Ms. Lau earned a Juris Doctor, with honors, from the University of Pennsylvania Law School and holds a Bachelor of Arts in English and Comparative Literature from Columbia University.

Marie H. MacNichol is InterDigital’s Chief Licensing Counsel and Chief Licensing Officer, responsible for managing day-to-day operations for InterDigital’s Licensing, Patent, and Litigation groups. Ms. MacNichol joined the company in July 2014. From 2008 to 2014, Ms. MacNichol served as Vice President of IP law for LSI (formerly Agere, currently a subsidiary of Avago), a technology company that designs, develops and markets high-performance storage and networking semiconductors. In that role, Ms. MacNichol oversaw a team of attorneys and paralegals in all intellectual property matters. Before joining Agere, Ms. MacNichol was at Lucent

where she served as corporate counsel, responsible for IP licensing matters. Ms. MacNichol started her legal career as an attorney at Fish & Neave. Ms. MacNichol earned a Bachelor of Science in Electrical Engineering from Drexel University and a Juris Doctor from Villanova University School of Law.

Scott A. McQuilkin has served as the company's Senior Executive Vice President, Innovation, since October 2012. As head of InterDigital's Innovation group, Mr. McQuilkin is responsible for leading the organization's commercial business initiatives, overseeing strategic business investments and managing Innovation Partners, an external technology sourcing model based around partnerships with leading innovators and research organizations as well as strategic acquisitions of technology. Mr. McQuilkin joined the company as 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. Until joining InterDigital in 2007, Mr. McQuilkin served as Chief Financial Officer of Metavante Lending Solutions, a provider of banking and payment technology 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 served as Chief Financial Officer for GHR Systems, Inc. ("GHS Systems"), a provider of lending technologies and related support services, from February 2000 to August 2006, when GHR Systems was acquired by Metavante Corporation. 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, InterDigital Solutions. As head of InterDigital Solutions, Mr. Nolan is responsible for advancing market-ready technologies toward commercialization, as well as establishing and developing strategic business relationships and identifying potential new business opportunities. 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 from 2006 to 2014. Before assuming his current role, Mr. Nolan served as InterDigital's Executive Vice President, Research and Development, from 2009 to 2014 (which included the role of head of InterDigital Labs from 2013 to 2014). In those roles, Mr. Nolan led InterDigital's research and development teams, overseeing the development of standards-based technology as well as next generation technology initiatives, including advanced air interfaces, machine-to-machine / Internet of Things ("IoT"), bandwidth management technologies for Wi-Fi®/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 serves on the board of directors of Convida Wireless, the company's joint venture with Sony for IoT technology development. He is also a board member of EvoNexus, a San Diego-based, member-supported, non-profit technology incubator, and serves on the Dean's advisory board for Hofstra University's School of Engineering and Applied Science. 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.

Lawrence F. Shay is the company's Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel. Mr. Shay is responsible for overseeing all activities pertaining to InterDigital's patent business, including long-term research and development under InterDigital Labs as well as 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. Mr. Shay was appointed to his current position in January 2008, and he assumed oversight of the InterDigital Labs function in 2014 without a change in title. 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. 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.

Byung K. Yi is InterDigital's Executive Vice President, InterDigital Labs, and Chief Technology Officer. As head of InterDigital Labs, Dr. Yi is responsible for directing the development of advanced wireless and network technologies, the evolution of standards-based technologies and the company's participation in wireless standards bodies. Dr. Yi joined the company in April 2014 from the Federal Communications Commission (the "FCC"), where he had served as assistant division chief of engineering since 2012. Prior to his appointment at the FCC, Dr. Yi was at LG Electronics from 2000 to 2012, where, as Senior Executive Vice President, he headed the company's North American R&D center. Dr. Yi is a former member of the company's Technical Advisory Council and currently serves on the board of directors of the Telecommunications Industry Association. Dr. Yi earned a Bachelor's degree in electrical engineering from Yonsei University (Korea), a Master's degree in electrical engineering from the University of Michigan, and a Ph.D. in electrical engineering from George Washington University.

The company's executive officers are appointed to the offices set forth above to hold office until their successors are duly appointed.

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
S. Douglas Hutcheson

Compensation Discussion and Analysis

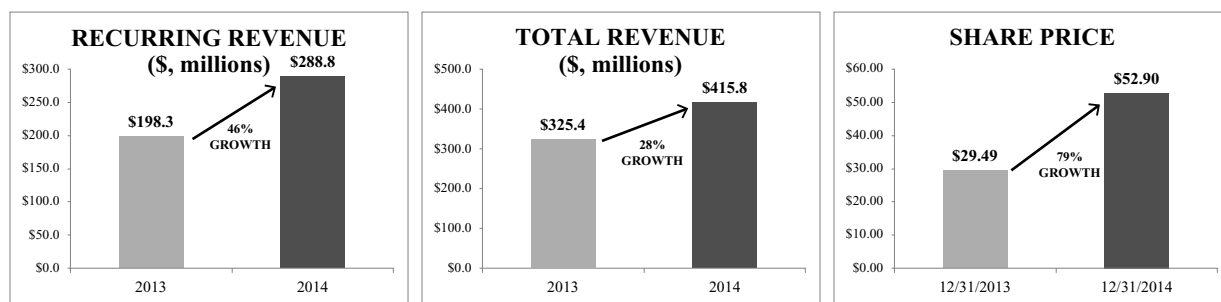
This Compensation Discussion and Analysis covers all material elements of compensation awarded to, earned by or paid to the company's Named Executive Officers ("NEOs"), and focuses on the principles underlying the company's executive compensation policies and decisions. The following individuals are our NEOs for fiscal 2014:

- 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, InterDigital Solutions; and
- Lawrence F. Shay – Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel.

Executive Summary

Fiscal 2014 Company Performance

By multiple objective measures, the company delivered one of its best years in 2014. We reported a 46% increase in recurring revenue (comprised of current patent royalties and current technology solutions revenue) compared to 2013. In second quarter 2014, we entered into a royalty-bearing patent license agreement with Samsung, the world's largest handset manufacturer. This significant achievement, along with other significant achievements in prior years, drove robust total revenues of \$415.8 million and positive cash flow in 2014, and we ended the year with a strong cash balance of \$703.9 million. Over the course of 2014, our stock price rose almost 80% from \$29.49 to \$52.90, we doubled our quarterly cash dividend from \$0.10 to \$0.20 per share, and we returned an aggregate of \$176.4 million to shareholders via dividends and share repurchases. All the while, we maintained our prolific pace of innovation, with approximately 220 U.S. patents and approximately 1,300 non-U.S. patents issued in 2014.



Results from 2014 Shareholder Advisory Vote on Executive Compensation

At the 2014 annual meeting of shareholders, we held an advisory vote on executive compensation (“say on pay”). Approximately 73% of the votes cast supported the compensation of the company’s named executive officers as disclosed in our 2014 proxy statement, which was less support than we received for our say on pay proposal in 2013 (73% versus 94%). As a result of this year-over-year decrease in support, both before and after our 2014 annual meeting, we reached out to shareholders to discuss and obtain feedback on our executive compensation programs. The chairman of the Compensation Committee led the shareholder outreach to some of our largest institutional investors, which included discussions about executive pay and governance issues of interest.

Based on the feedback from the outreach efforts, the Compensation Committee concluded that the changes it had made to the executive compensation programs in prior years (such as granting performance awards in the form of performance-based RSUs instead of performance grants payable in cash, overhauling the annual incentive plan to provide for a bonus pool funded solely by corporate performance, removing excise tax gross-up provisions, and adding double-trigger change-in control-provisions) were operating as anticipated and were generally well received by the company’s shareholders. However, certain compensation decisions made during 2013, when compared with the compensation decisions made in prior years, may have caused some shareholders to be concerned that our executive compensation strategy was not adequately aligned with the company’s performance in 2013. As a result of the outreach to our shareholders and further discussions with the Compensation Committee’s independent compensation consultant Pearl Meyer & Partners (“Pearl Meyer”), the Compensation Committee affirmed its commitment to align compensation with performance, as discussed directly below under “Good Governance Practices and Policies.”

Good Governance Practices and Policies:

The company strives to maintain good governance practices, and regularly reviews and updates such practices, related to the compensation of our executive officers, including our NEOs. Such practices include:

- *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. For example, 78% of Mr. Merritt's 2014 compensation was variable and was dependent upon the company's performance (through a combination of awards under the company's short-term incentive plan ("STIP") and long-term compensation program ("LTCP")).
- *Targeting the Median:* Compensation decisions are designed to target total compensation amounts and opportunities for the company's executive officers at or near the median, or the 50th percentile, for similar positions at companies in our peer group.
- *Limited Use of Discretionary Equity Awards:* In early 2013, the Compensation Committee granted special discretionary RSU awards to certain NEOs to bring their compensation opportunity up to market levels for their positions in the peer group and to further align the interests of management and shareholders. These grants were a result a comprehensive review of our executive compensation program by Pearl Meyer in 2012, through which it was determined that NEO total compensation, and, in particular, target long-term compensation, was well below market. These special time-based RSU awards were not part of a regular ongoing program, and no similar grants were made to executives in 2014. Mr. Brezski did receive a modest supplemental grant of time-based RSUs in February 2014 in connection with his recent promotion, but he was not a recipient of the significantly larger one-time discretionary grants made to the other NEOs in 2013. The company intends to limit the use of discretionary equity awards, but may issue such awards from time to time when necessary to align with our peer group or to reward performance.
- *Annual Incentives Are Capped:* The company's total annual STIP pool is limited to two times the target payout amount, even if actual performance would result in pay that exceeds the ranges established at the beginning of the year. Additionally, no single employee, including an NEO, may receive an STIP payout equal to more than two times his or her target amount.
- *Clawback Policy:* The Board has adopted a clawback policy under which the company may recover excess compensation paid to our executive officers if intentional misconduct or gross negligence by one or more of our executives results in a material restatement of our financial statements.
- *No Excise Tax Gross-Ups:* Excise tax gross-up provisions have been eliminated from all executive employment contracts.
- *Double-Trigger Change-in-Control Provisions:* All executive employment contracts 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 executive 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 executive officers at two to three times the respective officer's base salary. Each NEO has met the applicable stock ownership requirements as described below under "Stock Ownership Guidelines."
- *Minimal Perquisites:* The company does not provide any perquisites to executive officers that its other employees at or above the senior director level 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 employee, including executive officers, 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.

2014 Compensation Decisions & Actions

Following are highlights of the key compensation decisions made by the Compensation Committee for 2014 which are consistent with our 2014 business results:

- *Base salaries* for our NEOs were increased in an effort to bring total target compensation for each NEO closer to the median for similar positions in our peer group. The base salary increases ranged from 3% to 7%, except Mr. Brezski, who received a larger increase, 14%, because he had the largest deviation from median and to recognize his exceptional performance. Please see “2014 Executive Compensation in Detail – Base Salary” below for details.
- The *STIP bonus pool* was funded at 200% of target, as a result of superior achievement of the 2014 STIP goals. NEOs received STIP payouts ranging from 182% to 200% of target as a result of individual, departmental and corporate performance. Please see “2014 Executive Compensation in Detail – Short-Term Incentive Plan” below for details.
- NEOs received *LTCP equity awards* for the 2014-2016 performance cycle with an emphasis on performance-based equity as follows: 50% of the total value in the form of performance-based RSUs, 25% of the total value in the form of stock options, and 25% in the form of time-based RSUs. In addition, with respect to the goals associated with the performance-based RSUs granted for the 2012-2014 performance cycle, the Compensation Committee determined the goal achievement to be 104%, resulting in a payout of such awards at 110% of target. Please see “2014 Executive Compensation in Detail – Long-Term Compensation Program” below for details.

What Guides Our Program

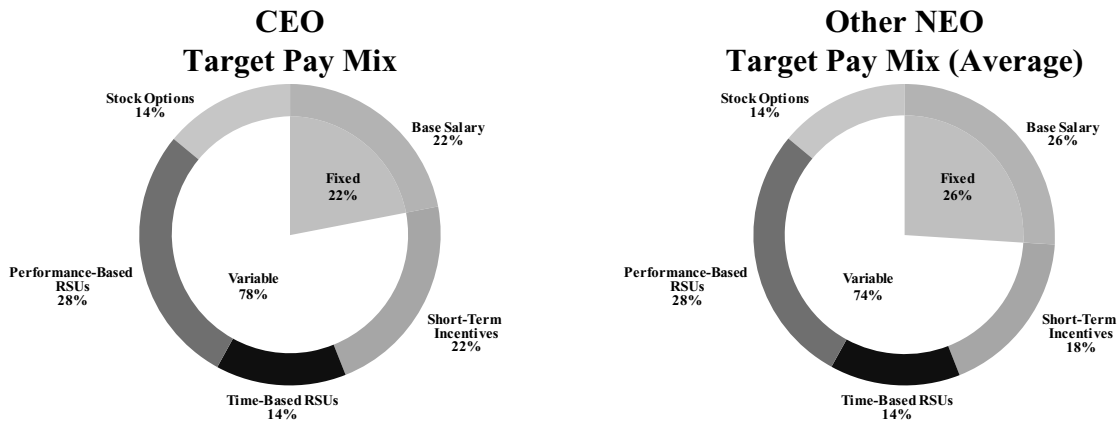
Compensation Objectives and Philosophy

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 total 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.

Pay for Performance (Principal Elements of Pay)

Our executive compensation program is intended to hold our executive officers accountable for business results and reward them for strong corporate performance and value creation for our shareholders by rewarding performance that meets or exceeds the goals established by the Compensation Committee. Our NEOs' total compensation is comprised of a mix of base salary, STIP, LTCP and, from time to time, 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 2014, approximately 78% of our CEO's target compensation and close to 74%, on average, of the target compensation of our other NEOs was comprised of STIP and LTCP awards and thus dependent upon the company's performance.



Role of the Compensation Committee

The Compensation Committee oversees the executive compensation program and has final approval with respect to the composition, structure and amount of all executive officer compensation, subject to board review. The Compensation Committee is comprised of no less than three independent, non-employee members of Board. Guided in the execution of its primary functions by the Board's philosophy that the interests of key leadership should be aligned with the long-term interests of the company and its shareholders, the Compensation Committee annually reviews and approves goals relevant to the chief executive officer and other executive officers' pay. The Compensation Committee works very closely with management and its independent consultant, Pearl Meyer, to examine the effectiveness of the company's executive compensation program throughout the year. Details of the Compensation Committee's authority and responsibilities are specified in the Compensation Committee charter, which is available on our website at <http://ir.interdigital.com/committees.cfm>.

Role of Executive Officers

As part of the annual performance and compensation review for executive officers other than the chief executive officer, the Compensation Committee considers the chief executive officer's assessment of the other executive officers' departmental and 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 and verified by the company's internal auditors.

Role and Independence of Advisors

As discussed above, the Compensation Committee engaged Pearl Meyer, an independent compensation consultant, to assist in carrying out its responsibilities. 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 including, but not limited to, trends in executive compensation, peer group composition, benchmarking total direct compensation of the executives, short-and long-term incentive plan design and compensation of the company's executive officers. Based on consideration of the various factors as set forth in the rules of the SEC and the listing standards of NASDAQ, the Compensation Committee has determined that Pearl Meyer did not have any conflicts of interest.

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 Compensation Committee gain perspective on the compensation levels and practices at the peer companies and to assess the relative competitiveness of the total compensation paid to the company's executives. The 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 total compensation amounts and opportunities at or near the market median, or 50th percentile, while considering other relevant factors, as discussed above, in order to attract and retain talented leaders to serve as executives of the company.

In September 2013, Pearl Meyer assisted the Compensation Committee with its process of identifying peer group companies by gathering information on their executive compensation levels and practices. After conducting a peer group review and reviewing market data from nationally recognized published surveys, Pearl Meyer presented a report to the Compensation Committee that included publicly available information about the levels and targets for base salary, short-term incentive compensation, long-term incentive compensation and total compensation for comparable executive-level positions at such peer group companies.

When choosing peers, we not only look for companies with similar revenue in the communications equipment industry, but also companies for which licensing revenue is a significant component of their total revenue stream (approximately 20% to 100% of total revenue). Upon final review of the peer group for 2014, the Compensation Committee removed Acme Packet (due to acquisition) and Excelixis (due to its size) and added Harmonic, Inc. and Comtech Telecommunications Corp., both communications equipment companies. The companies comprising the 2014 peer group were as follows:

| | | |
|----------------------------------|-----------------------------|----------------------------------|
| Acacia Research Corporation | DTS Inc. | Rovi Corporation |
| ADTRAN Inc. | Harmonic Inc. | Silicon Image, Inc. ¹ |
| Alkermes plc | Immersion Corporation | Synaptics Inc. |
| ARM Holdings plc | Nuance Communications, Inc. | Tessera Technologies Inc. |
| Comtech Telecommunications Corp. | Rambus Inc. | Universal Display Corp. |
| Dolby Laboratories, Inc. | | |

¹ Silicon Image, Inc. was acquired by Lattice Semiconductor in January 2015.

2014 Executive Compensation in Detail

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. Salary adjustments for our NEOs in 2014 were based on consideration of each NEO’s position, scope of responsibility and importance to the company and his performance during 2013, 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. Set forth below are the 2013 and 2014 base salaries for our NEOs:

| <u>NEO</u> | <u>2013</u> | <u>2014</u> |
|--------------------------|-------------|-------------|
| William J. Merritt | \$575,000 | \$600,000 |
| Richard J. Brezski | 285,000 | 325,000 |
| Scott A. McQuilkin | 375,000 | 400,000 |
| James J. Nolan | 325,000 | 350,000 |
| Lawrence F. Shay | 410,000 | 425,000 |

The NEOs other than Mr. Brezski received salary increases of between 3% to 7% in 2014 in an effort to bring total target compensation for each NEO closer to the median for similar positions in our peer group. Mr. Brezski, our Chief Financial Officer, received a salary adjustment of 14% because he had the largest deviation from the median and to recognize his exceptional performance in 2014. Even with the 14% increase in base salary, Mr. Brezski’s total 2014 compensation was still below the median for our peer group.

Short-Term Incentive Plan

The STIP annual incentive award is designed to reward the achievement of corporate goals and individual accomplishments during each fiscal year. The STIP provides for a target annual “incentive pool” in an amount equal to the sum of the individual STIP targets of all eligible employees. This incentive pool is funded based on a company-wide normalized cash flow goal pre-established by the Compensation Committee. Actual funding of the incentive pool may range from a minimum of 25% to a maximum of 200% of the total individual target bonuses based on this goal. A floor of 25% of the aggregate target was set because most employees of InterDigital are eligible to participate in this plan. As noted below, individual awards are based on multiple metrics, and the funding “floor” provides a mechanism for the company to reward extraordinary individual results of selected employees relative to objectives other than the company’s normalized cash flow. While there is a minimum “floor” STIP funding, there is no minimum guaranteed individual STIP payout for any participant. 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.

In January 2015, the chief executive officer reported to the Compensation Committee on the company’s achievement of the normalized cash flow goal for the purpose of funding the 2014 STIP incentive pool. Normalized cash flow for 2014 was 60% above the “maximum” performance level (the level at which the pool is funded at 200%). While the company’s actual performance far exceeded the goal, the maximum funding of the incentive pool is capped at 200% of target. Following consideration of the performance results, the Compensation Committee determined that, as a result of the company’s achievement of over 200% with respect to the 2014 established company goal, the incentive pool would be funded at its maximum, 200%.

While company-wide normalized cash flow may determine the incentive pool funding, performance against shared executive corporate goals, departmental performance and individual performance determines the actual STIP payout for each NEO and other participants. The Compensation Committee approves shared corporate goals for the company’s executive officers each year. For 2014, the shared corporate goals for the company’s executives and the relative weights assigned to each were as follows:

2014 STIP Shared Executive Corporate Performance Goals:

| <u>Goal</u> | <u>Description</u> | <u>Target Weight</u> |
|---|---|----------------------|
| % of terminal unit market under license | Exit 2014 with a specified percentage of the terminal unit market under license | 15% |
| Non-terminal unit licensing related revenue | Generate a specified dollar amount of normalized cash flow that is not derived from terminal unit patent licensing | 15% |
| Partner IPR success and pipeline | Enter into a specified number of technology partnerships and make a certain number of patent disclosures through the Innovation Partners group | 15% |
| Technology development and enhancement | Generate or identify certain numbers of patented or potentially patentable contributions to current or emerging standards and make certain numbers of non-provisional patent disclosures and non-standards patent disclosures | 15% |
| Commercial initiatives | Establish new business(es) that have customer contracts that will deliver a certain amount of revenue | 15% |
| Compensation Committee discretion | Allows Compensation Committee to adjust performance upward or downward as a result of unexpected outcomes or circumstances | 25% |
| TOTAL | | 100% |

The shared executive goals were intended to align the executive team around a key set of company performance objectives. The shared executive goals are structured to challenge and motivate executives, so that reasonable “stretch” performances would collectively yield a payout at or about 100% of target.

The actual STIP payout for the chief executive officer is based on achievement of the shared executive corporate goals and his individual performance. The actual STIP award paid to all other executives is based on the achievement of the shared executive corporate goals, his or her department’s performance and his or her individual performance. The target STIP award for each of the company’s executives is set as a percentage of annual base salary, which percentage is at or near the median of the market, as follows:

| <u>NEO</u> | <u>2014 STIP Target</u> |
|--------------------------|-------------------------|
| William J. Merritt | 100% |
| Richard J. Brezski | 60% |
| Scott A. McQuilkin | 75% |
| James J. Nolan | 60% |
| Lawrence F. Shay | 75% |

The chief executive officer reported to the Compensation Committee on the achievement of the objectively measurable shared executive goals, and provided his assessment with respect to departmental and individual executive officer performance for the year. For 2014, the results with respect to the following shared executive goals were at or above target: percentage of the terminal unit market under license, non-terminal unit licensing-related revenues, partner IPR success and pipeline and technology and development enhancement. The achievement level of the goal related to commercial initiatives was below target. However, the overachievement of the goals meeting or exceeding target far outweighed the single goal that underperformed. Therefore, following consideration of the performance results, the Compensation Committee determined that the achievement level with respect to the shared executive goals was 129%.

In determining the STIP payout to the chief executive officer for 2014, the Compensation Committee considered the Board’s assessment of his performance in 2014, as reflected in the recommendation of the Chairman of the Board, who is the primary liaison between the chief executive officer and the full Board of Directors. Based on the exceptional performance of the executive team towards their shared executive goals and the chief executive officer on an individual level, the Compensation Committee determined that his STIP payout for 2014 should be the maximum, or 200% of target. For the other NEOs, the Compensation Committee reviewed the performance assessments provided by the chief executive officer with respect to each executive’s individual and departmental performance, and also considered its own direct interactions with each NEO. As a result of the executive team’s performance toward their shared goals as well as departmental and individual performances, STIP payouts for 2014 for the NEOs ranged from 184% to 200% of target.

The STIP awards for 2014 paid to the NEOs in 2015 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 2014, and the Summary Compensation Table below reports the amounts actually earned by each NEO for 2014 under the STIP. For 2014, 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 Program

The LTCP is designed to align management’s interests with those of the company’s shareholders to maximize the value of the company’s stock over the long term and to enhance retention efforts by incentivizing executive officers to drive the company’s long-term strategic plan. It currently consists of three components:

- *performance-based RSUs*, which align employee and shareholder interests by tying value to both business results and future stock price;
- *stock option grants*, which the Compensation Committee considers to be performance-based compensation and an important form of long-term incentive compensation because they are only valuable if our stock price increases over time; and
- *time-based RSUs*, which provide retention benefits and in concert with our stock ownership guidelines, focus our executives on long-term share ownership and sustained value.

The goal of the LTCP is to challenge and motivate management to achieve a result that yields a payout at or about 100% of target for the performance-based component of the LTCP. One hundred percent 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.

Recently, performance-based awards under the LTCP have varied from no payout for the 2007-2009 performance period to a 110% payout for the 2012-2014 performance period:

| <u>Performance Period</u> | <u>LTCP Payout</u> |
|---------------------------|--------------------|
| 2007-2009 | none |
| 2008-2010 | 86% |
| 2009-2011 | 31% |
| 2010-2012 | 100% |
| 2011-2013 | 71% |
| 2012-2014 | 110% |

2012-2014 cycle

The Compensation Committee determines annually the participation level and components of each NEO's LTCP award and approves the total value of each executive's target LTCP award for that cycle. For the performance cycle that began on January 1, 2012 and ran through December 31, 2014 (the "2012-2014 cycle"), each participant, including NEOs, received 75% of their target award in performance-based RSU awards and 25% in time-based RSUs that vested on January 1, 2015.

The total target values of the awards granted to the NEOs in January 2012 for the 2012-2014 cycle were as follows:

| <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 goals associated with the performance-based RSU awards for the 2012-2014 cycle were to generate specified amounts of normalized cash flow over the performance period of the cycle. After reviewing the company's progress toward these goals as of December 31, 2014, the Compensation Committee determined the company's goal achievement to be 104%. As discussed above, for each 1% change above or below 100% achievement, the actual award amount is adjusted by 2.5 percentage points, resulting in authorized payouts of the performance-based RSU awards for the 2012-2014 cycle at 110% of target.

2014-2016 cycle

For the performance cycle that began on January 1, 2014 and runs through December 31, 2016 (the "2014-2016 cycle"), each NEO received 50% of his total LTCP award in the form of performance-based RSUs that vest, if at all, after the end of the performance period based on the company's achievement of a pre-approved goal established by the Compensation Committee, 25% in stock options and 25% in the form of time-based RSUs that vest in full on the third anniversary of the grant date. In 2013, the Compensation Committee made a determination to add stock options to the mix of LTCP equity awards to more closely reflect the equity mix of our peers. All equity awards under the 2014-2016 cycle were granted to the NEOs on March 15, 2014. To determine the number of performance-based RSUs and time-based RSUs awarded, the percent of the allocation of the target value is divided by the closing stock price on the day prior to grant. The number of performance-based RSUs that vest, if at all, will depend on the goal achievement as determined by the Compensation Committee. The number of stock options that are granted is calculated using the Black-Scholes option pricing model. For the options granted in 2014, the weighted-average assumptions underlying the valuation under the Black-Scholes option pricing model are as follows: expected life of 4.5 years; volatility of 43.82%; a risk-free interest rate of 1.53%; and a dividend yield of 1.30%.

The total target values of the LTCP awards granted to the NEOs in March 2014 for the 2014-2016 cycle were as follows:

| <u>NEO</u> | <u>Target</u> |
|--------------------------|---------------|
| William J. Merritt | \$1,575,000 |
| Richard J. Brezski | 700,000 |
| Scott A. McQuilkin | 1,000,000 |
| James J. Nolan | 600,000 |
| Lawrence F. Shay | 1,000,000 |

While the target values of the LTCP awards are generally at or near the median of our peer group for each NEO, when determining the value of the LTCP awards, the Compensation Committee reviews the total direct

compensation of our peers to ensure that the aggregate target awards result in a total direct compensation level at or near the median of our peer group. Pay and equity pay mix of our peers and general industry companies is also considered. The goal associated with the performance-based RSU awards for the 2014-2016 cycle is to generate a specified amount of normalized cash flow over the performance period of the cycle.

Normalized Cash Flow

The Compensation Committee has selected specified normalized cash flow goals for the LTCP and to set the incentive pool of the STIP because it believes that normalized cash flow most effectively aligns management's interests with those of the company and its shareholders and is the most accurate measure of the company's performance. Although the Compensation Committee has confidence that the company's management will seek to enter into patent license agreements with terms that are the most favorable for the company and its shareholders, it still has the responsibility to ensure that the company's compensation plans do not create incentives that could put the company's interests at risk. Not only does the complicated and unpredictable nature of patent licensing revenue recognition make GAAP cash flow or revenue an inaccurate measure of performance for the company, but using such measures could also incentivize management to enter into patent license agreements that are structured in a way that helps meet incentive plan goals rather than in the way that is most beneficial for the company.

As more fully described in our Annual Report on Form 10-K for the year ended December 31, 2014, revenue recognition for revenues derived from patent license agreements is complex, and we derive the vast majority of our revenue from patent licensing. The timing and amount of revenue recognized from each license depends upon a variety of factors, including, the specific terms of each agreement, the nature of the deliverables and obligations and, as a result, components of our revenue tend to be highly variable year to year. In addition, the timing of our revenue recognition is often disjointed from the timing of the related cash receipts as a result of agreements including prepayment of royalties, past sales, etc. So that our executives are properly motivated to maximize the overall value of our patent portfolio and not to maximize short-term gains strictly for the purpose of attaining incentive plan goals, we normalize the cash flow under our license agreements to treat all licensing revenue as if it were negotiated as royalty bearing over the life of the agreement.

For example, when using normalized cash flow as a measure, if a patent licensing agreement includes a large up-front payment, in order to avoid having that payment disproportionately drive cash flow for the performance period, the payment is spread out over the term of the license agreement, mimicking what would happen if the cash was received pursuant to a running royalty-based license agreement. Strictly for illustrative purposes, assume the company set a GAAP cash flow goal of \$100 for a three-year LTCP performance period (the "performance period"), and in each of the first two years of the performance period the company had generated \$33 of cash flow from running royalties – bringing the total cash flow achieved for the first two years to \$66. Because the cash flow was from running royalties, the amount included toward the goal for the performance period would be the same under both a GAAP cash flow and a normalized cash flow measure. Then, during year 3 of the performance period, the company negotiates a new 5-year \$100 patent license agreement. A GAAP cash flow goal could incentivize management to agree to accept less than \$100 in licensing royalties (\$50 in this example) if the total discounted amount was paid up front (Deal A), which would then contribute \$50 to toward the achievement of the goal for the performance period, rather than the full \$100 paid over five years (Deal B), which would contribute only \$20 toward the achievement of the performance goal. Although Deal B is clearly better for the company and its shareholders, the use of a GAAP cash flow performance incentive measure could have created an incentive to enter into Deal A, as that deal would have led to a larger incentive payout for the performance period (140% under Deal A vs. 65% under Deal B, as illustrated in the following table). By using normalized cash flow as the performance measure, management is properly incentivized to enter into Deal B, which not only leads to a higher incentive payout (65% under Deal B vs. no payout under Deal A, as illustrated in the following table), but also to the better outcome for the company and its shareholders.

Normalized Cash Flow Illustrative Example

| <u>Performance Period Year</u> | <u>DEAL A Incentive Plan Performance Measure</u> | | <u>DEAL B Incentive Plan Performance Measure</u> | |
|--------------------------------|--|---------------------------------|--|---------------------------------|
| | <u>GAAP Cash Flow</u> | <u>Normalized Cash Flow</u> | <u>GAAP Cash Flow</u> | <u>Normalized Cash Flow</u> |
| Year 1 | \$ 33 | \$33 | \$33 | \$33 |
| Year 2 | \$ 33 | \$33 | \$33 | \$33 |
| Year 3 | <u>\$ 50</u> | <u>\$10</u> | <u>\$20</u> | <u>\$20</u> |
| Total | \$116 | \$76 | \$86 | \$86 |
| Goal Achievement | 116% | 76% | 86% | 86% |
| LTCP Payout(a) | 140% | 0% | 65% | 65% |

- (a) 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.

Other Compensation

NEOs are also eligible for other benefits, such as retirement benefits through a qualified 401(k) plan and a non-qualified deferred compensation plan, both of which include matching contributions, as described below, and supplemental long-term disability benefits.

Other Practices, Policies and Guidelines

Grant Practices

RSU awards and stock options granted to executives under the LTCP are typically granted on March 15 each year. If the participant joins the company or becomes eligible to receive awards through promotion after March 15, he or she would be eligible for an award on the 15th of the month following his or her date of hire or promotion, respectively. The company's closing stock price on the day prior to the grant date is used to determine the number of performance-based and time-based RSUs granted and the exercise price of stock option grants. As noted above, performance based RSUs are tied to a 3-year performance period. Time-based RSUs vest 100% on the third anniversary of the grant date (i.e., "cliff" vesting). Stock options vest one-third on each of the first, second and third anniversaries of the grant date (i.e., "ratable" vesting). Stock options expire on the seventh anniversary of the grant date. The Compensation Committee believes that these grant procedures provide assurance that the grant timing does not take advantage of material nonpublic information.

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. As noted above, the Compensation Committee intends to limit the use of discretionary awards, but may issue such awards from time to time when necessary. In approving such awards, the Compensation Committee may consider the specific circumstances of the grantee, including, but not limited to, total compensation relative to median peer group compensation for his or her position, promotion, expansion of responsibilities, exceptional achievement recognition and retention concerns. Consistent with prior practice, in 2014, the Compensation Committee approved a supplemental grant of 3,000 time-based RSUs to Mr. Brezski in connection with a recent promotion.

Stock Ownership Guidelines

To align 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 (as defined below), 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, 2015, all of the NEOs are in compliance with this policy and had reached their target ownership levels.

Clawback Policy

In 2014, the Board adopted a clawback policy that would, under certain circumstances, entitle the company to recover certain compensation previously paid to the company's executive officers, in accordance with the requirements of Section 304 of the Sarbanes-Oxley Act of 2002, and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In the event of any intentional misconduct or gross negligence by one or more executives that results in a material restatement of any company financial statement that was filed during the company's then-current fiscal year or during one of the three prior full fiscal years, each executive would be required to repay or forfeit any excess compensation. The company will reevaluate its policy once final rules are adopted by the SEC and NASDAQ.

Savings and Protection and Nonqualified Deferred Compensation Plans

The company's Savings and Protection Plan ("401(k) Plan") is a tax-qualified retirement savings plan pursuant to which employees, including NEOs, 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 eligible earnings 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 (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 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 STIP payment. The company matches up to 50% of the first 6% of the participant's eligible deferrals, 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. 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 provided 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."

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.

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 may consider the deductibility of compensation when making decisions, but will authorize the payment of compensation that is not deductible when it believes appropriate.

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 clawback policy, 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.

Accounting for Share-Based Compensation

We follow ASC Topic 718 for our share-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based compensation awards made to employees and directors, including stock options and RSUs, based on the grant date "fair value" of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our NEO may never realize any value from their awards, ASC Topic 718 also requires companies to recognize the compensation cost of their share-based compensation awards in their income statements over the period that an executive officer is required to render services in exchange for the option or other award.

Summary Compensation Table

The following table contains information concerning compensation awarded to, earned by or paid to our NEOs in the last three years. 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 2014 who were serving as executive officers of the company at December 31, 2014. Additional information regarding the items reflected in each column follows the table.

| <u>Name and Principal Position</u> | <u>Year</u> | <u>Salary (\$)</u> | <u>Stock Awards \$(1)(2)</u> | <u>Option Awards \$(3)</u> | <u>Non-Equity Incentive Plan Compensation \$(4)</u> | <u>All Other Compensation (5)</u> | <u>Total (\$)</u> |
|---|-------------|------------------------|--------------------------------------|------------------------------------|---|---|-----------------------|
| William J. Merritt President and Chief Executive Officer | 2014 | 600,000 | 393,753 | 393,750 | 1,196,908 | 32,662 | 2,617,073 |
| | 2013 | 575,000 | 1,737,573 | 375,000 | 645,000 | 15,575 | 3,348,148 |
| | 2012 | 550,000 | 206,260 | — | 1,110,000 | 11,677 | 1,877,937 |
| Richard J. Brezski Chief Financial Officer and Treasurer | 2014 | 325,000 | 261,395 | 175,000 | 368,986 | 15,500 | 1,145,881 |
| | 2013 | 285,000 | 163,459 | 125,000 | 156,000 | 11,090 | 740,549 |
| | 2012 | 253,721 | 132,885 | — | 212,988 | 10,353 | 609,947 |
| Scott A. McQuilkin Senior Executive Vice President, Innovation | 2014 | 400,000 | 250,001 | 250,000 | 599,048 | 21,437 | 1,520,486 |
| | 2013 | 375,000 | 838,881 | 187,500 | 271,000 | 13,041 | 1,685,422 |
| | 2012 | 332,600 | 83,132 | — | 470,721 | 11,967 | 898,420 |
| James J. Nolan Executive Vice President, InterDigital Solutions | 2014 | 350,000 | 150,013 | 150,000 | 382,315 | 18,252 | 1,050,580 |
| | 2013 | 325,000 | 642,766 | 150,000 | 167,000 | 12,916 | 1,297,682 |
| | 2012 | 302,900 | 68,143 | — | 331,684 | 11,971 | 714,698 |
| Lawrence F. Shay Executive Vice President, Intellectual Property, and Chief Intellectual Property Counsel | 2014 | 425,000 | 250,001 | 250,000 | 636,928 | 20,906 | 1,582,835 |
| | 2013 | 410,000 | 1,044,806 | 250,000 | 266,000 | 13,909 | 1,984,715 |
| | 2012 | 387,000 | 96,769 | — | 526,041 | 11,677 | 1,021,487 |

- (1) 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, 2014. 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.
- (2) Amounts reported also reflect the value at the grant date of performance-based RSUs granted in such years based upon the probable outcome of the performance conditions for such awards, 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, 2014.

On March 15, 2014, the company granted performance-based RSU awards to its NEOs for the 2014-2016 cycle under its long-term compensation program. As of the date of grant, consistent with the estimate determined as of the grant date under FASB ASC Topic 718, the probable outcome of the performance condition for these grants was 0%. Accordingly, there is no value reported for the performance-based RSUs granted to the NEOs in 2014. The following table sets forth the grant date fair value of the performance-based RSUs granted to the NEOs in 2014 assuming that the highest level of performance conditions will be achieved and the grants vest at their maximum level of 200%:

| <u>NEO</u> | Maximum Value Performance-Based RSU Awards 2014-2016 Cycle (\$) |
|--------------------------|--|
| William J. Merritt | 1,575,011 |
| Richard J. Brezski | 700,039 |
| Scott A. McQuilkin | 1,000,003 |
| James J. Nolan | 600,051 |
| Lawrence F. Shay | 1,000,003 |

- (3) Amounts reported reflect the value recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718.
- (4) Amounts reported for fiscal 2014 include the value of payouts earned under the company's STIP.
- (5) Amounts reported for fiscal 2013 and 2012 are different than previously reported due to (a) the removal of premium amounts paid by the company for group term life insurance, because such group plan does not discriminate in scope, terms or operation in favor of the company's executive officers is available generally to all salaried employees, and (b) the addition of amounts related to supplemental long-term disability insurance paid by the company for the benefit of certain employees, including its executive officers. The following table details each component of the "All Other Compensation" column in the Summary Compensation Table for fiscal 2014, 2013 and 2012:

| <u>NEO</u> | | 401(k) Plan Matching Contributions \$(a) | Supplemental LTD \$(b) | Deferred Compensation Plan Matching Contributions \$(c) | Total (\$) |
|--------------------------|------|---|---------------------------------------|--|-----------------------|
| William J. Merritt | 2014 | 7,800 | 5,006 | 19,856 | 32,662 |
| | 2013 | 7,650 | 5,006 | 2,919 | 15,575 |
| | 2012 | 7,500 | 4,177 | — | 11,677 |
| Richard J. Brezski | 2014 | 7,800 | 3,440 | 4,260 | 15,500 |
| | 2013 | 7,650 | 3,440 | — | 11,090 |
| | 2012 | 7,500 | 2,853 | — | 10,353 |
| Scott A. McQuilkin | 2014 | 7,800 | 5,391 | 8,246 | 21,437 |
| | 2013 | 7,650 | 5,391 | — | 13,041 |
| | 2012 | 7,500 | 4,467 | — | 11,967 |
| James J. Nolan | 2014 | 7,800 | 5,266 | 5,186 | 18,252 |
| | 2013 | 7,650 | 5,266 | — | 12,916 |
| | 2012 | 7,500 | 4,471 | — | 11,971 |
| Lawrence F. Shay | 2014 | 7,800 | 4,177 | 8,929 | 20,906 |
| | 2013 | 7,650 | 4,177 | 2,082 | 13,909 |
| | 2012 | 7,500 | 4,177 | — | 11,677 |

- (a) Amounts represent company matching contributions to all employees, including the NEOs, on 50% of the first 6% of the employee's eligible salary and annual bonus contributed to the 401(k) Plan, up to the maximum amount permitted by the Internal Revenue Service.

- (b) Amounts represent premium amounts paid by the company for supplemental long-term disability insurance for the benefit of each NEO. Such amounts are paid by the company for employees at or above the director level.
- (c) Amounts represent company matching contributions made pursuant to the company's nonqualified deferred compensation plan for NEO contributions. For more information, see "Nonqualified Deferred Compensation."

Grants of Plan-Based Awards in 2014

The following table summarizes the grants of (i) cash awards under the STIP (STIP), (ii) options (OPT), time-based RSU awards (TRSU) and performance-based RSU awards (PSU) under the 2014-2016 cycle of the LTCP, and (iii) supplemental time-based RSU awards (SRSU) under the company's 2009 Stock Incentive Plan, each made to the NEOs during the year ended December 31, 2014. 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 or Base 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 | | 150,000 | 600,000 | 1,200,000 | | | | | | | |
| | OPT | 3/15/2014 | | | | | | | 37,658 | 30.69 | 393,750 | |
| | TRSU | 3/15/2014 | | | | | | 12,830 | | | 393,753 | |
| | PSU | 3/15/2014 | | | | 12,830 | 25,660 | 51,320 | | | 0 | |
| Richard J. Brezski | STIP | | 48,750 | 195,000 | 390,000 | | | | | | | |
| | SRSU(4) | 2/15/2014 | | | | | | | 3,000 | | 86,370 | |
| | OPT | 3/15/2014 | | | | | | | 16,737 | 30.69 | 175,000 | |
| | TRSU | 3/15/2014 | | | | | | 5,703 | | | 175,025 | |
| Scott A. McQuilkin | PSU | 3/15/2014 | | | | 5,703 | 11,405 | 22,810 | | | 0 | |
| | STIP | | 75,000 | 300,000 | 600,000 | | | | | | | |
| | OPT | 3/15/2014 | | | | | | | 23,910 | 30.69 | 250,000 | |
| | TRSU | 3/15/2014 | | | | | | 8,146 | | | 250,001 | |
| James J. Nolan | PSU | 3/15/2014 | | | | 8,146 | 16,292 | 32,584 | | | 0 | |
| | STIP | | 52,500 | 210,000 | 420,000 | | | | | | | |
| | OPT | 3/15/2014 | | | | | | | 14,346 | 30.69 | 150,000 | |
| | TRSU | 3/15/2014 | | | | | | 4,888 | | | 150,013 | |
| Lawrence F. Shay | PSU | 3/15/2014 | | | | 4,888 | 9,776 | 19,552 | | | 0 | |
| | STIP | | 79,688 | 318,750 | 637,500 | | | | | | | |
| | OPT | 3/15/2014 | | | | | | | 23,910 | 30.69 | 250,000 | |
| | TRSU | 3/15/2014 | | | | | | 8,146 | | | 250,001 | |
| | PSU | 3/15/2014 | | | | 8,146 | 16,292 | 32,584 | | | 0 | |

- (1) Amounts reported represent the potential threshold, target and maximum payouts the NEO could have earned pursuant to the STIP for fiscal 2014. 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 2014, which was paid in 2015 and is reported in the Summary Compensation Table above, was based on the company's achievement of the 2014 corporate and shared executive goals established by the Compensation Committee in March 2014 and departmental and individual performance of the NEO during 2014.
- (2) Amounts reported represent the potential threshold, target and maximum performance-based RSUs the NEO could earn pursuant to his performance-based RSU award under the 2014-2016 cycle. 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 2014 are scheduled to vest in full on March 15, 2017. Amounts reported for option grants reflect the value recognized for financial statement reporting purposes in accordance with FASB ASC Topic 718. For fiscal 2014, 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 43.82%; a risk-free interest rate of 1.53%; and a dividend yield of 1.30%. 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 probable outcome of the performance condition for the 2014-2016 cycle was 0%. Accordingly, there is no value reported for the performance-based RSUs granted in 2014.

- (4) Amount reported represents a supplemental grant of time-based RSUs awarded in connection with a recent promotion.

Outstanding Equity Awards at 2014 Fiscal Year End

The following table sets forth information concerning outstanding option and stock awards of the NEOs as of December 31, 2014.

| Name | Grant Date | Option Awards | | | | Stock Awards | | | | |
|------------------------------|-------------|---|---|---|----------------------------|------------------------|--|---|---|---|
| | | Number of Securities Underlying Unexercised Options (#) Exercisable (1) | Number of Securities Underlying Unexercised Options (#) Unexercisable (1) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (2) | 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) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(5) |
| William J. Merritt | 1/01/12 | | | | | 5,102 | 269,901 | | | |
| | 1/18/13 | 7,361 | 14,724 | — | 44.19 | 1/18/20 | | | | |
| | 1/18/13 | | | | | 8,685 | 459,468 | | | |
| | 1/18/13(6) | | | | | | | 14,332 | 758,182 | |
| | 1/18/13(7) | | | | | | | 17,372 | 918,990 | |
| | 1/18/13(8) | | | | | 8,530 | 451,238 | | | |
| | 3/15/14 | — | 37,658 | — | 30.69 | 3/15/21 | | | | |
| | 3/15/14 | | | | | 12,985 | 686,919 | | | |
| | 3/15/14(9) | | | | | | | 25,970 | 1,373,838 | |
| Richard J. Brezski | 1/01/12 | | | | | 664 | 35,177 | | | |
| | 5/09/12(10) | | | | | 992 | 52,487 | | | |
| | 1/18/13 | 2,454 | 4,908 | — | 44.19 | 1/18/20 | | | | |
| | 1/18/13 | | | | | 2,895 | 153,174 | | | |
| | 1/18/13(6) | | | | | | | 3,606 | 190,859 | |
| | 1/18/13(7) | | | | | | | 5,791 | 306,348 | |
| | 2/15/14(11) | | | | | 2,024 | 107,080 | | | |
| | 3/15/14 | — | 16,737 | — | 30.69 | 3/15/21 | | | | |
| | 3/15/14 | | | | | 5,772 | 305,399 | | | |
| 3/15/14(9) | | | | | | | 11,542 | 610,625 | | |
| Scott A. McQuilkin | 1/01/12 | | | | | 2,056 | 108,781 | | | |
| | 1/18/13 | 3,680 | 7,362 | — | 44.19 | 1/18/20 | | | | |
| | 1/18/13 | | | | | 4,342 | 229,734 | | | |
| | 1/18/13(6) | | | | | | | 5,777 | 305,644 | |
| | 1/18/13(7) | | | | | | | 8,686 | 459,522 | |
| | 1/18/13(8) | | | | | 4,094 | 216,577 | | | |
| | 3/15/14 | — | 23,910 | — | 30.69 | 3/15/21 | | | | |
| | 3/15/14 | | | | | 8,244 | 436,137 | | | |
| | 3/15/14(9) | | | | | | | 16,489 | 872,275 | |
| James J. Nolan | 1/01/12 | | | | | 1,685 | 89,169 | | | |
| | 1/18/13 | 2,944 | 5,890 | — | 44.19 | 1/18/20 | | | | |
| | 1/18/13 | | | | | 3,473 | 183,766 | | | |
| | 1/18/13(6) | | | | | | | 4,735 | 250,525 | |
| | 1/18/13(7) | | | | | | | 6,948 | 367,585 | |
| | 1/18/13(8) | | | | | 3,070 | 162,433 | | | |
| | 3/15/14 | — | 14,346 | — | 30.69 | 3/15/21 | | | | |
| | 3/15/14 | | | | | 4,947 | 261,704 | | | |
| | 3/15/14(9) | | | | | | | 9,894 | 523,408 | |
| Lawrence F. Shay | 1/01/12 | | | | | 2,393 | 126,627 | | | |
| | 1/18/13 | 4,907 | 9,816 | — | 44.19 | 1/18/20 | | | | |
| | 1/18/13 | | | | | 5,790 | 306,294 | | | |
| | 1/18/13(6) | | | | | | | 6,723 | 355,674 | |
| | 1/18/13(7) | | | | | | | 11,581 | 612,642 | |
| | 1/18/13(8) | | | | | 5,117 | 270,721 | | | |
| | 3/15/14 | — | 23,910 | — | 30.69 | 3/15/21 | | | | |
| | 3/15/14 | | | | | 8,244 | 436,137 | | | |
| | 3/15/14(9) | | | | | | | 16,489 | 872,275 | |

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- (1) Amounts reported represent awards of options 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, 2012 are time-based RSUs granted pursuant to the 2012-2014 cycle under the LTCP and vested in full on January 1, 2015. Unless otherwise indicated, all awards made on January 18, 2013 are time-based RSUs granted pursuant to the 2013-2015 cycle under the LTCP and are scheduled to vest in full on January 1, 2016. All awards made on March 15, 2014 are time-based RSUs granted pursuant to the 2014-2016 cycle under the LTCP and are scheduled to vest in full on March 15, 2017.
 - (3) Values reported were determined by multiplying the number of unvested time-based RSUs by \$52.90, the closing price of our common stock on December 31, 2014, the last trading day in 2014 (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 under the LTCP.
 - (5) Values reported were based on target performance measures and determined by multiplying the number of unvested performance-based RSUs by \$52.90, the closing price of our common stock on December 31, 2014, the last trading day in 2014 (plus cash in lieu of a fractional share).
 - (6) Performance-based RSU award granted pursuant to the 2012-2014 cycle under the LTCP, which was 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. As discussed above in "Compensation Discussion and Analysis," the Compensation Committee determined that an achievement level of 104% had been met with respect to the goals for this cycle, resulting in a payout of 110% of the target performance-based RSU award (plus the proportionate number of dividend equivalents accrued) on January 1, 2015.
 - (7) Performance-based RSU award granted pursuant to the 2013-2015 cycle 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.
 - (8) 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. The grant is scheduled to vest annually, in three equal installments, beginning on the grant date.
 - (9) Performance-based RSU award granted pursuant to the 2014-2016 cycle under the LTCP, which is scheduled to vest on March 15, 2017 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.
 - (10) Amount reported represents an additional award of time-based RSUs (including dividend equivalents accrued) granted pursuant to the 2012-2014 cycle under the LTCP, which vested 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) Supplemental grant of time-based RSUs awarded in connection with a recent promotion.

Option Exercises and Stock Vested in 2014

The following table sets forth information, on an aggregated basis, concerning stock options exercised and stock awards vested during 2014 for the NEOs.

| <u>Name</u> | <u>Option Awards</u> | | <u>Stock Awards</u> | |
|------------------------------|--|--|--|--|
| | <u>Number of Shares Acquired on Exercise (#)</u> | <u>Value Realized on Exercise (\$)</u> | <u>Number of Shares Acquired on Vesting (#)(1)</u> | <u>Value Realized on Vesting \$(2)</u> |
| William J. Merritt | — | — | 21,161 | 617,447 |
| Richard J. Brezski | — | — | 3,963 | 121,720 |
| Scott A. McQuilkin | — | — | 10,026 | 292,520 |
| James J. Nolan | — | — | 7,729 | 225,599 |
| Lawrence F. Shay | — | — | 11,572 | 337,304 |

- (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 introduced a nonqualified deferred compensation plan to complement the 401(k) Plan. 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. Pursuant to the terms of the deferred compensation plan, each eligible employee, including each NEO, may elect to defer base salary and STIP payouts, 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 annually 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 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 2014 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. Deferral elections had to be made by December 31, 2013. For 2014, 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 eligible deferrals. Matching contributions are 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. Matching contributions are made once annually after the end of the year.

The following table sets forth the relevant information regarding the deferred compensation plan for 2014.

| <u>Name</u> | <u>Executive Contributions in Last FY (\$)(1)</u> | <u>Registrant Contributions in Last FY (\$)(2)</u> | <u>Aggregate Earnings in Last FY (\$)(3)</u> | <u>Aggregate Withdrawals/ Distributions (\$)</u> | <u>Aggregate Balance at Last FYE (\$)(4)</u> |
|------------------------------|---|--|--|--|--|
| William J. Merritt | 279,904 | 19,856 | 21,411 | — | 421,639 |
| Richard J. Brezski | 19,500 | 4,260 | 1,372 | — | 25,132 |
| Scott A. McQuilkin | 67,750 | 8,246 | 4,392 | — | 80,388 |
| James J. Nolan | 83,500 | 5,186 | 5,695 | — | 94,381 |
| Lawrence F. Shay | 301,385 | 8,929 | 19,858 | — | 402,091 |

- (1) Contributions include deferred 2014 salary amounts and deferred 2013 STIP amounts (which were paid in 2014). The payouts of the 2014 STIP were not made until 2015; as a result, any deferrals of 2014 STIP amounts are not reflected in this column. For Messrs. Merritt and Shay, \$118,654 and \$168,385, respectively, were included in the "Salary" column of the Summary Compensation Table for fiscal 2014.
- (2) For the 2014 plan year, the company matched deferrals up to 50% of the first 6% of the participant's base salary and annual bonus, determined on a combined plan basis taking into account amounts deferred under both the 401(k) Plan and the deferred compensation plan during the 2014 calendar year. The amounts disclosed in this column reflect matching contributions (made by the company in 2015) for 2014 NEO deferral contributions and are included in the "All Other Compensation" column of the Summary Compensation Table for fiscal 2014. Because the 2014 STIP payments were made in 2015, the 2014 STIP deferrals are considered 2015 contributions and will be matched after year-end 2015.
- (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 2014 STIP payouts were not made until 2015, there were no 2014 earnings associated with the 2014 STIP deferral amounts.
- (4) Aggregate balance consists of employee contributions made in 2013 and 2014, company matching contributions made for 2013 and 2014 and notional investment earnings in 2013 and 2014. Set forth below are the amounts reported in the aggregate balance that were previously reported in the "Salary," "Non-Equity Incentive Plan Compensation" and "All Other Compensation" columns of the Summary Compensation Table for fiscal 2013:

| <u>Name</u> | <u>Salary (\$)</u> | <u>Non-Equity Incentive Plan Compensation (\$)</u> | <u>All Other Compensation \$(a)</u> |
|------------------------------|--------------------|--|-------------------------------------|
| William J. Merritt | 97,308 | 161,250 | 2,919 |
| Richard J. Brezski | — | 19,500 | — |
| Scott A. McQuilkin | — | 67,750 | — |
| James J. Nolan | — | 83,500 | — |
| Lawrence F. Shay | 69,385 | 133,000 | 2,082 |

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- (a) Reflects earnings associated with deferred 2013 salary amounts. Because the 2013 STIP payouts were not made until 2014, there were no 2013 earnings associated with the 2013 STIP deferral amounts reflected in the “Non-Equity Incentive Plan Compensation” column.

The deferred compensation plan was newly implemented in 2013; therefore, there are no amounts included that were reported as compensation to any NEO prior to 2013.

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, Performance-Based RSU, Option and STIP Awards

If on December 31, 2014 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 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 award. For such 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. 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 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 awards, 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, 2014 under these plans in connection with other termination scenarios are discussed below in connection with the relevant scenario.

Deferred Compensation

If on December 31, 2014, 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, Performance-Based RSU, 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 in a form acceptable to the company

(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 60 days after 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.

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 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 supplemental 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 supplemental 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 or other equity 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, 2014, the last business day of 2014, and the price per share used to calculate the value of the company’s stock awards was \$52.90, 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, 2014, 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 (\$)(8) | Payments under Executive Life Insurance Program (\$)(9) | Payments under Executive Long-Term Disability Program (\$)(10) | Welfare Benefits (\$) | Out- placement Services (\$)(13) |
|---|-------------------|---|--|-------------------------------------|---|--|-----------------------------|---|
| Disability | — | 1,888,149(3) | 442,561(6) | 421,639 | — | 20,000 | — | — |
| Retirement | — | 269,901(4) | — | 421,639 | — | — | — | — |
| Death | — | 1,888,149(3) | 442,561(6) | 421,639 | 300,000 | — | — | — |
| Without Cause | 1,500,000(1) | 1,888,149(3) | 442,561(6) | 421,639 | — | — | 13,961(11) | 10,000 |
| Voluntary Resignation for Good Reason | 1,500,000(1) | — | — | 421,639 | — | — | 13,961(11) | 10,000 |
| Change in Control (Termination by Us Without Cause or by Mr. Merritt for Good Reason, within 1 year) .. | 2,400,000(2) | 5,508,313(5) | 451,238(7) | 421,639 | — | — | 18,615(12) | 10,000 |
| Change in Control (Without Termination) | — | 269,901(4) | — | 421,639 | — | — | — | — |

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- (1) This amount represents severance equal to two and a half times Mr. Merritt's base salary of \$600,000, 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 \$600,000 and target 2014 STIP payout of \$600,000. 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, 2014, of Mr. Merritt's time-based RSUs and performance-based RSU award granted under the 2012-2014 cycle, time-based RSUs granted under the 2013-2015 cycle and time-based RSUs granted under the 2014-2016 cycle that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the awards, Mr. Merritt would forfeit eligibility to receive any payout of performance-based RSUs under the 2013-2015 and 2014-2016 cycles since a termination on December 31, 2014 would occur during the first year or second year of those cycles. For time-based RSUs granted under the 2013-2015 and 2014-2016 cycles, 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 award pursuant to the 2012-2014 cycle (the performance period for which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$269,901, representing the value of 5,102 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$834,567, representing the value of 15,776 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$300,421, representing the value of 5,679 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); and (d) \$184,940, representing the value of 3,496 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share). In addition, in the event of a termination by the company without cause, this amount also includes the value of Mr. Merritt's options granted under the 2013-2015 and 2014-2016 cycles that would vest. Pursuant to the terms of the awards, such options would vest on a pro rata basis, resulting in the accelerated vesting of 9,628 and 9,656 options, with a value of \$83,860 and \$214,460, respectively. The value of accelerated options is the aggregate spread between the closing stock price on December 31, 2014 of \$52.90 and the exercise price of the options.
 - (4) This amount represents the value, at December 31, 2014, of 5,102 time-based RSUs (plus cash in lieu of a fractional share) granted under the 2012-2014 cycle of the LTCP that would vest upon retirement or immediately upon a change in control.
 - (5) This amount represents the value, at December 31, 2014, of Mr. Merritt's time-based RSUs, performance-based RSU awards and option awards granted under the 2012-2014, 2013-2015 and 2014-2016 cycles 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 awards would be paid out at target; however, for the performance-based RSU award granted under the 2012-2014 cycle (which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$269,901, representing the value of 5,102 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$834,567, representing the value of 15,776 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$459,468, representing the value of 8,685 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (d) \$918,990, representing the value of 17,372 performance-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (e) \$686,919, representing the value of 12,985 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (f) \$1,373,838 representing the value of 25,970 performance-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (g) \$128,246, representing the

value of 14,724 options granted under the 2013-2015 cycle; and (h) \$836,384 representing the value of 37,658 options granted under the 2014-2016 cycle. The value of accelerated options is the aggregate spread between the closing stock price of \$52.90 and the exercise price of the options.

- (6) This amount represents the value, at December 31, 2014, of 8,365 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.
- (7) This amount represents the value, at December 31, 2014, of an unvested discretionary grant of 8,530 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.
- (8) This amount represents the balance, at December 31, 2014, of Mr. Merritt's deferred compensation plan account (including matching contributions made for 2014), 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.
- (9) 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.
- (10) 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, 2014, 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.
- (11) 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, 2014 pursuant to his employment agreement.
- (12) 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, 2014 pursuant to his employment agreement.
- (13) 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, 2014, 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 (\$)(8) | Payments under Executive Life Insurance Program (\$)(9) | Payments under Executive Long-Term Disability Program (\$)(10) | Welfare Benefits (\$) | Out- placement Services (\$)(13) |
|---|-------------------|---|--|-------------------------------------|---|--|-----------------------------|---|
| Disability | — | 603,278(3) | 45,303(6) | 25,132 | — | 20,000 | — | — |
| Retirement | — | 87,664(4) | — | 25,132 | — | — | — | — |
| Death | — | 603,278(3) | 45,303(6) | 25,132 | 300,000 | — | — | — |
| Without Cause | 487,500(1) | 603,278(3) | 45,303(6) | 25,132 | — | — | 14,851(11) | 10,000 |
| Voluntary Resignation for Good Reason | 487,500(1) | — | — | 25,132 | — | — | 14,851(11) | 10,000 |
| Change in Control (Termination by Us Without Cause or by Mr. Brezski for Good Reason, within 1 year) | 845,000(2) | 2,087,599(5) | 107,080(7) | 25,132 | — | — | 29,701(12) | 10,000 |
| Change in Control (Without Termination) | — | 87,664(4) | — | 25,132 | — | — | — | — |

- (1) This amount represents severance equal to one and a half times Mr. Brezski'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. Brezski's base salary of \$325,000 and one times his target 2014 STIP payout of \$195,000. 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, 2014, of Mr. Brezski's time-based RSUs and performance-based RSU award granted under the 2012-2014 cycle, time-based RSUs granted under the 2013-2015 cycle and time-based RSUs granted under the 2014-2016 cycle that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the awards, Mr. Brezski would forfeit eligibility to receive any payout of performance-based RSUs under the 2013-2015 and 2014-2016 cycles since a termination on December 31, 2014 would occur during the first year or second year of those cycles. For time-based RSUs granted under the 2013-2015 and 2014-2016 cycles, 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 award granted under the 2012-2014 cycle (the performance period for which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$87,664, representing the value of 1,657 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$209,971, representing the value of 3,969 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$100,152, representing the value of 1,893 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); and (d) \$82,207, representing the value of 1,554 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share). In addition, in the event of a termination by the company without cause, this amount also includes the value of Mr. Brezski's options granted under the 2013-2015 and 2014-2016 cycles that would vest. Pursuant to the terms of the awards, such options would vest on a pro rata basis, resulting in the accelerated vesting of 3,210 and 4,292 options, with a value of \$27,959 and \$95,325, respectively. The value of accelerated options is the aggregate spread between the closing stock price on December 31, 2014 of \$52.90 and the exercise price of the options.

- (4) This amount represents the value, at December 31, 2014, of 1,657 time-based RSUs (plus cash in lieu of a fractional share) granted under the 2012-2014 cycle of the LTCP that would vest upon retirement or immediately upon a change in control.
- (5) This amount represents the value, at December 31, 2014, of Mr. Brezski's time-based RSUs, performance-based RSU awards and option awards granted under the 2012-2014, 2013-2015 and 2014-2016 cycles 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 awards would be paid out at target; however, for the performance-based RSU award granted under the 2012-2014 cycle (which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$87,664, representing the value of 1,657 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$209,971, representing the value of 3,969 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$153,174, representing the value of 2,895 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (d) \$306,348, representing the value of 5,791 performance-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (e) \$305,339, representing the value of 5,772 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (f) \$610,625 representing the value of 11,543 performance-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (g) \$42,749, representing the value of 4,908 options granted under the 2013-2015 cycle; and (h) \$371,729 representing the value of 16,737 options granted under the 2014-2016 cycle. The value of accelerated options is the aggregate spread between the closing stock price of \$52.90 and the exercise price of the options.
- (6) This amount represents the value, at December 31, 2013, of 856 time-based RSUs (plus cash in lieu of a fractional share) from the pro rata vesting of a supplemental RSU grant upon termination due to disability, death or termination by the company without cause.
- (7) This amount represents the value, at December 31, 2014, of an unvested supplemental grant of 2,024 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.
- (8) This amount represents the balance, at December 31, 2014, of Mr. Brezski's deferred compensation plan account (including matching contributions made for 2014), which is payable (a) upon retirement, disability or his voluntary termination of employment with the company with or without good reason, in a lump sum within 90 days of the date of termination, (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.
- (9) 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.
- (10) 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, 2014, 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.
- (11) 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, 2014 pursuant to his employment agreement.
- (12) 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, 2014 pursuant to his employment agreement.

- (13) 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, 2014, 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 (\$)(8) | Payments under Executive Life Insurance Program (\$)(9) | Payments under Executive Long-Term Disability Program (\$)(10) | Welfare Benefits (\$) | Out- placement Services (\$)(13) |
|---|-------------------|---|--|-------------------------------------|---|--|-----------------------------|---|
| Disability | — | 890,750(3) | 212,412(6) | 80,388 | — | 20,000 | — | — |
| Retirement | — | 108,781(4) | — | 80,388 | — | — | — | — |
| Death | — | 890,750(3) | 212,412(6) | 80,388 | 300,000 | — | — | — |
| Without Cause | 600,000(1) | 890,750(3) | 212,412(6) | 80,388 | — | — | 15,899(11) | 10,000 |
| Voluntary Resignation for Good Reason | 600,000(1) | — | — | 80,388 | — | — | 15,899(11) | 10,000 |
| Change in Control (Termination by Us Without Cause or by Mr. McQuilkin for Good Reason, within 1 year) | 1,400,000(2) | 3,037,849(5) | 216,577(7) | 80,388 | — | — | 31,798(12) | 10,000 |
| Change in Control (Without Termination) | — | 108,781(4) | — | 80,388 | — | — | — | — |

- (1) This amount represents severance equal to one and a half times Mr. McQuilkin's base salary of \$400,000, 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 \$400,000 and target 2014 STIP payout of \$300,000. 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, 2014, of Mr. McQuilkin's time-based RSUs and performance-based RSU award granted under the 2012-2014 cycle, time-based RSUs granted under the 2013-2015 cycle and time-based RSUs granted under the 2014-2016 cycle that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the awards, Mr. McQuilkin would forfeit eligibility to receive any payout of performance-based RSUs under the 2013-2015 and 2014-2016 cycles since a termination on December 31, 2014 would occur during the first year or second year of those cycles. For time-based RSUs granted under the 2013-2015 and 2014-2016 cycles, 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 award granted under the 2012-2014 cycle (the performance period for which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$108,781, representing the value of 2,056 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$336,236, representing the value of 6,356 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$150,211, representing the value of 2,839 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); and (d) \$117,422, representing the value of 2,219 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share). In addition, in the event of a termination by the

company without cause, this amount also includes the value of Mr. McQuilkin's options granted under the 2013-2015 and 2014-2016 cycles that would vest. Pursuant to the terms of the awards, such options would vest on a pro rata basis, resulting in the accelerated vesting of 4,814 and 6,131 options, with a value of \$41,930 and \$136,170, respectively. The value of accelerated options is the aggregate spread between the closing stock price on December 31, 2014 of \$52.90 and the exercise price of the options.

- (4) This amount represents the value, at December 31, 2014, of 5,102 time-based RSUs (plus cash in lieu of a fractional share) granted under the 2012-2014 cycle of the LTCP that would vest upon retirement or immediately upon a change in control.
- (5) This amount represents the value, at December 31, 2014, of Mr. McQuilkin's time-based RSUs, performance-based RSU awards and option awards granted under the 2012-2014, 2013-2015 and 2014-2016 cycles 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 awards would be paid out at target; however, for the performance-based RSU award granted under the 2012-2014 cycle (which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$108,781, representing the value of 2,056 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$336,236, representing the value of 6,356 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$229,734, representing the value of 4,342 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (d) \$459,522, representing the value of 8,686 performance-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (e) \$436,137, representing the value of 8,244 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (f) \$872,275 representing the value of 16,489 performance-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (g) \$64,123, representing the value of 7,362 options granted under the 2013-2015 cycle; and (h) \$531,041 representing the value of 23,910 options granted under the 2014-2016 cycle. The value of accelerated options is the aggregate spread between the closing stock price of \$52.90 and the exercise price of the options.
- (6) This amount represents the value, at December 31, 2014, of 4,015 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.
- (7) This amount represents the value, at December 31, 2014, of an unvested discretionary grant of 4,094 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.
- (8) This amount represents the balance, at December 31, 2014, of Mr. McQuilkin's deferred compensation plan account (including matching contributions made for 2014), which is payable (a) upon retirement, disability or his voluntary termination of employment with the company with or without good reason, in a lump sum within 90 days of the date of termination, (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.
- (9) 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.
- (10) 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, 2014, 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.
- (11) 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, 2014 pursuant to his employment agreement.

- (12) 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, 2014 pursuant to his employment agreement.
- (13) 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, 2014, 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 (\$)(8) | Payments under Executive Life Insurance Program (\$)(9) | Payments under Executive Long-Term Disability Program (\$)(10) | Welfare Benefits (\$) | Out- placement Services (\$)(13) |
|---|-------------------|---|--|-------------------------------------|---|--|-----------------------------|---|
| Disability | — | 670,638(3) | 159,309(6) | 94,381 | — | 20,000 | — | — |
| Retirement | — | 89,169(4) | — | 94,381 | — | — | — | — |
| Death | — | 670,638(3) | 159,309(6) | 94,381 | 300,000 | — | — | — |
| Without Cause | 525,000(1) | 670,638(3) | 159,309(6) | 94,381 | — | — | 14,851(11) | 10,000 |
| Voluntary Resignation for Good Reason | 525,000(1) | — | — | 94,381 | — | — | 14,851(11) | 10,000 |
| Change in Control (Termination by Us Without Cause or by Mr. Nolan for Good Reason, within 1 year) | 910,000(2) | 2,071,153(5) | 162,433(7) | 94,381 | — | — | 29,701(12) | 10,000 |
| Change in Control (Without Termination) | — | 89,169(4) | — | 94,381 | — | — | — | — |

- (1) This amount represents severance equal to one and a half times Mr. Nolan's base salary of \$350,000, 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 \$350,000 and one times his target 2014 STIP payout of \$210,000. 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, 2014, of Mr. Nolan's time-based RSUs and performance-based RSU award granted under the 2012-2014 cycle, time-based RSUs granted under the 2013-2015 cycle and time-based RSUs granted under the 2014-2016 cycle that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the awards, Mr. Nolan would forfeit eligibility to receive any payout of performance-based RSUs under the 2013-2015 and 2014-2016 cycles since a termination on December 31, 2014 would occur during the first year or second year of those cycles. For time-based RSUs granted under the 2013-2015 and 2014-2016 cycles, 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 award granted under the 2012-2014 cycle (the performance period for which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$89,169, representing the value of 1,685 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$275,594, representing the value of 5,209 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$120,154, representing the value of

2,271 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); and (d) \$70,459, representing the value of 1,331 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share). In addition, in the event of a termination by the company without cause, this amount also includes the value of Mr. Nolan's options granted under the 2013-2015 and 2014-2016 cycles that would vest. Pursuant to the terms of the awards, such options would vest on a pro rata basis, resulting in the accelerated vesting of 3,852 and 3,679 options, with a value of \$33,551 and \$81,711, respectively. The value of accelerated options is the aggregate spread between the closing stock price on December 31, 2014 of \$52.90 and the exercise price of the options.

- (4) This amount represents the value, at December 31, 2014, of 1,685 time-based RSUs (plus cash in lieu of a fractional share) granted under the 2012-2014 cycle of the LTCP that would vest upon retirement or immediately upon a change in control.
- (5) This amount represents the value, at December 31, 2014, of Mr. Nolan's time-based RSUs, performance-based RSU awards and option awards granted under the 2012-2014, 2013-2015 and 2014-2016 cycles 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 awards would be paid out at target; however, for the performance-based RSU award granted under the 2012-2014 cycle (which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$89,169, representing the value of 1,685 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$275,594, representing the value of 5,209 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$183,766, representing the value of 3,473 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (d) \$367,585, representing the value of 6,948 performance-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (e) \$261,704, representing the value of 4,947 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (f) \$523,408 representing the value of 9,894 performance-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (g) \$51,302, representing the value of 5,890 options granted under the 2013-2015 cycle; and (h) \$318,625 representing the value of 14,346 options granted under the 2014-2016 cycle. The value of accelerated options is the aggregate spread between the closing stock price of \$52.90 and the exercise price of the options.
- (6) This amount represents the value, at December 31, 2014, of 3,011 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.
- (7) This amount represents the value, at December 31, 2014, of an unvested discretionary grant of 3,070 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.
- (8) This amount represents the balance, at December 31, 2014, of Mr. Nolan's deferred compensation plan account (including matching contributions made for 2014), 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 beginning in 2020, (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.
- (9) 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.
- (10) 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, 2014, 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.

- (11) 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, 2014 pursuant to his employment agreement.
- (12) 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, 2014 pursuant to his employment agreement.
- (13) 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, 2014, 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 (\$)(8) | Payments under Executive Life Insurance Program (\$)(9) | Payments under Executive Long-Term Disability Program (\$)(10) | Welfare Benefits (\$) | Out- placement Services (\$)(13) |
|---|-------------------|---|--|-------------------------------------|---|--|-----------------------------|---|
| Disability | — | 1,027,643(3) | 265,515(6) | 402,091 | — | 18,500 | — | — |
| Retirement | — | 126,627(4) | — | 402,091 | — | — | — | — |
| Death | — | 1,027,643(3) | 265,515(6) | 402,091 | 300,000 | — | — | — |
| Without Cause | 637,500(1) | 1,027,643(3) | 265,515(6) | 402,091 | — | — | 14,851(11) | 10,000 |
| Voluntary Resignation for Good Reason | 637,500(1) | — | — | 402,091 | — | — | 14,851(11) | 10,000 |
| Change in Control (Termination by Us Without Cause or by Mr. Shay for Good Reason, within 1 year) | 1,487,500(2) | 3,361,759(5) | 270,721(7) | 402,091 | — | — | 29,701(12) | 10,000 |
| Change in Control (Without Termination) | — | 126,627(4) | — | 402,091 | — | — | — | — |

- (1) This amount represents severance equal to one and a half times Mr. Shay's base salary of \$425,000, 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 \$425,000 and target 2014 STIP payout of \$318,750. 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, 2014, of Mr. Shay's time-based RSUs and performance-based RSU award granted under the 2012-2014 cycle, time-based RSUs granted under the 2013-2015 cycle and time-based RSUs granted under the 2014-2016 cycle that would vest upon termination due to disability, death or termination by the company without cause. Pursuant to the terms of the awards, Mr. Shay would forfeit eligibility to receive any payout of performance-based RSUs under the 2013-2015 and 2014-2016 cycles since a termination on December 31, 2014 would occur during the first year or second year of those cycles. For time-based RSUs granted under the 2013-2015 and 2014-2016 cycles, 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 award granted under the 2012-2014 cycle (the performance period for which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$126,627, representing the value of 2,393 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$391,246, representing the value of 7,395 performance-based RSUs

granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$200,269, representing the value of 3,785 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); and (d) \$117,422, representing the value of 2,219 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share). In addition, in the event of a termination by the company without cause, this amount also includes the value of Mr. Shay's options granted under the 2013-2015 and 2014-2016 cycles that would vest. Pursuant to the terms of the awards, such options would vest on a pro rata basis, resulting in the accelerated vesting of 6,419 and 6,131 options, with a value of \$55,909 and \$136,170, respectively. The value of accelerated options is the aggregate spread between the closing stock price on December 31, 2014 of \$52.90 and the exercise price of the options.

- (4) This amount represents the value, at December 31, 2014, of 2,393 time-based RSUs (plus cash in lieu of a fractional share) granted under the 2012-2014 cycle of the LTCP that would vest upon retirement or immediately upon a change in control.
- (5) This amount represents the value, at December 31, 2014, of Mr. Shay's time-based RSUs, performance-based RSU awards and option awards granted under the 2012-2014, 2013-2015 and 2014-2016 cycles 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 awards would be paid out at target; however, for the performance-based RSU award granted under the 2012-2014 cycle (which ended December 31, 2014), the amount reflects the actual payout of 110% 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) \$126,627, representing the value of 2,393 time-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (b) \$391,246, representing the value of 7,395 performance-based RSUs granted under the 2012-2014 cycle (plus cash in lieu of a fractional share); (c) \$306,294, representing the value of 5,790 time-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (d) \$612,642, representing the value of 11,581 performance-based RSUs granted under the 2013-2015 cycle (plus cash in lieu of a fractional share); (e) \$436,137, representing the value of 8,244 time-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (f) \$872,275 representing the value of 16,489 performance-based RSUs granted under the 2014-2016 cycle (plus cash in lieu of a fractional share); (g) \$85,497, representing the value of 9,816 options granted under the 2013-2015 cycle; and (h) \$531,041 representing the value of 23,910 options granted under the 2014-2016 cycle. The value of accelerated options is the aggregate spread between the closing stock price of \$52.90 and the exercise price of the options.
- (6) This amount represents the value, at December 31, 2014, of 5,019 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.
- (7) This amount represents the value, at December 31, 2014, of an unvested discretionary grant of 5,117 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.
- (8) This amount represents the balance, at December 31, 2014, of Mr. Shay's deferred compensation plan account (including matching contributions made for 2014), 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.
- (9) 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.
- (10) 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, 2014, 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.

- (11) 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, 2014 pursuant to his employment agreement.
- (12) 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, 2014 pursuant to his employment agreement.
- (13) 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, 2014:

| <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 | 2,229,229 | \$24.90 | 1,456,943 |
| Equity compensation plans not approved by InterDigital shareholders(3) | — | \$ — | — |
| Total | 2,229,229 | \$24.90 | 1,456,943 |

- (1) Column (a) includes 707,154 shares of common stock underlying outstanding time-based RSU awards and 1,185,474 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) The company does not have any awards outstanding or shares remaining available for grant under equity compensation plans not approved by its shareholders.

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 36,309,193 shares of our common stock outstanding as of March 31, 2015, 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, 2015, 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> |
| Directors and Director Nominees: | | |
| Gilbert F. Amelio(1) | 11,507 | * |
| Jeffrey K. Belk(2) | 14,108 | * |
| Steven T. Clontz(3) | 124,778 | * |
| S. Douglas Hutcheson | — | |
| Edward B. Kamins | 9,811 | * |
| John A. Kritzmacher | 4,475 | * |
| William J. Merritt(4) | 145,698 | * |
| Kai O. Öistämö | — | |
| Jean F. Rankin | 11,899 | * |
| Robert S. Roath(5) | 23,260 | * |
| NEOs: | | |
| Richard J. Brezski(6) | 24,469 | * |
| Scott A. McQuilkin(7) | 58,089 | * |
| James J. Nolan(8) | 50,671 | * |
| Lawrence F. Shay(9) | 54,476 | * |
| All directors and executive officers as a group (17 persons)(10) | 548,441 | 1.5% |
| Greater Than 5% Shareholders: | | |
| BlackRock, Inc.(11) | 3,160,002 | 8.5% |
| 55 East 52nd Street | | |
| New York, New York 10022 | | |
| First Pacific Advisors, LLC(12) | 2,897,823 | 7.7% |
| 11601 Wilshire Boulevard, Suite 1200 | | |
| Los Angeles, California 90025 | | |
| The Vanguard Group(13) | 2,341,983 | 6.3% |
| 100 Vanguard Boulevard | | |
| Malvern, Pennsylvania 19355 | | |

* Represents less than 1% of our outstanding common stock.

- (1) Includes 7,637 shares of common stock that have vested but have been deferred by Dr. Amelio.
- (2) Includes 3,334 shares of common stock that have vested but have been deferred by Mr. Belk.
- (3) Includes 37,016 shares of common stock that have vested but have been deferred by Mr. Clontz.

- (4) Includes 27,275 shares of common stock that Mr. Merritt has the right to acquire through the exercise of stock options within 60 days of March 31, 2015 and 3,140 whole shares of common stock beneficially owned by Mr. Merritt through participation in the 401(k) Plan.
- (5) Includes 13,008 shares of common stock that have vested but have been deferred by Mr. Roath.
- (6) Includes 10,487 shares of common stock that Mr. Brezski has the right to acquire through the exercise of stock options within 60 days of March 31, 2015 and 1,720 whole shares of common stock beneficially owned by Mr. Brezski through participation in the 401(k) Plan.
- (7) Includes 15,331 shares of common stock that Mr. McQuilkin has the right to acquire through the exercise of stock options within 60 days of March 31, 2015 and 1,306 whole shares of common stock beneficially owned by Mr. McQuilkin through participation in the 401(k) Plan.
- (8) Includes 10,671 shares of common stock that Mr. Nolan has the right to acquire through the exercise of stock options within 60 days of March 31, 2015 and 3,122 whole shares of common stock beneficially owned by Mr. Nolan through participation in the 401(k) Plan.
- (9) Includes 17,785 shares of common stock that Mr. Shay has the right to acquire through the exercise of stock options within 60 days of March 31, 2015 and 3,174 whole shares of common stock beneficially owned by Mr. Shay through participation in the 401(k) Plan.
- (10) Includes: 87,681 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, 2015; 1,519 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, 2015; 60,995 shares of common stock that have vested but have been deferred by all directors and officers as a group; and 12,462 whole shares of common stock beneficially owned by all officers and directors as a group through participation in the 401(k) Plan.
- (11) As of December 31, 2014, based on information contained in the Schedule 13G/A filed on January 22, 2015 by BlackRock, Inc.
- (12) As of December 31, 2014, based on information contained in the Schedule 13G filed on February 13, 2015 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 2,897,823 shares of the company’s common stock. Messrs. Rodriguez, Atwood and Romick expressly disclaim beneficial ownership of the securities owned by FPA’s clients.
- (13) As of December 31, 2014, based on information contained in the Schedule 13G/A filed on February 10, 2015 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 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 2014, 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 2014 all of our directors and officers timely filed all reports required by Section 16(a) of the Exchange Act, with the exception of one report filed on behalf of Ms. MacNichol on August 25, 2014 to report an award of restricted stock units granted on August 15, 2014.

Shareholder Proposals

How may shareholders make proposals or director nominations for the 2016 annual meeting?

Shareholders interested in submitting a proposal for inclusion in our proxy statement for the 2016 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 2016 annual meeting, shareholder proposals must be received no later than December 29, 2015, 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 2016 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 12, 2016, and no later than April 11, 2016. However, if the date of our 2016 annual meeting is more than 30 days before or more than 60 days after the anniversary of our 2015 annual meeting, the submission and the required information must be received by us no earlier than the 90th day prior to the 2016 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 2016 annual meeting. Proposals or nominations that do not comply with the advance notice requirements in our bylaws will not be entertained at the 2016 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 2015, 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 for an anticipated fee of not more than \$15,000.

What is “householding” of proxy materials, and can it save the company money?

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy materials with respect to two or more shareholders sharing the same address by delivering a single annual report and proxy statement to those shareholders. This process, which is commonly referred to as “householding,” potentially provides extra convenience for shareholders and cost savings for companies. Although we do not household for registered shareholders, a number of brokerage firms have instituted householding for shares held in street name, delivering a single set of proxy materials to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, now or in the future, you no longer wish to participate in householding and would prefer to receive a separate Notice or annual report and proxy statement, please notify us by calling (302) 281-3600 or by sending a written request to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727, and we will promptly deliver a separate copy of our Notice or annual report and proxy statement, as applicable. If you hold your shares in street name and are receiving multiple copies of the Notice or annual report and proxy statement and wish to receive only one, please notify your broker.

Annual Report on Form 10-K

How can I receive the annual report?

We will provide to any shareholder without charge a copy of our 2014 annual report on Form 10-K upon written request to our Secretary at InterDigital, Inc., 200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727. Our annual report booklet and this proxy statement are also available online at <http://ir.interdigital.com/annuals-proxies.cfm>.

Other Business

Will there be any other business conducted at the annual meeting?

As of the date of this proxy statement, we know of no business that will be presented for consideration at the annual meeting other than the items referred to in this proxy statement. If any other matter is properly brought before the annual meeting for action by shareholders, proxies will be voted in accordance with the recommendation of the Board or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

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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, LLC

S. Douglas Hutcheson

Chief Executive Officer, Laser, Inc.

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.

Kai O. Öistämö

Former Executive Vice President, Chief Development Officer,
Nokia Corporation

Jean F. Rankin

Former Executive Vice President, General Counsel and
Secretary, LSI Corporation

Robert S. Roath

Senior Vice President and Chief Financial Officer (Retired),
RJR Nabisco, Inc.

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, June 10, 2015

11:00 a.m. Eastern Time

www.virtualshareholdermeeting.com/IDCC

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:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, New York 11219
+1 800 937 5449
<http://www.amstock.com>

DESIGN & PHOTOGRAPHY

CavaliereDesign.com
Tallulah Maskell-Key

Corporate Information is as of April 17, 2015.

InterDigital is a registered trademark of InterDigital, Inc.
All other trademarks, service marks, and/or trade names
appearing in this Annual Report are the property of their
respective holders.

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

Marie H. MacNichol

Chief Licensing Counsel and Chief Licensing Officer

Scott A. McQuilkin

Senior Executive Vice President, Innovation

James J. Nolan

Executive Vice President, InterDigital Solutions

Lawrence F. Shay

Executive Vice President, Intellectual Property, and Chief
Intellectual Property Counsel

Byung K. Yi

Executive Vice President, InterDigital Labs, and Chief
Technology Officer

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

INVESTOR RELATIONS

Patrick Van de Wille

Chief Communications Officer

+1 858 210 4814

e-mail: patrick.vandewille@InterDigital.com

CORPORATE HEADQUARTERS

200 Bellevue Parkway, Suite 300
Wilmington, Delaware 19809
+1 302 281 3600

RESEARCH & DEVELOPMENT FACILITIES

781 Third Avenue
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Montreal, Quebec, Canada
H3A 3G4

64 Great Easter Street, 2nd Floor
London, England
EC2A 3QR

(Yeoksam-dong) 21-6
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South Korea



InterDigital, Inc.
200 Bellevue Parkway, Suite 300
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+1 302 281 3600

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