

InterDigital, Inc.
Form 10-Q
October 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended September 30, 2012

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)

200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727

(Address of Principal Executive Offices and Zip Code)

(302) 281-3600

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting
company)

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

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

Common Stock, par value \$0.01 per share

40,950,283

Title of Class

Outstanding at October 24, 2012

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

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTERDIGITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	SEPTEMBER 30, 2012	DECEMBER 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$520,892	\$342,211
Short-term investments	260,435	335,783
Accounts receivable, less allowances of \$1,750	36,302	28,079
Deferred tax assets	55,175	53,990
Prepaid and other current assets	8,859	8,824
Total current assets	881,663	768,887
PROPERTY AND EQUIPMENT, NET	7,079	7,997
PATENTS, NET	145,129	137,963
DEFERRED TAX ASSETS	55,181	54,110
OTHER NON-CURRENT ASSETS	26,554	28,011
	233,943	228,081
TOTAL ASSETS	\$1,115,606	\$996,968
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$—	\$180
Accounts payable	16,052	7,110
Accrued compensation and related expenses	20,689	14,129
Deferred revenue	94,664	134,087
Taxes payable	133,751	3,265
Dividends payable	4,095	4,570
Other accrued expenses	10,415	9,812
Total current liabilities	279,666	173,153
LONG-TERM DEBT	198,357	192,529
LONG-TERM DEFERRED REVENUE	67,252	153,953
OTHER LONG-TERM LIABILITIES	3,377	5,651
TOTAL LIABILITIES	548,652	525,286
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, 69,350 and 69,118 shares issued and 40,940 and 45,548 shares outstanding	693	691
Additional paid-in capital	577,240	573,950

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Retained earnings	709,955	466,727	
Accumulated other comprehensive income (loss)	1,007	(439)
	1,288,895	1,040,929	
Treasury stock, 28,410 and 23,570 shares of common held at cost	721,941	569,247	
Total shareholders' equity	566,954	471,682	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,115,606	\$996,968	

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2011	2012	2011
REVENUES:				
Patent licensing royalties	\$58,384	\$75,281	\$189,310	\$220,794
Patent sales	375,000	—	384,000	—
Technology solutions	626	1,174	1,876	3,992
	\$434,010	\$76,455	\$575,186	\$224,786
OPERATING EXPENSES:				
Patent administration and licensing	45,551	17,900	94,979	50,604
Development	16,375	17,015	51,041	50,202
Selling, general and administrative	8,865	9,387	28,968	24,714
	70,791	44,302	174,988	125,520
Income from operations	363,219	32,153	400,198	99,266
OTHER EXPENSE	(2,708	) (3,149	) (7,926	) (7,472
Income before income taxes	360,511	29,004	392,272	91,794
INCOME TAX PROVISION	(124,842	) (2,798	) (136,000	) (25,093
NET INCOME	\$235,669	\$26,206	\$256,272	\$66,701
NET INCOME PER COMMON SHARE — BASIC	\$5.61	\$0.58	\$5.86	\$1.47
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	42,024	45,463	43,761	45,380
NET INCOME PER COMMON SHARE — DILUTED	\$5.56	\$0.57	\$5.81	\$1.45
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	42,353	46,281	44,072	46,000
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.10	\$0.10	\$0.30	\$0.30

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2011	2012	2011
Net income	\$235,669	\$26,206	\$256,272	\$66,701
Unrealized gain (loss) investments, net of tax	709	(473)	1,446	(540)
Total comprehensive income	\$236,378	\$25,733	\$257,718	\$66,161

The accompanying notes are an integral part of these statements.

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

(in thousands)

(unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$256,272	\$66,701
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,213	17,726
Amortization of deferred financing fees and accretion of debt discount	6,806	4,321
Deferred revenue recognized	(155,344	) (175,213
Increase in deferred revenue	29,220	47,478
Deferred income taxes	(2,256	) 7,310
Share-based compensation	4,637	6,036
Impairment of long-term investment	—	1,616
Non-cash cost of patent sales	10,654	—
Other	154	(301
(Increase) decrease in assets:		
Receivables	(8,223	) 4,610
Deferred charges and other assets	(728	) (1,512
Increase (decrease) in liabilities:		
Accounts payable	8,338	(2,267
Accrued compensation and other expenses	1,193	(2,375
Accrued taxes payable and other tax contingencies	130,486	(6,690
Net cash provided by (used in) operating activities	300,422	(32,560
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(267,737	) (471,382
Sales of short-term investments	345,551	516,097
Purchases of property and equipment	(1,979	) (2,523
Capitalized patent costs	(19,783	) (19,428
Acquisition of patents	(13,750) —
Net cash provided by investing activities	42,302	22,764
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	713	4,050
Payments on long-term debt, including capital lease obligations	(180	) (215
Proceeds from issuance of convertible senior notes	—	230,000
Purchase of convertible bond hedge	—	(42,665
Proceeds from issuance of warrants	—	31,740
Payments of debt issuance costs	—	(8,015
Dividends paid	(13,388	) (13,602
Tax benefit from share-based compensation	1,506	2,705
Repurchase of common stock	(152,694) —
Net cash (used in) provided by financing activities	(164,043	) 203,998
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,681	194,202
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	342,211	215,451

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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$520,892	\$409,653
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The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(unaudited)

1. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of InterDigital, Inc. (individually and/or collectively with its subsidiaries referred to as “InterDigital,” the “Company,” “we,” “us” or “our,” unless otherwise indicated) as of September 30, 2012, and the results of our operations for the three months and nine months ended September 30, 2012 and 2011 and our cash flows for the nine months ended September 30, 2012 and 2011. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to state fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles (“GAAP”). The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for year-end financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (our “2011 Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”) on February 27, 2012. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

Change in Presentation

Due to our recent patent sales, in second quarter 2012 we expanded the presentation of revenue on our income statement to separately state revenue generated from patent licensing royalties, patent sales, and technology solutions.

Change in Accounting Policies

Except as outlined below, there have been no material changes or updates in our existing accounting policies from the disclosures included in our 2011 Form 10-K.

Revenue Recognition

During the current year, 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 collectability is reasonably assured. These requirements are generally fulfilled upon closing of the patent sale transaction.

New Accounting Guidance

Accounting Standards Updates: Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued authoritative guidance that is more closely aligned with the fair value measurement and disclosure guidance issued by the International Accounting Standards Board (“IASB”). The issuance of this standard results in global fair value measurement and disclosure guidance that minimizes the differences between U.S. GAAP and International Financial Reporting Standards. Many of the changes in the final standard represent clarifications to existing guidance, while some changes related to the valuation premise and the application of premiums and discounts and new required disclosures are more significant. This guidance is effective for interim and annual periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012; however, the adoption of this guidance does not have a significant impact on the Company’s financial statements or related

disclosures.

Accounting Standards Updates: Presentation of Comprehensive Income

In June 2011, the FASB issued authoritative guidance requiring most entities to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two

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separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity was eliminated. This guidance is effective for interim and annual periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012. We have chosen to present items of net income and other comprehensive income in two separate but consecutive statements.

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

2. SIGNIFICANT AGREEMENTS:**Sale of Patents to Intel Corporation**

On September 6, 2012, we completed the sale of approximately 1,700 patents and patent applications, including approximately 160 issued U.S. patents and approximately 40 U.S. patent applications, to Intel Corporation for \$375.0 million. The sale agreement involved patents primarily related to 3G, LTE and 802.11 technologies. Upon completion of the transaction in third quarter 2012, we recognized \$375.0 million as patent sales revenue and \$15.6 million as patent sales expense, which was recorded within the patent administration and licensing line on our condensed consolidated statements of income. Included in the patent sales expense was the remaining net book value of the patents sold, as well as commissions and legal and accounting services fees paid in conjunction with the sale.

3. INCOME TAXES:

In first nine months 2012, our effective tax rate was approximately 34.7% based on the statutory federal tax rate net of discrete federal and foreign taxes and the benefit from a capital loss carryforward. During first nine months 2011, our effective tax rate was approximately 27.3% based on the statutory federal tax rate net of discrete foreign taxes and a \$6.8 million benefit related to the reversal of a previously accrued liability for tax contingencies of \$6.5 million plus \$0.3 million of interest.

During first nine months 2012 and 2011, we paid approximately \$1.4 million and \$4.8 million, respectively, of foreign source withholding tax. We previously accrued approximately \$0.8 million of the first nine months 2012 foreign source withholding payments and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes.

4. NET INCOME PER SHARE:

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

	For the Three Months Ended September 30,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to common shareholders	\$235,669	\$235,669	\$26,206	\$26,206
Denominator:				
Weighted-average shares outstanding: Basic	42,024	42,024	45,463	45,463
Dilutive effect of stock options, RSUs, convertible securities, and warrants		329		818
Weighted-average shares outstanding: Diluted		42,353		46,281
Earnings Per Share:				
Net income: Basic	\$5.61	\$5.61	\$0.58	\$0.58

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Dilutive effect of stock options, RSUs, convertible securities, and warrants	(0.05)	(0.01)
Net income: Diluted	\$5.56	\$0.57

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	For the Nine Months Ended September 30,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to common shareholders	\$ 256,272	\$ 256,272	\$ 66,701	\$ 66,701
Denominator:				
Weighted-average shares outstanding: Basic	43,761	43,761	45,380	45,380
Dilutive effect of stock options, RSUs, convertible securities, and warrants		311		620
Weighted-average shares outstanding: Diluted		44,072		46,000
Earnings Per Share:				
Net income: Basic	\$ 5.86	\$ 5.86	\$ 1.47	\$ 1.47
Dilutive effect of stock options, RSUs, convertible securities, and warrants		(0.05)		(0.02)
Net income: Diluted		\$ 5.81		\$ 1.45

For both three months and nine months ended September 30, 2012 and September 30, 2011, options to purchase zero shares of common stock were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the weighted-average market price of our common stock during these periods and, therefore, their effect would have been anti-dilutive.

For both three months and nine months ended September 30, 2012, 4.0 million shares of common stock issuable under convertible securities were excluded from the computation of diluted EPS because their effect would have been anti-dilutive. For three months and nine months ended September 30, 2011, 3.7 million and 3.9 million shares, respectively, of common stock issuable under convertible securities were excluded from the computation of diluted EPS because their effect would have been anti-dilutive. For both three months and nine months ended September 30, 2012 and September 30, 2011, 4.0 million shares of common stock issuable under warrants were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

5. LITIGATION AND LEGAL PROCEEDINGS

Huawei Complaint to European Commission

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

LG Arbitration

On March 19, 2012, LG Electronics, Inc. ("LG" for the purposes of the discussion of this matter) filed a demand for arbitration against InterDigital's wholly owned subsidiaries InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Communications, LLC (collectively, "InterDigital") with the American Arbitration Association's International Centre for Dispute Resolution, 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 the U.S.

International Trade Commission ("USITC" or the "Commission") proceeding initiated by InterDigital in the second half of 2011 (Investigation No. 337-TA-800, discussed below).

Huawei China Proceedings

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. ("Huawei Technologies") 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 (collectively, "InterDigital" for purposes of the discussion of this matter). This first complaint alleges that InterDigital had dominant market position in China and the United States in the market for the

licensing of essential

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patents owned by InterDigital, and abused its market power by engaging in allegedly unlawful practices, including differentiated pricing, tying, and refusal to deal. Huawei Technologies seeks relief in the amount of 20.0 million RMB (approximately \$3.2 million based on the current exchange rate), an order requiring InterDigital to cease the allegedly unlawful conduct, and compensation for its costs associated with this matter. The second complaint names as defendants InterDigital's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, LLC, InterDigital Patent Holdings, Inc., and IPR Licensing, Inc. (collectively, "InterDigital" for purposes of the discussion of this matter). 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 fair, reasonable, and non-discriminatory ("FRAND") terms; and that InterDigital has failed to negotiate on FRAND terms with Huawei Technologies. Huawei Technologies is asking the court to determine the FRAND rate for licensing essential Chinese patents to Huawei Technologies and also seeks compensation for its costs associated with this matter.

On March 22, 2012, InterDigital filed jurisdictional challenges to both of these complaints. On April 28, 2012, the Shenzhen Intermediate People's Court denied the jurisdictional challenges in both actions. On May 28, 2012, InterDigital appealed the rulings to The Higher People's Court of Guangdong Province. On August 6, 2012, The Higher People's Court of Guangdong Province denied InterDigital's appeal of the jurisdictional challenges. On September 26, 2012, the Shenzhen Intermediate People's Court scheduled merits hearings for the complaints, beginning on October 10, 2012. On October 10, 2012, the Court began hearing argument on the complaints, and the hearing continued through October 17, 2012. No date has been set for when a decision will issue from the Shenzhen Intermediate People's Court.

Huawei Delaware State Court Proceeding

On October 25, 2011, Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") filed a complaint ("Complaint") with the Court of Chancery of the State of Delaware ("Court of Chancery") against InterDigital's wholly owned subsidiaries InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Communications, LLC (collectively, "InterDigital"). The Complaint asserts causes of action for breach of contract, equitable estoppel, waiver, and declaratory judgment. The Complaint seeks to enforce alleged contractual commitments made by InterDigital to license on FRAND terms patents Huawei claims InterDigital has declared essential to various 3G wireless standards. The Complaint further requests a declaratory judgment that InterDigital has not offered licenses on FRAND terms to such patents, a declaratory judgment that InterDigital is equitably estopped and has waived its right to seek injunctive or exclusionary relief for Huawei's alleged infringement of such patents, including but not limited to such relief as sought in InterDigital's U.S. International Trade Commission ("USITC" or the "Commission") proceeding against Huawei, and a declaratory judgment determining an appropriate FRAND royalty for InterDigital's United States patents that Huawei claims have been declared essential to a standard used by Huawei's accused products. On the same date that the Complaint was filed, Huawei filed a motion seeking expedited proceedings.

On November 14, 2011, InterDigital filed an opposition to Huawei's motion to expedite proceedings and filed a motion to stay or dismiss the proceedings. On November 16, 2011, the Court of Chancery denied Huawei's motion to expedite and requested a status update within 30 days. On December 16, 2011, InterDigital and Huawei submitted separate status reports to the Court of Chancery on the parallel proceedings in the USITC and the District of Delaware (discussed below).

On March 22, 2012, following the March 2, 2012 denial of Huawei's motion to partially lift the stay in the Delaware District Court proceeding (discussed below), Huawei filed a renewed motion for expedited proceedings. On April 5, 2012, InterDigital filed its opposition to Huawei's renewed motion for expedited proceedings and filed a renewed motion to stay or dismiss. On April 12, 2012, Huawei filed a reply in support of its renewed motion for expedited proceedings. On June 11, 2012, the Delaware Chancery Court held a hearing on Huawei's renewed motion for expedited proceedings and InterDigital's renewed motion to stay or dismiss. At the hearing, the Delaware Chancery Court dismissed the case without prejudice.

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

On July 26, 2011, InterDigital's wholly owned subsidiaries InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (collectively, the "Company," "InterDigital," "we," or "our" for the purposes of the discussion of this matter) filed a complaint with the USITC against Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Nokia and Huawei, "Respondents"), alleging 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 "Asserted 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

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would bar from entry into the U.S. any infringing 3G wireless devices (and components) that are imported by or on behalf of 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 August 31, 2011, the USITC formally instituted an investigation against Respondents (337-TA-800). 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. (collectively, "LG") as Respondents to the Company's USITC complaint and the USITC's investigation, and that the USITC add an additional patent to the USITC complaint and investigation as well. On December 5, 2011, the Administrative Law Judge ("ALJ") granted this motion, and on December 21, 2011, the Commission determined not to review the ALJ's determination, thus adding the LG entities as Respondents and including allegations of infringement of the additional patent.

On September 29, 2011, Nokia filed a motion to terminate the USITC investigation, arguing that InterDigital's alleged commitment to the European Telecommunications Standards Institute ("ETSI") regarding the licensing of essential patents on FRAND terms allegedly resulted in InterDigital's waiver of the right to seek exclusionary relief at the USITC. On October 19, 2011, InterDigital filed its opposition to the motion to terminate. On May 31, 2012, the ALJ denied Nokia's motion to terminate. On June 11, 2012, Nokia requested that the order denying its motion to terminate be certified for interlocutory review. On June 21, 2012, InterDigital opposed this request. On June 28, 2012, Nokia sought leave to file a supplement to its request for interlocutory review; InterDigital opposed this request on July 6, 2012.

On October 6, 2011, Nokia filed a motion to stay the USITC investigation based on its allegations that InterDigital had violated the protective order in the prior USITC investigation between InterDigital and Nokia (described below). On October 21, 2011, InterDigital filed its opposition to Nokia's motion to stay. On December 22, 2011, the ALJ denied Nokia's motion to stay.

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

On January 20, 2012, LG filed a motion to terminate the USITC investigation as it relates to the LG entities alleging there is an arbitrable dispute. InterDigital filed its response opposing LG's motion on February 6, 2012. The ALJ granted LG's motion on June 4, 2012. On June 11, 2012, InterDigital petitioned for review of this order. 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 U.S. Court of Appeals for 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 are normally due 40 days after the opening brief is served, and InterDigital's reply brief would normally be due 14 days after the responsive briefs are served.

On August 23, 2012, InterDigital and Respondents filed a joint motion to extend the target date and modify the procedural schedule for the USITC investigation. On September 10, 2012, the ALJ issued orders granting the motion.

The ALJ set a new date for the evidentiary hearing of February 12 to February 22, 2013 and the due date for the ALJ's Final Initial Determination of June 28, 2013. The target date for completion of the investigation was extended to October 28, 2013. On October 1, 2012, the USITC determined not to review the ALJ's Initial Determination amending the target date.

On the same date that InterDigital filed the present USITC action (referenced above), we filed a parallel action in the United States District Court for the District of Delaware (the "Delaware District Court") against the Respondents alleging infringement of the same Asserted Patents identified in the USITC complaint. 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 the investigation referenced above, 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 the USITC

complaint referenced above. On October 10, 2011, the Company filed a statement of non-opposition to the motion to stay. On October 11, 2011, the Delaware District Court granted defendants' motion to stay. On November 30, 2011, following the November 16, 2011 denial of Huawei's motion for expedited proceedings in the Delaware State Court proceeding (discussed above), Huawei filed in the Delaware District Court action a motion to partially lift the stay to adjudicate certain proposed counterclaims premised on InterDigital's purported breach of certain FRAND obligations, while the rest of the case remains stayed. On December 16, 2011, ZTE (USA) Inc. ("ZTE USA") filed a pleading joining in Huawei's motion, and seeking to partially lift the stay so that ZTE USA's similar FRAND-based counterclaims can

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be adjudicated. On December 19, 2011, InterDigital filed a brief responding to Huawei's motion and seeking a discretionary stay with respect to Huawei's and ZTE USA's proposed counterclaims. On December 30, 2011, Huawei filed its reply brief in support of its motion to partially lift the stay. On January 9, 2012, InterDigital filed its reply brief in support of its request for a discretionary stay of Huawei's and ZTE USA's proposed counterclaims.

On March 2, 2012, the Court denied Huawei's and ZTE USA's request to partially lift the stay and granted InterDigital's request for a discretionary stay with respect to Huawei's proposed FRAND-based counterclaims.

On March 21, 2012, InterDigital filed an unopposed motion requesting that the USITC add newly-formed entity Huawei Device USA, Inc. of Plano, Texas as a Respondent to InterDigital's USITC complaint and the USITC's investigation. 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 Respondent.

InterDigital has filed three motions for summary determination and Nokia has filed two motions for summary determination. These matters have been briefed and all but one remain pending before the ALJ. On May 17, 2012, InterDigital filed a motion for summary determination that the asserted claims of InterDigital's patents are not invalid in view of the Respondents' failure to adequately disclose their invalidity contentions. Respondents jointly opposed this motion on May 29, 2012. InterDigital submitted a reply in further support of its motion on June 26, 2012.

InterDigital filed a motion for summary determination on May 23, 2012 that certain Nokia devices infringe claims 1 and 3 of InterDigital's U.S. Patent No. 7,970,127 ("the '127 patent"), and a motion for summary determination that certain Nokia devices infringe claims 1 and 2 of InterDigital's U.S. Patent No. 8,009,636. Nokia opposed both of these motions on June 11, 2012, and InterDigital submitted replies in further support of these motions on June 28, 2012, and July 11, 2012, respectively. On July 9, 2012, Nokia also submitted a sur-reply in further opposition to InterDigital's motion for summary determination of infringement of the '127 patent. On August 9, 2012, the ALJ denied InterDigital's motion for summary determination that certain Nokia devices infringe the '127 patent on the grounds that genuine issues of fact remain for presentation at the evidentiary hearing.

On June 20, 2012, Nokia filed a conditional motion for summary determination that the asserted claims of InterDigital's U.S. Patent No. 7,536,013 and the '127 patent are not infringed by certain Nokia devices. InterDigital opposed this motion on July 2, 2012. On July 13, 2012, Nokia submitted a reply in further support of this motion. Finally, on June 22, 2012, Nokia filed a conditional motion for summary determination that the asserted claims of InterDigital's U.S. Patent No. 7,616,970 are invalid. InterDigital opposed this motion on July 12, 2012.

On July 20, 2012, in an effort to streamline the evidentiary hearing and narrow the remaining issues, InterDigital voluntarily moved to withdraw certain claims from the investigation, including all of the asserted claims from U.S. Patent No. 7,349,540. By doing so, InterDigital expressly reserved all arguments regarding the infringement, validity and enforceability of those claims. On July 24, 2012, the ALJ granted the motion. On August 8, 2012, the USITC 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.

Prior Nokia USITC Proceeding (337-TA-613), Related Delaware District Court and Southern District of New York Proceedings and Federal Circuit Appeal

In August 2007, InterDigital filed a USITC complaint against Nokia Corporation and Nokia, Inc. (collectively, "Nokia") alleging 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 fourth patent, respectively, were added to our complaint against Nokia. The complaint seeks an exclusion order barring from entry into the United States infringing 3G mobile handsets and components that are imported by or on behalf of Nokia. Our 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 our filing of the USITC action referenced above, we 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. Nokia, joined by Samsung Electronics Co., Ltd. ("Samsung"), moved to consolidate the Nokia USITC proceeding with an investigation we had earlier initiated against Samsung in the USITC. On October 24, 2007, the Honorable Paul J. Luckern, the Administrative Law Judge overseeing the two USITC proceedings against Samsung and Nokia, respectively, issued an order to consolidate the two pending investigations. Pursuant to the order, the schedules for both investigations were revised to consolidate proceedings and set a unified evidentiary hearing on April 21-28, 2008, the filing of a

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single initial determination by Judge Luckern by July 11, 2008, and a target date for the consolidated investigations of November 12, 2008, by which date the USITC would issue its final determination (the "Target Date").

On December 4, 2007, Nokia moved for an order terminating or, alternatively, staying the USITC investigation as to Nokia, on the ground that Nokia and InterDigital must first arbitrate a dispute as to whether Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation. On January 8, 2008, Judge Luckern issued an order denying Nokia's motion and holding that Nokia has waived its arbitration defense by instituting and participating in the investigation and other legal proceedings. On February 13, 2008, Nokia filed an action in the U.S. District Court for the Southern District of New York (the "Southern District Action"), seeking to preliminarily enjoin InterDigital from proceeding with the USITC investigation with respect to Nokia, in spite of Judge Luckern's ruling denying Nokia's motion to terminate the USITC investigation. Nokia raised in this preliminary injunction action the same arguments it raised in its motion to terminate the USITC investigation, namely that InterDigital allegedly must first arbitrate its alleged license dispute with Nokia and that Nokia has not waived arbitration of this defense. In the Southern District Action, Nokia also sought to compel InterDigital to arbitrate its alleged license dispute with Nokia and, in the alternative, sought a determination by the District Court that Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation. On March 7, 2008, InterDigital filed a motion to dismiss Nokia's claim in the alternative that Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation.

On February 8, 2008, Nokia filed a motion for summary determination in the USITC that InterDigital cannot show that a domestic industry exists in the United States as required to obtain relief. Samsung joined this motion. InterDigital opposed this motion. On February 14, 2008, InterDigital filed a motion for summary determination that InterDigital satisfies the domestic industry requirement based on its licensing activities. On February 26, 2008, InterDigital filed a motion for summary determination that it has separately satisfied the so-called "economic prong" for establishing that a domestic industry exists based on InterDigital's chipset product that practices the asserted patents. Samsung and Nokia opposed these motions. On March 17, 2008, Samsung and Nokia filed a motion to strike any evidence concerning InterDigital's product and to preclude InterDigital from introducing any such evidence in relation to domestic industry at the evidentiary hearing. On March 26, 2008, the Administrative Law Judge granted InterDigital's motion for summary determination that it has satisfied the so-called "economic prong" for establishing that a domestic industry exists based on InterDigital's chipset product that practices the asserted patents and denied Samsung's motion to strike and preclude introduction of evidence concerning InterDigital's domestic industry product. On March 17, 2008, Nokia and Samsung jointly moved for summary determination that U.S. Patent No. 6,693,579, which was asserted against both Samsung and Nokia, is invalid. InterDigital opposed this motion. On April 14, 2008, the Administrative Law Judge denied Nokia's and Samsung's joint motion for summary determination that the '579 patent is invalid.

On March 20, 2008, the U.S. District Court for the Southern District of New York decided that Nokia is likely to prevail on the issue of whether Nokia's alleged entitlement to a license is arbitrable. The Court did not consider or rule on whether Nokia is entitled to such a license. As a result, the Court entered a preliminary injunction requiring InterDigital to participate in arbitration of the license issue and requiring InterDigital to cease participation in the USITC proceeding by April 11, 2008, but only with respect to Nokia. The Court ordered Nokia to post a \$500,000 bond by March 28, 2008, which Nokia did. InterDigital promptly filed a request for a stay of the preliminary injunction and for an expedited appeal with the U.S. Court of Appeals for the Federal Circuit, which transferred the appeal to the U.S. Court of Appeals for the Second Circuit. The preliminary injunction became effective on April 11, 2008, and, in accordance with the Court's order, InterDigital filed a motion with the Administrative Law Judge to stay the USITC proceeding against Nokia pending InterDigital's appeal of the District Court's decision or, if that appeal were unsuccessful, pending the Nokia TDD Arbitration (described below). On April 14, 2008, the Administrative Law Judge ordered that the date for the commencement of the evidentiary hearing, originally scheduled for April 21, 2008, be suspended until further notice from the Administrative Law Judge. The Administrative Law Judge did not at that point change the scheduled date of July 11, 2008 for his initial determination in the investigation or the scheduled Target Date of November 12, 2008 for a decision by the USITC. InterDigital's motion for a stay of the preliminary injunction and for an expedited appeal was considered by a panel of the Second Circuit on April 15, 2008. On

April 16, 2008, the Second Circuit denied the motion for stay but set an expedited briefing schedule for resolving InterDigital's appeal on the merits of whether the District Court's order granting the preliminary injunction should be reversed.

On April 17, 2008, InterDigital filed a motion with the USITC to separate the consolidated investigations against Nokia and Samsung in order for the investigation to continue against Samsung pending the expedited appeal or, if the appeal is unsuccessful, pending the Nokia TDD Arbitration. Samsung and Nokia opposed InterDigital's motion. On May 16, 2008, the Administrative Law Judge deconsolidated the investigations against Samsung and Nokia and set an evidentiary hearing date in the investigation against Samsung (337-TA-601) to begin on July 8, 2008.

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On May 20, 2008, the Administrative Law Judge denied without prejudice all pending motions in the consolidated investigation (337-TA-613).

On June 17, 2008, a panel of the U.S. Court of Appeals for the Second Circuit heard argument on InterDigital's appeal from the order of the U.S. District Court for the Southern District of New York preliminarily enjoining InterDigital from proceeding against Nokia in the consolidated investigation. On July 31, 2008, the Second Circuit reversed the preliminary injunction, finding that Nokia's litigation conduct resulted in a waiver of any right to arbitrate its license dispute. InterDigital promptly notified the Administrative Law Judge in the Nokia investigation (337-TA-613) of the Second Circuit's decision. On August 14, 2008, Nokia filed a petition for rehearing and petition for rehearing en banc of the Second Circuit's decision, and on September 15, 2008, the Second Circuit denied Nokia's petitions. The mandate from the Second Circuit issued to the Southern District of New York on September 22, 2008.

Notwithstanding the Second Circuit's decision, on October 17, 2008 Nokia filed a request for a status conference with the District Court to establish a procedural schedule for Nokia to pursue a permanent injunction requiring InterDigital to arbitrate Nokia's alleged license defense, and arguing that the Second Circuit's decision does not bar such an action. On October 23, 2008, InterDigital filed a response with the District Court asserting that the Second Circuit's waiver finding was dispositive, and seeking the dismissal of Nokia's complaint in its entirety. On March 5, 2009, the Court in the Southern District Action granted InterDigital's request and dismissed all of Nokia's claims in the Southern District Action, but delayed issuing a final judgment pending a request by InterDigital seeking to collect against the \$500,000 preliminary injunction bond posted by Nokia. On April 3, 2009, InterDigital filed a motion to collect against the preliminary injunction bond, contending that InterDigital was damaged by at least \$500,000 as a result of the wrongfully obtained preliminary injunction. On March 10, 2010, the District Court denied InterDigital's motion to collect against the preliminary injunction bond. On April 9, 2010, InterDigital filed a notice of appeal with the District Court, indicating that InterDigital is appealing the denial of its motion to collect against the preliminary injunction bond to the U.S. Court of Appeals for the Second Circuit. Following briefing, the Second Circuit heard oral argument on March 7, 2011. On May 23, 2011, the Second Circuit vacated the District Court's order of March 10, 2010 and remanded for the District Court to reconsider its denial of InterDigital's motion to recover against the preliminary injunction bond. On July 14, 2011, the District Court granted InterDigital's motion in part and denied the motion in part as moot, finding that InterDigital established damages in excess of \$500,000 and therefore is entitled to recover the full amount of the \$500,000 preliminary injunction bond, and requiring Nokia to direct its surety promptly to make payment to InterDigital. On July 26, 2011, Nokia filed a notice of appeal with the District Court indicating that it is appealing the District Court's July 14, 2011 order to the Second Circuit; Nokia filed its opening brief in the Second Circuit on October 18, 2011. On August 17, 2011, InterDigital moved in the District Court for an order requiring Hartford Fire Insurance Company ("Hartford"), Nokia's surety on the preliminary injunction bond, to pay InterDigital the full amount of the bond. Both Nokia and Hartford opposed this motion, and Nokia cross-moved for an order staying enforcement of the District Court's July 14, 2011 order until Nokia's appeal has been decided by the Second Circuit. InterDigital opposed Nokia's cross-motion. On December 22, 2011, the District Court granted InterDigital's motion to enforce liability against Nokia's surety, and denied Nokia's cross-motion. On December 30, 2011, Nokia filed with the Second Circuit a "motion to confirm automatic stay or, in the alternative, to stay payment of bond pending appeal," in which Nokia sought to stay payment on its preliminary injunction bond pending appeal. On January 9, 2012, InterDigital filed its opposition with the Second Circuit, and on January 17, 2012, Nokia filed its reply. On March 5, 2012, the Second Circuit granted Nokia's motion to stay any efforts by InterDigital to collect on the injunction bond pending a decision on the underlying appeal. On April 17, 2012, the Second Circuit heard oral argument on the merits of Nokia's appeal of the July 14, 2011 order. On April 30, 2012, the Second Circuit issued a summary order affirming the District Court's order granting InterDigital's motion to recover the full amount of its \$500,000 preliminary injunction bond. InterDigital received the \$500,000 on June 14, 2012, and such amount was recorded as a reduction of patent administration and licensing expense in second quarter 2012.

On September 24, 2008, InterDigital filed a motion to lift the stay of the Nokia investigation (337-TA-613) based on the issuance of the Second Circuit's mandate reversing the preliminary injunction granted to Nokia. The Administrative Law Judge granted InterDigital's motion on September 25, 2008 and lifted the stay. On October 7, 2008, the Administrative Law Judge issued an order in the Nokia investigation setting the evidentiary hearing for May

26-29, 2009. On October 10, 2008, the Administrative Law Judge issued an order resetting the Target Date for the USITC's Final Determination in the Nokia investigation to December 14, 2009, and requiring a final Initial Determination by the Administrative Law Judge to be entered no later than August 14, 2009.

On January 21, 2009, Nokia filed a motion to schedule a claim construction hearing in the USITC proceeding in early February 2009, and on January 29, 2009, InterDigital filed an opposition to the motion for a claim construction hearing. On February 9, 2009, the Administrative Law Judge denied Nokia's motion for a claim construction hearing. On February 13, 2009, InterDigital filed a renewed motion for summary determination that InterDigital has satisfied the domestic industry requirement based on its licensing activities, and on February 27, 2009, Nokia filed an opposition to the motion. On March 10, 2009, the Administrative Law Judge granted InterDigital's motion, finding that InterDigital has established, through its licensing activities that a domestic industry exists in the United States as required to obtain relief before

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the USITC. On April 9, 2009, the Commission issued a notice that it would not review the Administrative Law Judge's Order granting summary determination of a licensing-based domestic industry, thereby adopting the Administrative Law Judge's decision.

The evidentiary hearing for the USITC investigation with respect to Nokia was held from May 26, 2009 through June 2, 2009.

On August 14, 2009, the Administrative Law Judge 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 Administrative Law Judge 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 August 31, 2009, InterDigital filed a petition for review of certain issues raised in the August 14, 2009 Initial Determination. On that same date, Nokia also filed a contingent petition for review of certain issues in the Initial Determination. Responses to both petitions were filed on September 8, 2009.

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 Administrative Law Judge'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 Administrative Law Judge's validity determinations. On review, the Commission modified the Administrative Law Judge'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 United States Court of Appeals for the Federal Circuit (the "Federal Circuit") a petition for review of certain rulings by the Commission. 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 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. InterDigital's opening brief was filed on April 12, 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. Nokia and the Commission filed their briefs on July 13, 2010. In their briefs, Nokia and the Commission argue that the Commission correctly construed the claim terms asserted by InterDigital in its appeal and that the Commission properly determined that Nokia did not infringe the patents on appeal. Nokia also argues that the Commission's finding of non-infringement should be affirmed based on an additional claim term. Nokia further argues that the Commission erred in finding that InterDigital could satisfy the domestic industry requirement based solely on its patent licensing activities and without proving that an article in the United States practices the claimed inventions, and that the Commission's finding of no Section 337 violation should be affirmed on that additional basis. InterDigital filed its reply brief on August 30, 2010. The Federal Circuit heard oral argument in the appeal on January 13, 2011. 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. The petition seeks review only on the domestic industry issue. On September 24, 2012, the Federal Circuit invited responses from InterDigital and the Commission to Nokia's petition. On October 9, 2012, InterDigital and the Commission filed their respective responses to Nokia's petition. If the Federal Circuit denies Nokia's petition, the Federal Circuit will issue its mandate remanding the case for further proceedings by the Commission. Nokia may petition the U.S. Supreme Court for a writ of certiorari within 90 days after denial of its request for rehearing.

Nokia Delaware Proceeding

In January 2005, Nokia filed a complaint in the Delaware District Court against InterDigital Communications Corporation (now IDC) and ITC (for purposes of the Nokia Delaware Proceeding described herein, IDC and ITC are collectively referred to as “InterDigital,” “we,” or “our”), alleging that we have used false or misleading descriptions or representations regarding our patents' scope, validity, and applicability to products built to comply with 3G wireless phone Standards (“Nokia Delaware Proceeding”). Nokia's amended complaint seeks declaratory relief, injunctive relief and damages, including punitive damages, in an amount to be determined. We subsequently filed counterclaims based on Nokia's licensing

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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. Our 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 InterDigital's USITC investigation against Nokia (337-TA-613). Specifically, the full and final resolution of the USITC investigation includes any initial or final determinations of the Administrative Law Judge 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, including the Prior Nokia USITC Proceeding and Related Delaware District Court and Southern District of New York Proceedings (described above).
Nokia Arbitration Concerning Presentations

In November 2006, InterDigital Communications Corporation (now IDC) and ITC filed a request for arbitration with the International Chamber of Commerce against Nokia ("Nokia Arbitration Concerning Presentations"), claiming that certain presentations Nokia has attempted to use in support of its claims in the Nokia Delaware Proceeding 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 (described above) also stayed the Nokia Arbitration Concerning Presentations pending the full and final resolution of the USITC investigation against Nokia (337-TA-613) as described above.

InterDigital has no obligation as a result of this or any of the above-listed matters and we have not recorded any related liabilities in our financial statements.

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.

Contingency related to Technology Solutions Agreement Arbitration

Our wholly owned subsidiaries InterDigital Communications LLC and InterDigital Technology Corporation are engaged in an arbitration relating to a contractual dispute concerning the scope of royalty obligations and the scope of the licenses granted under one of our technology solutions agreements. The arbitration hearing took place in late June 2012, and a decision is expected in late 2012. As of September 30, 2012, we have deferred related revenue of \$40.1 million pending the resolution of this arbitration and recorded such amount within short-term deferred revenue since we expect a decision within the next twelve months.

6. EQUITY TRANSACTIONS:

Changes in shareholders' equity for the nine months ended September 30, 2012 were as follows (in thousands):

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	Total Shareholders' Equity
Balance as of December 31, 2011	\$471,682
Net income	256,272
Unrealized gain on investments, net	1,446
Cash dividends declared	(12,912)
Repurchase of Common Stock	(152,694)
Net proceeds for exercise of stock options	713
Taxes withheld upon restricted stock unit vestings	(3,696)
Tax benefit from share-based compensation	1,506
Share-based compensation	4,637
Balance as of September 30, 2012	\$566,954

Repurchase of Common Stock

During first nine months 2012, we repurchased a cumulative total of 4.9 million shares of our common stock for \$152.7 million under the 2009 Repurchase Program and the 2012 Repurchase Program, each as defined below. We made no share repurchases during first nine months 2011.

In March 2009, our Board of Directors authorized a \$100.0 million share repurchase program (the "2009 Repurchase Program"). The Company was able to repurchase shares under the 2009 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases. During first nine months 2012, we repurchased 2.3 million shares under the 2009 Repurchase Program for \$75.0 million. The 2009 Repurchase Program was completed in second quarter 2012, bringing the cumulative repurchase total under the program to 3.3 million shares at a cost of \$100.0 million.

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

From October 1, 2012 through October 24, 2012, we did not make any share repurchases under the 2012 Repurchase Program.

Dividends

Prior to 2011, we had not paid any cash dividends on our shares of common stock. In fourth quarter 2010, our Board of Directors approved the Company's initial dividend policy and declared the first quarterly cash dividend of \$0.10 per share. Cash dividends on outstanding common stock declared in 2012 and 2011 were as follows (in thousands, except per share data):

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2012	Per Share	Total	Cumulative by Fiscal Year
First quarter	\$0.10	\$4,469	\$4,469
Second quarter	0.10	4,348	8,817
Third quarter	0.10	4,095	12,912
	\$0.30	\$12,912	

2011	Per Share	Total	Cumulative by Fiscal Year
First quarter	\$0.10	\$4,535	\$4,535
Second quarter	0.10	4,540	9,075
Third quarter	0.10	4,549	13,624
Fourth quarter	0.10	4,570	18,194
	\$0.40	\$18,194	

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 \$66.3528 per share, also subject to adjustment. The warrants become exercisable in tranches starting in June 2016. In consideration for the warrants issued on March 29, 2011 and March 30, 2011, the Company received \$27.6 million and \$4.1 million, respectively, on April 4, 2011.

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

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

Our accounts receivable are derived principally from patent license and technology solutions agreements. At September 30, 2012, three licensees comprised 95% of our net accounts receivable balance. At December 31, 2011, three licensees represented 97% of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

Fair Value Measurements

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

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

Level 2 Inputs — Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally

from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of September 30, 2012 and December 31, 2011 (in thousands):

	Fair Value as of September 30, 2012			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market and demand accounts (a)	\$472,929	\$—	\$—	\$472,929
Mutual and exchange traded funds	100,152	—	—	100,152
Commercial paper (b)	—	149,788	—	149,788
U.S. government securities	—	45,732	—	45,732
Corporate bonds and asset backed securities	—	12,726	—	12,726
	\$573,081	\$208,246	\$—	\$781,327

(a) Included within cash and cash equivalents.

(b) Includes \$48.0 million of commercial paper that is included within cash and cash equivalents.

	Fair Value as of December 31, 2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market and demand accounts (a)	\$338,211	\$—	\$—	\$338,211
Mutual and exchange traded funds	96,130	—	—	96,130
Commercial paper (b)	—	160,574	—	160,574
U.S. government securities	—	66,647	—	66,647
Corporate bonds and asset backed securities	—	16,432	—	16,432
	\$434,341	\$243,653	\$—	\$677,994

(a) Included within cash and cash equivalents.

(b) Includes \$4.0 million of commercial paper that is included within cash and cash equivalents.

The carrying amount of long-term debt reported in the condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011 was \$198.4 million and \$192.5 million, respectively. Using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources, we determined the fair value of these level 2 Notes (as defined in Note 8 "Long-Term Debt") to be \$239.5 million as of September 30, 2012 and \$240.9 million as of December 31, 2011.

8. LONG-TERM DEBT:

Senior Convertible Note, Note Hedge and Warrant Transactions

On April 4, 2011, InterDigital issued \$230.0 million in aggregate principal amount of its 2.50% Senior Convertible Notes due 2016 (the "Notes") pursuant to an indenture (the "Indenture"), dated as of April 4, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Notes bear interest

at a rate of 2.50% per year, payable in cash on March 15 and September 15 of each year, 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

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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 an initial conversion rate of 17.3458 shares of common stock per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$57.65 per share). 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 \$66.3528 per share, also subject to adjustment. 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

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settlement. There was no material net change in the value of these convertible note hedges and warrants during the one day they were classified as derivatives and the equity components of these instruments will not be adjusted for subsequent changes in fair value.

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

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

The following table reflects the carrying value of the Company's convertible debt as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
2.50% Senior Convertible Notes due 2016	\$230,000	\$230,000
Less: Unamortized interest discount	(31,643)	(37,471)
Net carrying amount of 2.50% Senior Convertible Notes due 2016	\$198,357	\$192,529

The following table presents the amount of interest cost recognized for the three months and nine months ended September 30, 2012 and September 30, 2011 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Contractual coupon interest	\$1,438	\$1,437	\$4,313	\$2,875
Accretion of debt discount	1,965	1,835	5,828	3,669
Amortization of financing costs	326	326	978	652
Total	\$3,729	\$3,598	\$11,119	\$7,196

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9. SUBSEQUENT EVENT:

On October 23, 2012 we announced that we initiated a voluntary early retirement program in September 2012. This program rewards longtime contributors to the company's success while enabling the company to refocus resources on targeted new research areas. Approximately 50 employees are expected to retire from employment with the company under the program. We expect to incur a related one-time repositioning cost of between \$10.0 million and \$12.0 million, and expect that the majority of that charge will be recognized in fourth quarter 2012, with the remainder being recognized in first quarter 2013.

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

OVERVIEW

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, in addition to our 2011 Form 10-K, other reports filed with the SEC and the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 — Forward-Looking Statements below. Please refer to the Glossary of Terms in our 2011 Form 10-K for a list and detailed descriptions of the various technical, industry and other defined terms that are used in this Quarterly Report on Form 10-Q.

Patent Sales

On September 6, 2012, we announced that certain of our subsidiaries have completed the sale of approximately 1,700 patents and patent applications, including approximately 160 issued U.S. patents and approximately 40 U.S. patent applications, to Intel Corporation ("Intel") for \$375.0 million. The sale agreement involved patents primarily related to 3G, LTE and 802.11 technologies. Upon completion of the transaction in third quarter 2012, we recognized \$375.0 million as patent sales revenue and \$15.6 million as patent sales expense, which was recorded within the patent administration and licensing line on our condensed consolidated statements of income. Included in the patent sales expense was the remaining net book value of the patents sold, as well as commissions and legal and accounting services fees paid in conjunction with the sale.

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

Patent Licensing

Patent licensing royalties of \$58.4 million in third quarter 2012 decreased \$4.0 million or 6% over second quarter 2012. This sequential decrease was primarily driven by a \$5.7 million decrease in royalties from our Japanese per-unit licensees resulting from lower shipments.

Technology Solutions

We are engaged in arbitration to determine whether royalties are owed on specific product classes pursuant to one of our technology solutions agreements. The arbitration hearing took place in late June 2012, and a decision is expected in late 2012. As of September 30, 2012, we have deferred related revenue of \$40.1 million pending the resolution of this arbitration and recorded such amount within short-term deferred revenue since we expect a decision within the next twelve months. This amount has either been collected or recorded in accounts receivable as of the current balance sheet date.

Business Update

On October 23, 2012, we announced a further expansion of the corporate strategy announced in January 2012. The expansion includes enhancing our technology sourcing to broaden the scope of technology areas addressed and establishing a unit, InterDigital Solutions, dedicated to monetizing the company's market-ready technologies and research capabilities. The augmented sourcing function will be subdivided into two main areas:

- Innovation Partners, a new 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; and
- Innovation Labs, which will continue to pursue internally funded technology with the goal of further building the company's already strong portfolio of intellectual property.

The newly formed InterDigital Solutions unit will focus on commercializing market-ready technologies that emerge from Innovation Labs - such as the company's Smart Access Manager, M2M technology, and SlimChip modem IP.

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As part of our ongoing expense management, we also announced that we initiated a voluntary early retirement program in September 2012. This program rewards longtime contributors to the company's success while enabling the company to refocus resources on targeted new research areas. Approximately 50 employees are expected to retire from employment with the company under the program. We expect to incur a related one-time repositioning cost of between \$10 million and \$12 million, and expect that the majority of that charge will be recognized in fourth quarter 2012, with the remainder being recognized in first quarter 2013. Beginning in 2013, we expect to realize annualized savings as a result of this program in excess of \$10 million.

For more information about the voluntary early retirement program, see Part II, Item 5 "Other Information," of this Quarterly Report on Form 10-Q.

Intellectual Property Enforcement

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

Nokia, Huawei and ZTE U.S. International Trade Commission ("USITC") Proceeding and Related Delaware District Court Proceeding

On July 26, 2011, InterDigital's wholly-owned subsidiaries InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (collectively, the "Company," "InterDigital," "we," or "our" for the purposes of the discussion of this matter) filed a complaint with the USITC against Nokia Corporation and Nokia Inc. (collectively, "Nokia"), Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) (collectively, "Huawei") and ZTE Corporation and ZTE (USA) Inc. (collectively, "ZTE" and together with Nokia and Huawei, "Respondents"), alleging 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 that infringe seven of InterDigital's U.S. patents (the "Asserted Patents"). The action also extends to certain WCDMA and cdma2000® devices incorporating WiFi functionality. On August 31, 2011, the USITC formally instituted an investigation against Respondents. On May 1, 2012, Huawei Device USA, Inc. was added as a Respondent. 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. (collectively, "LG") as Respondents to the Company's USITC complaint and the USITC investigation, and that the USITC add an additional patent to the USITC complaint and investigation as well. On December 5, 2011, the Administrative Law Judge ("ALJ") granted this motion, and on December 21, 2011 the USITC determined not to review the ALJ's determination, thus adding the LG entities as Respondents and including allegations of infringement of the additional patent. On January 20, 2012, LG filed a motion to terminate the USITC investigation as it relates to the LG entities alleging there is an arbitrable dispute. The ALJ granted LG's motion on June 4, 2012, and on July 6, 2012, the Commission determined not to review the ALJ's order and partially terminated the investigation as to LG. On August 27, 2012, InterDigital filed a petition for review in the U.S. Court of Appeals for the Federal Circuit of the ALJ's June 4, 2012 order.

On September 10, 2012, the ALJ set a new date for the evidentiary hearing of February 12 to February 22, 2013 and the due date for the ALJ's Final Initial Determination of June 28, 2013. The target date for completion of the investigation was extended to October 28, 2013.

On the same date that InterDigital filed the present USITC action (referenced above), we also filed a parallel action in the United States District Court for the District of Delaware (the "Delaware District Court") against the Respondents alleging infringement of the same Asserted Patents identified in the USITC complaint. 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 the USITC complaint referenced above. The Delaware District Court action has been stayed pending the parallel proceedings in the USITC.

Prior Nokia USITC Proceeding/Federal Circuit Appeal

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. The petition seeks review only on the domestic industry issue. On September 24, 2012, the Federal Circuit invited responses from InterDigital and the Commission to Nokia's petition. On October 9, 2012, InterDigital and the Commission filed their respective responses to Nokia's petition. If the Federal Circuit denies Nokia's petition, the Federal Circuit will issue its mandate remanding the case for further proceedings by the Commission. Nokia may petition the U.S. Supreme Court for a writ of

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certiorari within 90 days after denial of its request for rehearing.

Comparability of Financial Results

When comparing third quarter 2012 financial results against other periods, the following items should be taken into consideration:

•Our third quarter 2012 revenue includes:

\$375.0 million of revenue associated with the Intel patent sale; and

\$1.0 million of past sales related to a new patent license agreement signed during the quarter;

•Our third quarter 2012 operating expenses include:

lower accrual rates, as compared to third quarter 2011, for two of the three active cycles under our Long-Term Compensation Program ("LTCP"); and

\$15.6 million of expense related to the Intel patent sale.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2011 Form 10-K. A discussion of our critical accounting policies, and the estimates related to them, are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Form 10-K. Except as outlined below, there have been no material changes in our existing critical accounting policies from the disclosures included in our 2011 Form 10-K. Refer to Note 1, "Basis of Presentation," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements.

Revenue Recognition

During the current year, 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 collectability is reasonably assured. These requirements are generally fulfilled upon closing of the patent sale transaction.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

Our primary sources of liquidity are cash, cash equivalents and short-term investments, as well as cash generated from operations. We have the ability to obtain additional liquidity through debt and equity financings. Based on our past performance and current expectations, we believe our available sources of funds, including cash, cash equivalents and short-term investments and cash generated from our operations, will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program in the next twelve months. On April 4, 2011, we completed an offering of \$230.0 million in aggregate principal amount of 2.50% Senior Convertible Notes due 2016 (the "Notes"). The net proceeds from the offering were approximately \$222.0 million, after deducting the initial purchaser's discount and offering expenses. A portion of the net proceeds of the offering were used to fund the cost of the convertible note hedge transactions entered into in connection with the offering of the Notes. We expect to use the remaining net proceeds from the offering for general corporate purposes, which may include, among other things: acquisitions of intellectual property-related assets or businesses or securities in such businesses; capital expenditures; and working capital. Refer to Note 8, "Long-Term Debt," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed discussion of the Notes.

As discussed above in the "Overview" section, on September 6, 2012, we announced that we have completed the sale of approximately 1,700 patents to Intel Corporation for \$375.0 million in cash. Upon the closing of the transaction in third quarter 2012, we received \$375.0 million of cash and recorded this amount as revenue. Driven by this transaction, we expect to make an estimated federal tax payment of approximately \$80 million in fourth quarter 2012. We intend to use the net proceeds from the sale to fund our existing stock repurchase program and for other general corporate purposes.

Cash, cash equivalents and short-term investments

At September 30, 2012 and December 31, 2011, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

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	September 30, 2012	December 31, 2011	Increase / (Decrease)
Cash and cash equivalents	\$520,892	\$342,211	\$178,681
Short-term investments	260,435	335,783	(75,348)
Total Cash and cash equivalents and short-term investments	\$781,327	\$677,994	\$103,333

The increase in cash, cash equivalents and short-term investments was primarily attributable to \$300.4 million of cash provided by operating activities, and was partially offset by repurchases of common stock of \$152.7 million, \$35.5 million in capital investments and patent acquisitions, and \$13.4 million of dividend payments.

Cash flows provided by (used in) operations

We generated or used the following cash flows from our operating activities in first nine months 2012 and 2011 (in thousands):

	For the Nine Months Ended September 30,		
	2012	2011	Increase / (Decrease)
Net cash provided by (used in) operating activities	\$300,422	\$(32,560)	\$332,982

The positive operating cash flow during first nine months 2012 was derived principally from cash receipts of \$440.9 million from patent sales, and patent license and technology solutions agreements. We received \$380.0 million of patent sales payments, \$39.9 million of per-unit royalty payments, including past sales, current royalties and prepayments, from existing customers and new licensees and \$8.0 million of fixed fee payments. Cash receipts from our technology solutions agreements totaled \$13.0 million, primarily related to royalties and other license fees associated with our SlimChip modem core. These cash receipts and other changes in working capital were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash compensation, accretion of debt discount, and amortization of financing costs) of \$144.3 million, cash payments for short-term and long-term incentive compensation of \$10.3 million, estimated federal tax payments of \$6.5 million and cash payments for foreign source withholding taxes of \$1.4 million.

Cash used in operating activities during first nine months 2011 included cash operating expenses (operating expenses less depreciation of fixed assets, amortization of patents, non-cash compensation, accretion of debt discount, impairment of long-term investments, and amortization of financing costs) of \$95.8 million, cash payments for short-term and long-term incentive compensation of \$20.1 million, estimated federal tax payments of \$19.0 million, and cash payments for foreign source withholding taxes of \$4.8 million. These items were partially offset by \$101.4 million of cash receipts from patent license and technology solutions agreements along with other changes in working capital. We received \$21.1 million of fixed fee payments and \$59.5 million of per-unit royalty payments, including past sales and prepayments, from existing customers and a new customer. Cash receipts from our technology solutions agreements totaled \$20.8 million, primarily related to royalties and other license fees associated with our SlimChip modem core.

Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments, and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at September 30, 2012 and December 31, 2011 (in thousands) as follows:

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	September 30, 2012	December 31, 2011	Increase / (Decrease)	
Current assets	\$881,663	\$768,887	\$112,776	
Less: current liabilities	279,666	173,153	106,513	
Working capital	601,997	595,734	6,263	
Subtract:				
Cash and cash equivalents	520,892	342,211	178,681	
Short-term investments	260,435	335,783	(75,348))
Add:				
Current deferred revenue	94,664	134,087	(39,423))
Adjusted working capital	\$(84,666)	) \$51,827	\$(136,493))

The \$136.5 million net decrease in adjusted working capital is attributable to increases in our current liabilities, primarily associated with higher taxes payable related to our recent \$375.0 million patent sale to Intel.

Cash used in or provided by investing and financing activities

We generated net cash in investing activities of \$42.3 million in first nine months 2012 and \$22.8 million in first nine months 2011. We sold \$77.8 million and \$44.7 million of short-term marketable securities, net of purchases, in first nine months 2012 and 2011, respectively. This increase in net sales in first nine months 2012 was driven by higher cash needs associated with our stock repurchase program. Purchases of property and equipment decreased to \$2.0 million in first nine months 2012 from \$2.5 million in first nine months 2011 due to lower levels of investments in our new and existing facilities. Investment costs associated with capitalized patent costs and acquisition of patents increased to \$33.5 million in first nine months 2012 from \$19.4 million in first nine months 2011, primarily due to investments in patent acquisitions during first nine months 2012.

Net cash (used in) provided by financing activities decreased by \$368.0 million primarily due to our issuance of the Notes and related transactions in second quarter 2011 as discussed above, as well as our repurchases of common stock of \$152.7 million in first nine months 2012.

Other

Our combined short-term and long-term deferred revenue balance at September 30, 2012 was approximately \$161.9 million, a decrease of \$126.1 million from December 31, 2011. We have no material obligations associated with such deferred revenue. In first nine months 2012, deferred revenue decreased \$126.1 million due to \$155.3 million of deferred revenue recognized, partially offset by a gross increase in deferred revenue of \$29.2 million. The deferred revenue recognized was comprised of \$101.2 million of amortized fixed fee royalty payments and \$54.1 million in per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees). The gross increase in deferred revenue of \$29.2 million primarily related to cash received or due from patent licensees and technology solutions customers. Of the \$29.2 million, \$10.4 million relates to the technology solutions agreement arbitration discussed above in the "Overview" section.

Based on current license agreements, we expect the amortization of fixed fee royalty payments and the resolution of the technology solutions agreement arbitration to reduce the September 30, 2012 deferred revenue balance of \$161.9 million by \$94.7 million over the next twelve months. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

RESULTS OF OPERATIONS

Third Quarter 2012 Compared to Third Quarter 2011

Revenues

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

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	For the Three Months Ended				
	September 30,				
	2012	2011	Increase/(Decrease)		
Per-unit royalty revenue	\$23.6	\$34.2	\$(10.6) (31)%
Fixed fee amortized royalty revenue	33.8	33.2	0.6	2	%
Current patent royalties	57.4	67.4	(10.0	) (15)%
Past sales	1.0	7.9	(6.9	) (87)%
Total patent licensing royalties	58.4	75.3	(16.9	) (22)%
Patent sales revenue	375.0	—	375.0	100	%
Technology solutions revenue	0.6	1.2	(0.6	) (50)%
Total revenue	\$434.0	\$76.5	\$357.5	467	%

The \$357.5 million increase in total revenue was primarily attributable to the \$375.0 million sale of patents to Intel. Not including the revenue from this patent sale, total revenue decreased \$17.5 million. This decrease is primarily attributable to a \$10.6 million decrease in per-unit royalty revenue, the majority of which is due to lower shipments from our Japanese per-unit licensees and our licensees with concentrations in the smartphone market. Past sales of \$1.0 million in third quarter 2012 related to a new patent license agreement signed during the quarter. Past sales totaled \$7.9 million in third quarter 2011 and primarily related to an audit of existing licensee. The decrease in technology solutions revenue was due to lower royalties recognized in connection with our SlimChip modem IP business.

In third quarter 2012