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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, 2020

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)

82-4936666
(I.R.S. Employer
Identification No.)

200 Bellevue Parkway, Suite 300, Wilmington, DE 19809-3727
(Address of Principal Executive Offices and Zip Code)
(302) 281-3600
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	IDCC	NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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	30,806,562
Title of Class	Outstanding at November 3, 2020

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

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, 2020	DECEMBER 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 746,561	\$ 745,491
Short-term investments	172,822	179,204
Accounts receivable, less allowances of \$0 and \$537	28,282	28,272
Prepaid and other current assets	84,292	63,365
Total current assets	1,031,957	1,016,332
PROPERTY AND EQUIPMENT, NET	16,244	10,217
PATENTS, NET	437,546	436,339
DEFERRED TAX ASSETS	78,664	73,168
OTHER NON-CURRENT ASSETS, NET	76,083	76,026
	608,537	595,750
TOTAL ASSETS	\$ 1,640,494	\$ 1,612,082
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ —	\$ 94,170
Accounts payable	12,137	13,393
Accrued compensation and related expenses	27,043	29,162
Deferred revenue	248,086	146,654
Taxes payable	121	51
Dividends payable	10,782	10,746
Other accrued expenses	19,243	11,382
Total current liabilities	317,412	305,558
LONG-TERM DEBT	363,523	350,588
LONG-TERM DEFERRED REVENUE	108,587	123,653
OTHER LONG-TERM LIABILITIES	48,296	46,002
TOTAL LIABILITIES	837,818	825,801
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, 71,379 and 71,268 shares issued and 30,806 and 30,701 shares outstanding	713	712
Additional paid-in capital	735,922	727,402
Retained earnings	1,426,239	1,412,779
Accumulated other comprehensive income (loss)	8	(74)
	2,162,882	2,140,819
Treasury stock, 40,573 and 40,567 shares of common held at cost	1,379,611	1,379,262
Total InterDigital, Inc. shareholders' equity	783,271	761,557
Noncontrolling interest	19,405	24,724
Total equity	802,676	786,281
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,640,494	\$ 1,612,082

The accompanying notes are an integral part of these statements.

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,	
	2020	2019	2020	2019
REVENUES:				
Patent licensing royalties	\$ 85,222	\$ 68,049	\$ 259,404	\$ 207,994
Technology solutions	2,271	3,724	8,797	7,794
Patent sales	—	750	—	975
	<u>87,493</u>	<u>72,523</u>	<u>268,201</u>	<u>216,763</u>
OPERATING EXPENSES:				
Patent administration and licensing	40,364	34,772	119,167	108,196
Development	20,845	20,506	61,755	56,028
Selling, general and administrative	10,854	13,471	35,251	40,000
	<u>72,063</u>	<u>68,749</u>	<u>216,173</u>	<u>204,224</u>
Income from operations	15,430	3,774	52,028	12,539
INTEREST EXPENSE	(10,365)	(10,920)	(30,881)	(30,305)
OTHER INCOME, NET	3,994	7,803	13,806	23,772
Income before income taxes	9,059	657	34,953	6,006
INCOME TAX BENEFIT (PROVISION)	12,843	178	5,879	(3,007)
NET INCOME	<u>\$ 21,902</u>	<u>\$ 835</u>	<u>\$ 40,832</u>	<u>\$ 2,999</u>
Net loss attributable to noncontrolling interest	(1,882)	(1,399)	(5,319)	(4,175)
NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC.	<u>\$ 23,784</u>	<u>\$ 2,234</u>	<u>\$ 46,151</u>	<u>\$ 7,174</u>
NET INCOME PER COMMON SHARE — BASIC	<u>\$ 0.77</u>	<u>\$ 0.07</u>	<u>\$ 1.50</u>	<u>\$ 0.23</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	<u>30,804</u>	<u>31,130</u>	<u>30,762</u>	<u>31,757</u>
NET INCOME PER COMMON SHARE — DILUTED	<u>\$ 0.76</u>	<u>\$ 0.07</u>	<u>\$ 1.49</u>	<u>\$ 0.22</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	<u>31,119</u>	<u>31,308</u>	<u>31,029</u>	<u>32,010</u>

The accompanying notes are an integral part of these statements.

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,	
	2020	2019	2020	2019
Net income	\$ 21,902	\$ 835	\$ 40,832	\$ 2,999
Unrealized gain (loss) on investments, net of tax	(362)	245	82	2,366
Comprehensive income	<u>\$ 21,540</u>	<u>\$ 1,080</u>	<u>\$ 40,914</u>	<u>\$ 5,365</u>
Comprehensive loss attributable to noncontrolling interest	<u>(1,882)</u>	<u>(1,399)</u>	<u>(5,319)</u>	<u>(4,175)</u>
Total comprehensive income attributable to InterDigital, Inc.	<u>\$ 23,422</u>	<u>\$ 2,479</u>	<u>\$ 46,233</u>	<u>\$ 9,540</u>

The accompanying notes are an integral part of these statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
BALANCE, DECEMBER 31, 2018	71,134	\$ 711	\$ 685,512	\$ 1,435,970	\$ (2,471)	37,605	\$ (1,182,993)	\$ 1,284	\$ 938,013
Net loss attributable to InterDigital, Inc.	—	—	—	(2,803)	—	—	—	—	(2,803)
Proceeds from and increases in noncontrolling interests	—	—	—	—	—	—	—	12,834	12,834
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,411)	(1,411)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	1,045	—	—	—	1,045
Dividends declared (\$0.35 per share)	—	—	103	(11,283)	—	—	—	—	(11,180)
Exercise of common stock options	—	—	2	—	—	—	—	—	2
Issuance of common stock, net	116	1	(4,098)	—	—	—	—	—	(4,097)
Amortization of unearned compensation	—	—	2,096	—	—	—	—	—	2,096
Repurchase of common stock	—	—	—	—	—	1,585	(108,986)	—	(108,986)
BALANCE, MARCH 31, 2019	71,250	\$ 712	\$ 683,615	\$ 1,421,884	\$ (1,426)	39,190	\$ (1,291,979)	\$ 12,707	\$ 825,513
Net income attributable to InterDigital, Inc.	—	—	—	7,743	—	—	—	—	7,743
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,365)	(1,365)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	1,076	—	—	—	1,076
Dividends declared (\$0.35 per share)	—	—	104	(10,999)	—	—	—	—	(10,895)
Issuance of common stock, net	10	—	(40)	—	—	—	—	—	(40)
Amortization of unearned compensation	—	—	2,116	—	—	—	—	—	2,116
Repurchase of common stock	—	—	—	—	—	944	(62,283)	—	(62,283)
Equity component of debt, net of tax	—	—	56,917	—	—	—	—	—	56,917
Net convertible note hedge transactions, net of tax	—	—	(49,740)	—	—	—	—	—	(49,740)
Net warrant transactions	—	—	43,416	—	—	—	—	—	43,416
Deferred financing costs allocated to equity, net of tax	—	—	(1,569)	—	—	—	—	—	(1,569)
Reacquisition of equity component of debt due to prepayment, net of tax	—	—	(10,649)	—	—	—	—	—	(10,649)
BALANCE, JUNE 30, 2019	71,260	\$ 712	\$ 724,170	\$ 1,418,628	\$ (350)	40,134	\$ (1,354,262)	\$ 11,342	\$ 800,240
Net income attributable to InterDigital, Inc.	—	—	—	2,234	—	—	—	—	2,234
Increases in noncontrolling interest	—	—	—	—	—	—	—	11,250	11,250
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,399)	(1,399)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	245	—	—	—	245
Dividends declared (\$0.35 per share)	—	—	95	(10,992)	—	—	—	—	(10,897)
Issuance of common stock, net	7	—	(179)	—	—	—	—	—	(179)
Amortization of unearned compensation	—	—	1,805	—	—	—	—	—	1,805
BALANCE, SEPTEMBER 30, 2019	71,267	\$ 712	\$ 725,891	\$ 1,409,870	\$ (105)	40,134	\$ (1,354,262)	\$ 21,193	\$ 803,299

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	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
BALANCE, DECEMBER 31, 2019	71,268	\$ 712	\$ 727,402	\$ 1,412,779	\$ (74)	40,567	\$ (1,379,262)	\$ 24,724	\$ 786,281
Net income attributable to InterDigital, Inc.	—	—	—	116	—	—	—	—	116
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,777)	(1,777)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	32	—	—	—	32
Dividends declared (\$0.35 per share)	—	—	84	(10,847)	—	—	—	—	(10,763)
Exercise of common stock options	27	1	777	—	—	—	—	—	778
Issuance of common stock, net	27	—	(725)	—	—	—	—	—	(725)
Amortization of unearned compensation	—	—	2,003	—	—	—	—	—	2,003
Repurchase of common stock	—	—	—	—	—	6	(349)	—	(349)
BALANCE, MARCH 31, 2020	71,322	\$ 713	\$ 729,541	\$ 1,402,048	\$ (42)	40,573	\$ (1,379,611)	\$ 22,947	\$ 775,596
Net income attributable to InterDigital, Inc.	—	—	—	22,251	—	—	—	—	22,251
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,660)	(1,660)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	412	—	—	—	412
Dividends declared (\$0.35 per share)	—	—	136	(10,917)	—	—	—	—	(10,781)
Exercise of common stock options	19	—	1,014	—	—	—	—	—	1,014
Issuance of common stock, net	36	—	(755)	—	—	—	—	—	(755)
Amortization of unearned compensation	—	—	4,629	—	—	—	—	—	4,629
Repurchase of common stock	—	—	—	—	—	—	—	—	—
BALANCE, JUNE 30, 2020	71,377	\$ 713	\$ 734,565	\$ 1,413,382	\$ 370	40,573	\$ (1,379,611)	\$ 21,287	\$ 790,706
Net income attributable to InterDigital, Inc.	—	—	—	23,784	—	—	—	—	23,784
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,882)	(1,882)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	(362)	—	—	—	(362)
Dividends declared (\$0.35 per share)	—	—	145	(10,927)	—	—	—	—	(10,782)
Exercise of common stock options	—	—	—	—	—	—	—	—	—
Issuance of common stock, net	2	—	(55)	—	—	—	—	—	(55)
Amortization of unearned compensation	—	—	1,267	—	—	—	—	—	1,267
Repurchase of common stock	—	—	—	—	—	—	—	—	—
BALANCE, SEPTEMBER 30, 2020	71,379	\$ 713	\$ 735,922	\$ 1,426,239	\$ 8	40,573	\$ (1,379,611)	\$ 19,405	\$ 802,676

The accompanying notes are an integral part of these statements.

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

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 40,832	\$ 2,999
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	61,027	56,907
Non-cash interest expense, net	13,202	13,586
Non-cash change in fair-value	(5,501)	710
Gain on asset acquisition	—	(22,690)
Change in deferred revenue	53,066	875
Loss on extinguishment of debt	—	5,488
Deferred income taxes	(5,518)	(8,014)
Share-based compensation	7,899	6,017
Impairment of long-term investment	—	3,312
Other	(63)	742
(Increase) decrease in assets:		
Receivables	(10)	11,659
Deferred charges and other assets	(26,745)	(2,181)
Increase (decrease) in liabilities:		
Accounts payable	(1,675)	(2,547)
Accrued compensation and other expenses	7,628	6,428
Accrued taxes payable and other tax contingencies	70	(1,315)
Net cash provided by operating activities	<u>144,212</u>	<u>71,976</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(187,707)	(92,270)
Sales of short-term investments	195,072	355,649
Purchases of property and equipment	(9,875)	(3,062)
Proceeds from sale of business	—	10,000
Capitalized patent costs	(23,726)	(26,123)
Net proceeds from change in long-term investments	4,260	—
Net cash provided by (used in) investing activities	<u>(21,976)</u>	<u>244,194</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	1,792	2
Payments on long-term debt	(94,909)	(221,091)
Proceeds from issuance of convertible senior notes	—	400,000
Purchase of convertible bond hedge	—	(72,000)
Payment for warrant unwind	—	(4,184)
Prepayment penalty on long-term debt	—	(10,763)
Proceeds from hedge unwind	—	9,038
Proceeds from issuance of warrants	—	47,600
Payments of debt issuance costs	—	(8,375)
Repurchase of common stock	(349)	(171,269)
Proceeds from non-controlling interests	—	10,333
Taxes withheld upon restricted stock unit vestings	(1,535)	(4,316)
Dividends paid	(32,290)	(33,683)
Net cash used in financing activities	<u>(127,291)</u>	<u>(58,708)</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(5,055)	257,462
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	757,098	488,733
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	<u>\$ 752,043</u>	<u>\$ 746,195</u>

Refer to Note 1, "*Basis of Presentation*," for additional supplemental cash flow information. Additionally, refer to Note 7, "*Cash, Concentration of Credit Risk and Fair Value of Financial Instruments*" for a reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheets.

The accompanying notes are an integral part of these statements.

INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020
(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, 2020, the results of our operations for the three and nine months ended September 30, 2020 and 2019 and our cash flows for the nine months ended September 30, 2020 and 2019. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to state fairly the financial condition, results of operations and cash flows in conformity with United States generally accepted accounting principles (“GAAP”). The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP for year-end financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (our “2019 Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”) on February 20, 2020. Definitions of capitalized terms not defined herein appear within our 2019 Form 10-K. 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.

InterDigital has analyzed the impact of the ongoing Coronavirus pandemic (“COVID-19”) on its financial statements as of September 30, 2020. InterDigital has determined that the changes to its significant judgments and estimates as a result of COVID-19 did not have a material impact on its financial statements. The potential impact of COVID-19 will continue to be analyzed going forward.

Change in Accounting Policies

There have been no material changes or updates to our existing accounting policies from the disclosures included in our 2019 Form 10-K.

Reclassifications

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

Supplemental Cash Flow Information

The following table presents additional supplemental cash flow information for the nine months ended September 30, 2020 and 2019 (in thousands):

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2020	2019
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 4,712	\$ 3,930
Income taxes paid, including foreign withholding taxes	18,211	16,483
Non-cash investing and financing activities:		
Dividend payable	10,782	10,897
Increases in noncontrolling interests	—	13,750
Non-cash acquisition of patents	33,300	22,500
Accrued capitalized patent costs and property and equipment	(419)	390

New Accounting Guidance***Accounting Standards Update: Financial Instruments - Credit Losses***

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses”. This ASU introduced a new accounting model for recognizing credit losses on certain financial instruments and financial assets, including trade receivables, based upon an estimate of current expected credit losses, otherwise known as CECL. The new guidance requires the recognition of an allowance that reflects the current estimate of credit losses expected to be incurred over the life of the financial asset, based not only on historical experience and current conditions, but also on reasonable forecasts. Additionally, ASU No. 2016-13 made several changes to the available-for-sale impairment model. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We adopted this guidance as of January 1, 2020 and the adoption did not have a material impact on our consolidated financial statements.

Accounting Standards Update: Cloud Computing Arrangements

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract”. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We adopted this guidance as of January 1, 2020 and the adoption did not have a material impact on our consolidated financial statements.

Accounting Standards Update: Collaborative Arrangements

In November 2018, the FASB issued ASU No. 2018-18, “Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606”. The amendments in this ASU provide guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within the revenue recognition standard. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted for entities who have previously adopted the new revenue recognition guidance. We adopted this guidance as of January 1, 2020 and the adoption did not have a material impact on our consolidated financial statements.

Accounting Standards Update: Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” (“ASU 2019-12”). The amendments in this ASU are intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 with early adoption allowed. We are currently evaluating the impact of the adoption of ASU 2019-12 on our consolidated financial statements.

Accounting Standards Update: Simplifying the Accounting for Convertible Instruments

In August 2020, the FASB issued ASU No. 2020-06, “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity” (“ASU 2020-06”). The amendments in this ASU are intended to simplify accounting for convertible debt instruments and convertible preferred stock by removing certain accounting models which separate the embedded conversion features from the host contract. ASU 2020-06 also amends certain guidance in ASC 260 on the computation of earnings per share for convertible instruments and contracts on an entity’s own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, and early adoption permitted for fiscal years beginning after December 15, 2020. This update permits the use of either the modified retrospective or fully retrospective methods of transition. We are currently evaluating the impact of the adoption of ASU 2020-06 on our consolidated financial statements.

2. REVENUE**Disaggregated Revenue**

The following table presents the disaggregation of our revenue for the three and nine months ended September 30, 2020 and 2019 (in thousands):

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	Three months ended September 30,			
	2020	2019	Increase/(Decrease)	
Variable patent royalty revenue	\$ 7,377	\$ 4,683	\$ 2,694	58 %
Fixed-fee royalty revenue	77,338	63,736	13,602	21 %
Current patent royalties ^a	84,715	68,419	16,296	24 %
Non-current patent royalties ^b	507	(370)	877	237 %
Total patent royalties	85,222	68,049	17,173	25 %
Current technology solutions revenue ^a	2,271	3,724	(1,453)	(39)%
Patent sales ^b	—	750	(750)	(100)%
Total revenue	\$ 87,493	\$ 72,523	\$ 14,970	21 %

	Nine months ended September 30,			
	2020	2019	Increase/(Decrease)	
Variable patent royalty revenue	\$ 17,920	\$ 22,557	\$ (4,637)	(21)%
Fixed-fee royalty revenue	221,023	190,345	30,678	16 %
Current patent royalties ^a	238,943	212,902	26,041	12 %
Non-current patent royalties ^b	20,461	(4,908)	25,369	517 %
Total patent royalties	259,404	207,994	51,410	25 %
Current technology solutions revenue ^a	8,797	7,794	1,003	13 %
Patent sales ^b	—	975	(975)	(100)%
Total revenue	\$ 268,201	\$ 216,763	\$ 51,438	24 %

a. Recurring revenues are comprised of current patent royalties, inclusive of Dynamic Fixed-Fee Agreement royalties, and current technology solutions revenue.

b. Non-recurring revenues are comprised of non-current patent royalties, which primarily include past patent royalties and royalties from static agreements, as well as patent sales.

During first nine months 2020, we recognized \$124.3 million of revenue that had been included in deferred revenue as of the beginning of the period. As of September 30, 2020, we had contract assets of \$11.5 million and \$9.4 million included within "Accounts receivable" and "Other non-current assets, net" in the condensed consolidated balance sheet, respectively. As of December 31, 2019, we had contract assets of \$16.2 million and \$10.2 million included within "Accounts receivable" and "Other non-current assets, net" in the condensed consolidated balance sheet, respectively.

Contracted Revenue

Based on contracts signed and committed as of September 30, 2020, we expect to recognize the following revenue from Dynamic Fixed-Fee Agreement payments over the term of such contracts (in thousands):

	Revenue
Remainder 2020	\$ 77,838
2021 ^a	271,607
2022 ^a	235,650
2023	43,922
2024	—

a. Updated to reflect additional revenue resulting from the expiration of a licensee's right to early terminate its patent license agreement.

3. INCOME TAXES

In first nine months 2020, the Company had an effective tax rate of (16.8)%. The negative effective tax rate was driven by a net discrete benefit of \$18.2 million that primarily relates to the expected amendment of a prior year tax return to utilize a tax asset generated in the current year, as well as the reversal of a tax reserve. This is compared to an effective tax rate of 50.1% based on the statutory federal tax rate net of discrete federal and state taxes during first nine months 2019. During first nine months 2019, the Company recorded discrete net expense of \$3.1 million primarily related to both the acquisition of the Research & Innovation unit of Technicolor SA and the extinguishment of long-term debt. The Company believes that outcomes which are reasonably possible within the next 12 months may result in the reduction in the liability for unrecognized tax benefits of \$1.0 million, excluding interest and penalties.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") was signed into law. The Tax Reform Act imposes a 13.125% tax rate on income that qualifies as Foreign Derived Intangible Income ("FDII"). On July 9, 2020, the IRS issued final regulations for FDII. The Company is currently evaluating and will record the impact, if any, as applicable.

The effective tax rate reported in any given year will continue to be influenced by a variety of factors, including timing differences between the recognition of book and tax revenue, the level of pre-tax income or loss, the foreign vs. domestic classification of the Company's customers, and any discrete items that may occur. With the FDII regulations being released as final on July 9, 2020, the Company does not believe any proposed or pending regulations will have a significant impact on its tax positions.

During first nine months 2020 and 2019, the Company paid approximately \$17.8 million and \$11.5 million, respectively, in foreign source withholding tax. Additionally, as of each of September 30, 2020 and December 31, 2019, the Company included approximately \$0.1 million of foreign source withholding tax within its taxes payable and deferred tax asset balances. These amounts are related to receivables from foreign licensees.

4. NET INCOME (LOSS) PER SHARE

Basic Earnings Per Share ("EPS") is calculated by dividing net income or loss 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 (loss) per share computation (in thousands, except for per share data):

	Three months ended September 30,			
	2020		2019	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to InterDigital, Inc.	\$ 23,784	\$ 23,784	\$ 2,234	\$ 2,234
Denominator:				
Weighted-average shares outstanding: Basic	30,804	30,804	31,130	31,130
Dilutive effect of stock options, RSUs, convertible securities and warrants		315		178
Weighted-average shares outstanding: Diluted		31,119		31,308
Earnings Per Share:				
Net income per common share: Basic	\$ 0.77	\$ 0.77	\$ 0.07	\$ 0.07
Dilutive effect of stock options, RSUs, convertible securities and warrants		(0.01)		—
Net income per common share: Diluted		\$ 0.76		\$ 0.07

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	Nine months ended September 30,			
	2020		2019	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income applicable to InterDigital, Inc.	\$ 46,151	\$ 46,151	\$ 7,174	\$ 7,174
Denominator:				
Weighted-average shares outstanding: Basic	30,762	30,762	31,757	31,757
Dilutive effect of stock options, RSUs, convertible securities and warrants		267		253
Weighted-average shares outstanding: Diluted		31,029		32,010
Earnings Per Share:				
Net income per common share: Basic	\$ 1.50	\$ 1.50	\$ 0.23	\$ 0.23
Dilutive effect of stock options, RSUs, convertible securities and warrants		(0.01)		(0.01)
Net income per common share: Diluted		\$ 1.49		\$ 0.22

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Restricted stock units and stock options	156	155	154	120
Convertible securities	4,921	6,260	5,222	5,236
Warrants	5,319	6,260	5,931	5,236
Total	10,396	12,675	11,307	10,592

Convertible Notes and Warrants

Refer to Note 8, "Long-Term Debt," for information about the Company's convertible notes and warrants and related conversion and strike prices. During periods in which the average market price of the Company's common stock is above the applicable conversion price of the Company's convertible notes, or above the strike price of the Company's outstanding warrants, the impact of conversion or exercise, as applicable, would be dilutive and such dilutive effect is reflected in diluted EPS. As a result, in periods where the average market price of the Company's common stock is above the conversion price or strike price, as applicable, under the treasury stock method, the Company calculates the number of shares issuable under the terms of the convertible notes and the warrants based on the average market price of the stock during the period, and includes that number in the total diluted shares outstanding for the period.

5. LITIGATION AND LEGAL PROCEEDINGS

COURT PROCEEDINGS

Huawei China Proceeding

Information regarding the legal proceeding that Huawei Technologies Co., Ltd. and certain of its subsidiaries ("Huawei") filed against the Company and certain of its subsidiaries in the Shenzhen Intermediate People's Court (the "Shenzhen Court") can be found in the description of legal proceedings contained in the Company's 2019 Form 10-K. On June 8, 2020, Huawei filed an application with the Shenzhen Court to dismiss the legal proceeding, and on June 9, 2020, the Company filed an application with the IP Tribunal of the China Supreme People's Court (the "SPC") to dismiss the Company's jurisdictional appeal. On July 1, 2020, the SPC dismissed the Company's jurisdictional appeal, and on July 31, 2020, the Shenzhen Court granted Huawei's petition to dismiss the legal proceeding. Accordingly, there are no further proceedings in this matter.

[Table of Contents](#)**Lenovo*****U.K. Proceeding***

Information regarding the legal proceeding that the Company and certain of its subsidiaries filed against Lenovo Group Limited and certain of its subsidiaries in the High Court of Justice, Business and Property Courts of England and Wales, Intellectual Property List (Chancery Division), Patents Court (the "High Court") can be found in the description of legal proceedings contained in the Company's 2019 Form 10-K. On August 26, 2020, the UK Supreme Court handed down its judgment in the combined appeals in the *Unwired Planet* and *Conversant* proceedings, finding, among other things, that UK Courts have jurisdiction to determine fair, reasonable and non-discriminatory ("FRAND") royalty terms and conditions (including, where appropriate, that the terms of a FRAND license would be worldwide) and to award a FRAND injunction under a UK patent that has been found valid and infringed against a defendant that does not enter into a license on the terms the UK Court determines to be FRAND. Subsequently, on September 25, 2020, Lenovo's September 13, 2019 application challenging the jurisdiction of the High Court was dismissed.

On October 6, 2020, the parties held a case management conference regarding the non-technical FRAND proceedings and the High Court entered a schedule for the non-technical FRAND proceedings. The trial of the non-technical FRAND issues is scheduled to occur in January 2022. The Company was also granted permission at the October 6 hearing to amend its claim to seek declarations that Lenovo is an "unwilling licensee" based on its refusal to submit to the outcome of the FRAND determination by the High Court, and that it is therefore not entitled to enforce the Company's commitments under the ETSI IPR Policy against it. Lenovo has subsequently amended its case to seek a declaration that the Company is an "unwilling licensor" and has denied that it is not entitled to enforce the Company's commitments under the ETSI IPR Policy. On October 27, 2020 the Company filed an application to schedule a trial to determine the issue of whether Lenovo is an "unwilling licensee," and whether Lenovo is able to rely on the Company's commitments under the ETSI IPR Policy against it, prior to the non-technical FRAND trial. The outcome of that application is pending.

District of Delaware Patent Proceeding

Information regarding the legal proceeding that the Company and certain of its subsidiaries filed against Lenovo Holding Company, Inc. and certain of its subsidiaries in the United States District Court for the District of Delaware (the "Delaware District Court") can be found in the description of legal proceedings contained in the Company's 2019 Form 10-K. On July 14, 2020, the Delaware District Court heard the parties' oral arguments regarding Lenovo's motion to dismiss six of the eight patents-at-issue in the case. The Delaware District Court denied Lenovo's motion to dismiss in its entirety, finding in the Company's favor that the challenged claims of all six patents cover patent-eligible subject matter under Section 101 of the Patent Act. On September 16, 2020, the Delaware District Court entered a schedule for the case, setting a patent jury trial for December 5, 2022.

District of Delaware Antitrust Proceeding

On April 9, 2020, Lenovo (United States) Inc. and Motorola Mobility LLC filed a complaint in the Delaware District Court against the Company and certain of its subsidiaries. The complaint alleges that the Company defendants have violated Sections 1 and 2 of the Sherman Act in connection with, among other things, their licensing of 3G and 4G standards essential patents ("SEPs"). The complaint further alleges that the Company defendants have violated their commitment to the European Telecommunications Standards Institute ("ETSI") with respect to the licensing of 3G and 4G SEPs on FRAND terms and conditions. The complaint seeks, among other things (i) rulings that the Company defendants have violated Sections 1 and 2 of the Sherman Act and are liable for breach of their ETSI FRAND commitments, (ii) a judgment that the plaintiffs are entitled to a license with respect to the Company's 3G and 4G SEPs on FRAND terms and conditions, and (iii) injunctions against any demand for allegedly excessive royalties or enforcement of the Company defendants' 3G and 4G U.S. SEPs against the plaintiffs or their customers via patent infringement proceedings.

On June 22, 2020, the Company filed a motion to dismiss Lenovo's Sherman Act claims with prejudice, and to dismiss Lenovo's breach of contract claim with leave to re-file as a counterclaim in the Company's legal proceeding against Lenovo in the Delaware District Court discussed above. On July 17, 2020, the United States Department of Justice ("DOJ") filed a statement of interest supporting the Company's motion to dismiss Lenovo's antitrust claims. On July 20, 2020, Lenovo filed its response to the Company's motion to dismiss, and ACT | The App Association ("App Association") filed a motion for leave to file an amicus brief in support of Lenovo's antitrust claims. On August 5, 2020, the Company filed its reply in support of its motion to dismiss. Oral argument on the Company's motion to dismiss was held on October 27, 2020.

[Table of Contents](#)***China Proceeding***

On April 10, 2020, Lenovo (Beijing) Ltd. and certain of its affiliates filed a complaint against the Company and certain of its subsidiaries in the Beijing Intellectual Property Court seeking a determination of the FRAND royalty rates payable for the Company's Chinese 3G, 4G and 5G SEPs. The Company has not yet been served with the complaint.

Xiaomi***China Proceeding***

On August 5, 2020, the Company was informed in writing by Xiaomi Corporation ("Xiaomi") that, on June 3, 2020, Xiaomi Communication Technology Co., Ltd. and certain of its affiliates filed a complaint against the Company and one of its subsidiaries in the Wuhan Intermediate People's Court (the "Wuhan Court") seeking for the Wuhan Court to determine a global FRAND rate for a license to the Company's 3G and/or 4G/LTE SEPs. The Company was informed on September 25, 2020 that the Wuhan Court held an *ex parte* hearing on or about September 23, 2020 and issued an order that, among other things, enjoins the Company from seeking a preliminary and permanent injunction against Xiaomi and certain of its subsidiaries for infringement of certain of the Company's patents related to 3G and/or 4G/LTE standards in the Company's case in the Delhi High Court discussed below, or elsewhere. The Wuhan Court ordered a fine of up to one million yuan per day if the Company were to violate the order. The Company contends that it has not yet been properly served with Xiaomi's complaint or the Wuhan Court's anti-suit injunction order.

On September 30, 2020, the Company filed a preliminary conditional response seeking reconsideration of the Wuhan Court's anti-suit injunction, and requested a hearing, which was held on October 16, 2020. The Company filed a post-hearing submission on October 23, 2020. A decision on the Company's application for reconsideration of the anti-suit injunction remains pending.

India Proceeding

On July 29, 2020, the Company and certain of its subsidiaries filed two patent infringement actions in the Delhi High Court in New Delhi, India (the "Delhi High Court") against Xiaomi and certain of its subsidiaries. The first complaint alleges infringement of five of the Company's patents related to 3G and/or 4G/LTE standards: Indian Patent Nos. 262910; 295912; 298719; 313036; and 320182. The second complaint alleges infringement of three of the Company's patents related to H.265/HEVC standards: Indian Patent Nos. 242248; 299448; and 308108. In these proceedings, the Company is seeking compensatory and punitive damages for Xiaomi's infringement of the asserted patents. The Company is further seeking, among other remedies, injunctive relief to prevent further infringement of the litigated patents in India, unless Xiaomi elects to take a license on terms determined to be FRAND by the Delhi High Court. On September 29, 2020, the Company filed an anti-anti-suit injunction application against Xiaomi in the Delhi High Court, seeking, among other things, to enjoin Xiaomi from enforcing the Wuhan Court's September 23, 2020 anti-suit injunction order described above. On October 9, 2020, the Delhi High Court granted the Company's motion and issued an *ad interim* injunction restraining Xiaomi from enforcing the anti-suit injunction order issued by the Wuhan Court, pending further consideration of the Company's application for an anti-anti-suit injunction at a hearing scheduled for November 25, 2020. On November 3, 2020, Xiaomi filed an appeal with the appellate division of the Delhi High Court seeking, inter alia, to (i) set aside the October 9 *ad interim* anti-anti-suit injunction order, (ii) set aside certain subsequent orders of the first instance court and (iii) stay further pursuit of the Company's application for an interim injunction with respect to infringement of the patents in the first suit.

REGULATORY PROCEEDING**Investigation by National Development and Reform Commission of China**

Information regarding the Company's ongoing licensing commitments to Chinese manufacturers of cellular terminal units resulting from the now-suspended investigation initiated by China's National Development and Reform Commission can be found in the description of legal proceedings contained in the Company's 2019 Form 10-K.

OTHER

We are party to certain other disputes and legal actions in the ordinary course of business, including arbitrations and legal proceedings with licensees regarding the terms of their agreements and the negotiation thereof. We do not currently believe that these matters, even if adversely adjudicated or settled, would have a material adverse effect on our financial condition, results of operations or cash flows. None of the preceding matters have met the requirements for accrual or disclosure of a potential range as of September 30, 2020.

6. BUSINESS COMBINATIONS AND OTHER TRANSACTIONS

Acquisition of Technicolor's Patent Licensing Business

On July 30, 2018, we completed our acquisition of the patent licensing business of Technicolor SA ("Technicolor"), a worldwide technology leader in the media and entertainment sector (the "Technicolor Patent Acquisition"). The Technicolor Patent Acquisition included the acquisition by the Company of approximately 18,000 patents and applications across a broad range of technologies, including approximately 3,000 worldwide video coding patents and applications. Refer to our 2019 Form 10-K for further information on the Technicolor Patent Acquisition.

The Technicolor Patent Acquisition met the definition of a business combination, and, as such, was accounted for using the acquisition method of accounting. We allocated the fair value of consideration transferred to identifiable assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. We recorded the excess of the fair value of consideration transferred over the net values of these assets and liabilities as goodwill.

Acquisition of Technicolor's Research & Innovation Unit

On May 31, 2019, we completed the acquisition of the Research & Innovation unit of Technicolor (the "R&I Acquisition"). The R&I Acquisition expanded the Company's research capabilities in video coding, Internet of Things ("IoT") and smart home, imaging sciences, augmented reality and virtual reality, and artificial intelligence and machine learning technologies. The Technicolor R&I unit was the driving creative force behind the patent portfolio that was acquired in the Technicolor Patent Acquisition discussed above. Refer to our 2019 Form 10-K for further information on the R&I Acquisition.

The R&I Acquisition met the definition of an asset acquisition and was accounted for using the cost accumulation and allocation model. There was no cash consideration for the R&I Acquisition. As consideration for the R&I Acquisition, the jointly funded R&D collaboration that was entered into as part of the Technicolor Patent Acquisition was terminated. Technicolor will continue to fund research to be performed by the R&I unit (which is now part of InterDigital R&I) for certain limited projects for a specified time period, subject to renewal. The Company also assumed certain employee-related liabilities, including obligations for certain defined benefit post-retirement plans for the acquired R&I unit employees, which are further discussed below. Additionally, Technicolor agreed to reduce its rights under the revenue-sharing arrangement entered into as part of the Technicolor Patent Acquisition, as further discussed below.

Contingent Consideration

The original revenue-sharing arrangement between the Company and Technicolor created a contingent consideration liability upon closing of the Technicolor Patent Acquisition in third quarter 2018. Refer to our 2019 Form 10-K for further information on the initial contingent consideration liability which was accounted for at fair value each reporting period.

Under the amended revenue-sharing arrangement described above, Technicolor will now receive 42.5% of future cash receipts from new licensing efforts from the Madison Arrangement (as defined below) only, subject to certain conditions and hurdles, but will no longer receive revenue-sharing from other licensing efforts in the consumer electronics field outside of the Madison Arrangement. We determined that the initial contingent consideration liability from the Technicolor Patent Acquisition was significantly modified in conjunction with the R&I Acquisition, and, as such, the contingent consideration liability is now accounted for under *ASC 450 - Contingencies* under the asset acquisition framework when the liability is deemed probable and estimable. As of September 30, 2020, the contingent consideration liability from the amended revenue-sharing arrangement was deemed not probable and estimable and is therefore not reflected within the consolidated financial statements.

Defined Benefit Plans

In connection with the Technicolor Patent Acquisition and the R&I Acquisition, we assumed certain defined benefit plans which are accounted for in accordance with *ASC 715 - Compensation - Retirement Benefits*. These plans include a retirement lump sum indemnity plan and jubilee plan, both of which provide benefit payments to employees based upon years of service and compensation levels. As of September 30, 2020 and December 31, 2019, the combined accumulated projected benefit obligation related to these plans totaled \$7.0 million and \$6.2 million, respectively. Service cost and interest cost for the combined plans totaled \$0.3 million and \$0.1 million for the nine months ended September 30, 2020 and 2019, respectively. These plans are not required to be funded and were not funded as of September 30, 2020.

Madison Arrangement

In conjunction with the Technicolor Patent Acquisition, effective July 30, 2018, we assumed Technicolor's rights and obligations under a joint licensing program with Sony Corporation ("Sony") relating to digital televisions and standalone computer display monitors, which commenced in 2015 and is referred to as the "Madison Arrangement." We also assumed

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Technicolor's role as sole licensing agent for the Madison Arrangement. As licensing agent, we are responsible for making decisions regarding the prosecution and maintenance of the combined patent portfolio and the licensing and enforcement of the combined patent portfolio in the field of use of digital TVs and computer display monitors on an exclusive basis during the specified term in exchange for an agent fee. The Madison Arrangement falls under the scope of ASC 808, *Collaborative Arrangements* ("ASC 808"). Refer to our 2019 Form 10-K for further information on the Madison Arrangement.

Long-term debt

An affiliate of CPPIB Credit Investments Inc. ("CPPIB Credit"), a wholly owned subsidiary of Canada Pension Plan Investment Board, is a third-party investor in the Madison Arrangement. CPPIB Credit has made certain payments to Technicolor and Sony and has agreed to contribute cash to fund certain capital reserve obligations under the arrangement in exchange for a percentage of future revenues, specifically through September 11, 2030 in regard to the Technicolor patents.

Upon our assumption of Technicolor's rights and obligations under the Madison Arrangement, our relationship with CPPIB Credit meets the criteria in ASC 470-10-25 - *Sales of Future Revenues or Various Other Measures of Income* ("ASC 470"), which relates to cash received from an investor in exchange for a specified percentage or amount of revenue or other measure of income of a particular product line, business segment, trademark, patent, or contractual right for a defined period. Under this guidance, we recognized the fair value of our contingent obligation to CPPIB Credit, as of the acquisition date, as long-term debt in our condensed consolidated balance sheet. This initial fair value measurement was based on the perspective of a market participant and included significant unobservable inputs which are classified as Level 3 inputs within the fair value hierarchy. The fair value of the long-term debt as of September 30, 2020 and December 31, 2019 is disclosed within Note 7. Our repayment obligations are contingent upon future royalty revenues generated from the Madison Arrangement and there are no minimum or maximum payments under the arrangement.

Under ASC 470, amounts recorded as debt are amortized under the interest method. At each reporting period, we will review the discounted expected future cash flows over the life of the obligation. The Company made an accounting policy election to utilize the catch-up method when there is a change in the estimated future cash flows, whereby we will adjust the carrying amount of the debt to the present value of the revised estimated future cash flows, discounted at the original effective interest rate, with a corresponding adjustment recognized as interest expense within "*Interest Expense*" in the condensed consolidated statements of income. The effective interest rate as of the acquisition date was approximately 14.5%. This rate represents the discount rate that equates the estimated future cash flows with the fair value of the debt as of the acquisition date, and is used to compute the amount of interest to be recognized each period based on the estimated life of the future revenue streams. During the three and nine months ended September 30, 2020, we recognized \$0.8 million and \$2.3 million, respectively, of interest expense related to this debt and during the three and nine months ended September 30, 2019, we recognized \$0.7 million and \$2.0 million, respectively. This was included within "*Interest Expense*" in the condensed consolidated statements of income. Any future payments made to CPPIB Credit, or additional proceeds received from CPPIB Credit, will decrease or increase the long-term debt balance accordingly.

Restricted cash

Under the Madison Arrangement, the parties reserve cash in bank accounts to fund our activities to manage the portfolios. These accounts are custodial accounts for which the funds are restricted for this purpose. Refer to Note 7, "*Cash, Concentration of Credit Risk and Fair Value of Financial Instruments*," for a reconciliation of total cash, cash equivalents and restricted cash as of September 30, 2020 and December 31, 2019 to the captions within the condensed consolidated balance sheets.

Commitments

To receive consent from both Sony and CPPIB Credit to assume the rights and responsibilities of Technicolor under the Madison Arrangement, we committed to contributing cash to fund shortfalls in the Madison Arrangement, up to a maximum of \$25.0 million, through 2020. A shortfall funding is only required in the scenario where the restricted cash is not sufficient to fund current obligations. In the event that we fund a shortfall, any surplus cash resulting from subsequent royalty receipts would be used to repay our shortfall funding plus 25% interest in advance of distributions of royalties to either Sony or CPPIB Credit, assuming they have not participated in the funding of the shortfall. As of September 30, 2020, we have not contributed any shortfall funding.

Transaction costs

Transaction and integration related costs related to the above transactions for the three months ended September 30, 2020 and 2019 were \$0.6 million and \$2.1 million, respectively. Transaction and integration related costs related to the above transactions for the nine months ended September 30, 2020 and 2019 were \$1.8 million and \$6.9 million, respectively. The majority of these costs were recorded within "*Patent administration and licensing*" and "*Selling, general and administrative*" expenses in the condensed consolidated statements of income.

7. CASH, CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash currently consists of money market and demand accounts. The following table provides a reconciliation of total cash, cash equivalents and restricted cash as of September 30, 2020, December 31, 2019 and September 30, 2019 to the captions within the condensed consolidated balance sheets and condensed consolidated statements of cash flows (in thousands).

	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	\$ 746,561	\$ 745,491	\$ 735,886
Restricted cash included within prepaid and other current assets	4,401	10,526	9,229
Restricted cash included within other non-current assets	1,081	1,081	1,080
Total cash, cash equivalents and restricted cash	<u>\$ 752,043</u>	<u>\$ 757,098</u>	<u>\$ 746,195</u>

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 and contract assets are derived principally from patent license and technology solutions agreements. As of September 30, 2020 and December 31, 2019, seven licensees comprised 74% and 73%, respectively, of our net accounts receivable balance. We perform ongoing credit evaluations of our licensees, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the book values of our financial instruments approximate their fair values.

Fair Value Measurements

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

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

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

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments.

Recurring Fair Value Measurements

Our financial assets are generally included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets and liabilities that are accounted for at fair value on a recurring basis are presented in the tables below as of September 30, 2020 and December 31, 2019 (in thousands):

[Table of Contents](#)**Fair Value as of September 30, 2020**

	Level 1	Level 2	Level 3	Total
Assets:				
Money market and demand accounts (a)	\$ 742,043	\$ —	\$ —	\$ 742,043
Commercial paper (b)	—	51,382	—	51,382
U.S. government securities	—	24,601	—	24,601
Corporate bonds, asset backed and other securities	—	106,839	—	106,839
Total	\$ 742,043	\$ 182,822	\$ —	\$ 924,865

Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets:				
Money market and demand accounts (a)	\$ 757,098	\$ —	\$ —	\$ 757,098
Commercial paper	—	—	—	—
U.S. government securities	—	105,702	—	105,702
Corporate bonds, asset backed and other securities	—	73,502	—	73,502
Total	\$ 757,098	\$ 179,204	\$ —	\$ 936,302

(a) Primarily included within cash and cash equivalents.

(b) As of September 30, 2020, \$10.0 million commercial paper was included within cash and cash equivalents.

Level 3 Fair Value Measurements*Contingent consideration*

As discussed in Note 6, "*Business Combinations and Other Transactions*," we completed the Technicolor Patent Acquisition during third quarter 2018. In conjunction with the Technicolor Patent Acquisition, we initially recognized a contingent consideration liability which was measured at fair value on a recurring basis using significant unobservable inputs classified as Level 3 measurements within the fair value hierarchy. We utilized a Monte Carlo simulation model to determine the estimated fair value of the contingent consideration liability through first quarter 2019. A Monte Carlo simulation uses random numbers together with volatility assumptions to generate individual paths, or trials, for variables of interest governed by a Geometric Brownian Motion in a risk-neutral framework.

As discussed in Note 6, "*Business Combinations and Other Transactions*," we completed the R&I Acquisition during second quarter 2019. The transaction met the definition of an asset acquisition and was accounted for using the cost accumulation and allocation model. As part of the R&I Acquisition, Technicolor reduced its rights to the revenue-sharing arrangement that created the initial contingent consideration liability from the Technicolor Patent Acquisition. We determined that the initial contingent consideration liability from the Technicolor Patent Acquisition was significantly modified in conjunction with the R&I Acquisition, and, as such, the contingent consideration liability will now be accounted for under *ASC 450 - Contingencies* under the asset acquisition framework when the liability is deemed probable and estimable. Since the contingent consideration liability arising from the amended revenue-sharing arrangement was not probable and estimable as of the acquisition date, the carrying value of the previous contingent consideration liability was derecognized, which resulted in a \$20.5 million gain which was included within "*Other Income, Net*" in the condensed consolidated statement of income for second quarter 2019. Therefore, effective as of the completion of the R&I Acquisition on May 31, 2019, the contingent consideration liability was no longer a Level 3 fair value recurring measurement.

Non-Recurring Fair Value Measurements*Investments in Other Entities*

During first quarter 2020, we recognized a \$5.5 million unrealized gain resulting from observable price changes in orderly transactions of one of our long-term strategic investments, which was included within "*Other Income, Net*" in the condensed consolidated statement of income.

Lease Assets

During first quarter 2020, we recognized a \$1.1 million impairment, comprised of \$0.8 million of Property, Plant, and Equipment, and \$0.3 million of Right of Use Asset related to the abandonment of one of our leased properties, which was included within "*Operating Expense*" in the condensed consolidated statement of income.

Fair Value of Long-Term Debt*2024 and 2020 Senior Convertible Notes*

The principal amount, carrying value and related estimated fair value of the Company's senior convertible debt reported in the condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019 was as follows (in thousands). The aggregate fair value of the principal amount of the senior convertible long-term debt is a Level 2 fair value measurement.

	September 30, 2020			December 31, 2019		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Senior Convertible Long-Term Debt	\$ 400,000	\$ 340,163	\$ 411,240	\$ 494,909	\$ 423,657	\$ 492,969

Technicolor Patent Acquisition Long-term Debt

As more fully disclosed in Note 6, "*Business Combinations and Other Transactions*," we recognized long-term debt in conjunction with the Technicolor Patent Acquisition. The carrying value and related estimated fair value of the Technicolor Patent Acquisition long-term debt reported in the condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019 was as follows (in thousands). The aggregate fair value of the Technicolor Patent Acquisition long-term debt is a Level 3 fair value measurement.

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Technicolor Patent Acquisition Long-Term Debt	\$ 23,360	\$ 26,345	\$ 21,101	\$ 23,305

8. LONG-TERM DEBT**Technicolor Patent Acquisition Long-Term Debt**

Refer to Note 6, "*Business Combinations and Other Transactions*," and Note 7, "*Cash, Concentration of Credit Risk and Fair Value of Financial Instruments*," for information regarding the long-term debt recognized in conjunction with the Technicolor Patent Acquisition.

2024 Senior Convertible Notes, and Related Note Hedge and Warrant Transactions

On June 3, 2019 we issued \$400.0 million in aggregate principal amount of 2.00% Senior Convertible Notes due 2024 (the "2024 Notes"). The net proceeds from the issuance of the 2024 Notes, after deducting the initial purchasers' transaction fees and offering expenses, were approximately \$391.6 million. The 2024 Notes (i) bear interest at a rate of 2.00% per year, payable in cash on June 1 and December 1 of each year, commencing on December 1, 2019, and (ii) mature on June 1, 2024, unless earlier converted or repurchased.

The 2024 Notes are convertible into cash, shares of our common stock or a combination thereof, at our election, at an initial conversion rate of 12.3018 shares of common stock per \$1,000 principal amount of 2024 Notes (which is equivalent to an initial conversion price of approximately \$81.29 per share), as adjusted pursuant to the terms of the indenture governing the 2024 Notes (the "Indenture"). The conversion rate of the 2024 Notes, and thus the conversion price, may be adjusted in certain circumstances, including in connection with a conversion of the 2024 Notes made following certain fundamental changes and under other circumstances set forth in the Indenture. It is our current intent and policy to settle all conversions of the 2024 Notes through combination settlements of cash and shares of common stock, with a specified dollar amount of \$1,000 per \$1,000 principal amount of 2024 Notes and any remaining amounts in shares of common stock.

The 2024 Notes are senior unsecured obligations of the Company and rank equally in right of payment with any of our current and any future senior unsecured indebtedness. The 2024 Notes are effectively subordinated to all of our future secured indebtedness to the extent of the value of the related collateral, and the 2024 Notes are structurally subordinated to indebtedness and other liabilities, including trade payables, of our subsidiaries.

On May 29 and May 31, 2019, in connection with the offering of the 2024 Notes, we entered into convertible note hedge transactions (collectively, the "2024 Note Hedge Transactions") that cover, subject to customary anti-dilution adjustments, approximately 4.9 million shares of common stock, in the aggregate, at a strike price that initially corresponds to the initial conversion price of the 2024 Notes, subject to adjustment, and are exercisable upon any conversion of the 2024 Notes. On May 29 and May 31, 2019, we also entered into privately negotiated warrant transactions (collectively, the "2024 Warrant Transactions" and, together with the 2024 Note Hedge Transactions, the "2024 Call Spread Transactions"), whereby

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we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 4.9 million shares of common stock at an initial strike price of approximately \$109.43 per share, subject to adjustment.

Refer to Note 10, "Obligations" within the Notes to the Consolidated Financial Statements included in Part II, Item 8 of the 2019 Form 10-K for further information regarding the 2024 Notes and 2024 Call Spread Transactions, including the accounting treatment of these transactions.

2020 Senior Convertible Notes, and Related Note Hedge and Warrant Transactions

On March 11, 2015, we issued \$316.0 million in aggregate principal amount of 1.50% Senior Convertible Notes due 2020 (the "2020 Notes"). The 2020 Notes bore interest at a rate of 1.50% per year and matured on March 1, 2020. On the maturity date, the outstanding balance of \$94.9 million under the 2020 Notes was repaid in full.

In connection with the initial offering of the 2020 Notes, on March 5 and March 9, 2015, we entered into convertible note hedge transactions (the "2020 Note Hedge Transactions") that initially covered approximately 4.4 million shares of common stock at a strike price that initially corresponded to the initial conversion price of the 2020 Notes and were exercisable upon any conversion of the 2020 Notes. On March 5 and March 9, 2015, we also entered into warrant transactions (collectively, the "2020 Warrant Transactions" and, together with the 2020 Note Hedge Transactions, the "2020 Call Spread Transactions") to initially acquire, subject to customary anti-dilution adjustments, approximately 4.4 million shares of common stock. The warrants became exercisable and expired in daily tranches over a three and a half month period which started in June 2020 and ended September 15, 2020. As of September 30, 2020, the warrants under the 2020 Warrant Transactions have expired and are no longer outstanding. Refer to Note 10, "Obligations" within the Notes to the Consolidated Financial Statements included in Part II, Item 8 of the 2019 Form 10-K for further information regarding the 2020 Notes and 2020 Call Spread Transactions.

The following table reflects the carrying value of the 2024 Notes and 2020 Notes as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019		
	2024 Notes	2024 Notes	2020 Notes	Total
Principal	\$ 400,000	\$ 400,000	\$ 94,909	\$ 494,909
Less:				
Unamortized interest discount	(54,924)	(64,724)	(669)	(65,393)
Deferred financing costs	(4,913)	(5,789)	(70)	(5,859)
Net carrying amount of 2024 and 2020 Notes	<u>\$ 340,163</u>	<u>\$ 329,487</u>	<u>\$ 94,170</u>	<u>\$ 423,657</u>

The following table presents the amount of interest cost recognized, which is included within "Interest Expense" in our condensed consolidated statements of income, for the three and nine months ended September 30, 2020 and September 30, 2019 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of deferred financing costs (in thousands):

	Three months ended September 30,			
	2020	2019		
	2024 Notes	2024 Notes	2020 Notes	Total
Contractual coupon interest	\$ 2,000	\$ 2,000	\$ 356	\$ 2,356
Accretion of debt discount	3,323	3,088	1,004	4,092
Amortization of deferred financing costs	297	276	104	380
Total	<u>\$ 5,620</u>	<u>\$ 5,364</u>	<u>\$ 1,464</u>	<u>\$ 6,828</u>

Nine months ended September 30,						
	2020			2019		
	2024 Notes	2020 Notes	Total	2024 Notes	2020 Notes	Total
Contractual coupon interest	\$ 6,000	\$ 237	\$ 6,237	\$ 2,600	\$ 2,468	\$ 5,068
Accretion of debt discount	9,800	669	10,469	4,189	6,739	10,928
Amortization of deferred financing costs	876	70	946	374	717	1,091
Total	<u>\$ 16,676</u>	<u>\$ 976</u>	<u>\$ 17,652</u>	<u>\$ 7,163</u>	<u>\$ 9,924</u>	<u>\$ 17,087</u>

9. VARIABLE INTEREST ENTITIES

As further discussed below, we are the primary beneficiary of three variable interest entities. As of September 30, 2020, the combined book values of the assets and liabilities associated with these variable interest entities included in our condensed consolidated balance sheet were \$58.1 million and \$5.8 million, respectively. Assets included \$18.1 million of cash and cash equivalents, \$2.0 million of accounts receivable and prepaid assets, and \$38.0 million of patents, net. As of December 31, 2019, the combined book values of the assets and liabilities associated with these variable interest entities included in our condensed consolidated balance sheet were \$60.6 million and \$5.4 million, respectively. Assets included \$18.5 million of cash and cash equivalents, \$1.7 million of accounts receivable, \$39.3 million of patents, net, and \$1.3 million of other non-current assets.

Chordant

On January 31, 2019, we launched the Company's Chordant™ business as a standalone company. The spinout of the unit, which now includes an affiliate of Sony as an investor along with the Company, gives Chordant added independence and flexibility in driving into its core operator and smart city markets. Chordant is a variable interest entity and we have determined that we are the primary beneficiary for accounting purposes and consolidate Chordant. For the three and nine months ended September 30, 2020, we have allocated approximately \$0.4 million and \$0.9 million, respectively, of Chordant's net loss to noncontrolling interests held by other parties and for the three and nine months ended September 30, 2019, we allocated approximately \$0.5 million and \$1.2 million, respectively.

Convida Wireless

Convida Wireless was launched in 2013 and most recently renewed in 2018 to combine Sony's consumer electronics expertise with our pioneering IoT expertise to drive IoT communications and connectivity. Based on the terms of the agreement, the parties will contribute funding and resources for additional research and platform development, which we will perform. SCP IP Investment LLC, an affiliate of Stephens Inc., is a minority investor in Convida Wireless.

Convida Wireless is a variable interest entity. Based on our provision of research and platform development services to Convida Wireless, we have determined that we remain the primary beneficiary for accounting purposes and will continue to consolidate Convida Wireless. For the three and nine months ended September 30, 2020, we have allocated approximately \$1.5 million and \$4.4 million, respectively, of Convida Wireless's net loss to noncontrolling interests held by other parties and for the three and nine months ended September 30, 2019, we allocated approximately \$0.9 million and \$3.0 million, respectively.

Signal Trust for Wireless Innovation

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

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

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

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

10. OTHER INCOME (EXPENSE), NET

The amounts included in "Other income, net" in the condensed consolidated statements of income for the three and nine months ended September 30, 2020 and 2019 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest and investment income	\$ 825	\$ 3,687	\$ 5,044	\$ 10,173
Gain on asset acquisition and sale of business	—	8,515	—	22,690
Loss on extinguishment of long-term debt	—	—	—	(5,488)
Other	3,169	(4,399)	8,762	(3,603)
Other income, net	<u>\$ 3,994</u>	<u>\$ 7,803</u>	<u>\$ 13,806</u>	<u>\$ 23,772</u>

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 2019 Form 10-K, other reports filed with the SEC and the *Statement Pursuant to the Private Securities Litigation Reform Act of 1995 — Forward-Looking Statements* below.

Throughout the following discussion and elsewhere in this Form 10-Q, we refer to "recurring revenues" and "non-recurring revenues." Recurring revenues are comprised of "current patent royalties" and "current technology solutions revenue." Non-recurring revenues are comprised of "non-current patent royalties," which primarily include past patent royalties and royalties from static agreements, as well as "patent sales."

Throughout the following discussion and elsewhere in this Form 10-Q, we refer to the "Technicolor Acquisitions" which is the combined Technicolor Patent Acquisition, which closed in July 2018 and was integrated throughout 2019, and the R&I Acquisition, which closed May 2019 together.

Recurring Revenue

Third quarter 2020 recurring revenue was \$87.0 million, compared to recurring revenue of \$72.1 million in third quarter 2019, a 21% year-over-year increase. The increase primarily driven by eight new patent license agreements signed over the last twelve months, including Huawei and ZTE. Refer to "*Results of Operations --Third Quarter 2020 Compared to Third Quarter 2019*" for further discussion of our 2020 revenue.

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic, and it continues to significantly impact the United States and the rest of the world. Though the COVID-19 pandemic and the measures taken to reduce its transmission, such as the imposition of social distancing and orders to work-from-home and shelter-in-place, have altered our business environment and overall working conditions, we continue to believe that our strategic strengths, including talent, our strong balance sheet, stable revenue base, and the strength of our patent portfolio, will allow us to weather a rapidly changing marketplace.

While the environment in which we conduct our business and our overall working conditions have changed as a result of the COVID-19 pandemic, we experienced a limited impact on our operations and financial position during first nine months of 2020. As discussed in our 2019 Form 10-K, fixed-fee royalties accounted for nearly 90% of our revenues in 2019. These fixed-fee revenues are not directly affected by our related licensees' success in the market or the general economic climate. To that end, in first nine months of 2020, we did not experience a significant impact on our revenue due to COVID-19. Meanwhile, we have taken steps to protect the health and safety of our employees and their families, with our entire worldwide workforce continuing to work remotely. Despite these remote working conditions, our business activities have continued to operate with minimal interruption, and we expect them to continue to operate efficiently. Nearly all work-related travel continues to remain suspended, and we have conducted our licensing negotiations, investor presentations and participation in standards organizations and industry events virtually. Our financial position remains strong, we have sufficient access to capital if needed, and we remain committed to our efforts around cost discipline.

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Despite our success thus far in navigating the challenging environment that COVID-19 has presented, as more fully discussed in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q, the extent to which COVID-19 will adversely impact our business, financial condition and results of operations is dependent upon numerous factors resulting therefrom, many of which are highly uncertain, rapidly changing and uncontrollable. However, with a strong balance sheet and the vast majority of our current revenue coming from fixed price agreements, we believe that we are well-positioned to continue to overcome and adapt to the challenges that we have been presented with thus far.

Comparability of Financial Results

When comparing third quarter 2020 financial results against other periods, the following items should be taken into consideration:

- the third quarter 2020 tax provision includes discrete benefits of \$18.5 million, which primarily relates to the expected amendment of a prior year tax return to utilize a tax asset generated in the current year, as well as the reversal of a tax reserve.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies and New Accounting Guidance", in the Notes to Consolidated Financial Statements included in our 2019 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 2019 Form 10-K. There have been no material changes to our existing critical accounting policies from the disclosures included in our 2019 Form 10-K. In addition, we have analyzed the impact of COVID-19 on our financial statements as of September 30, 2020, and we have determined that the changes to our significant judgments and estimates did not have a material impact on our financial statements. 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 and changes in accounting policies.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

Cash, cash equivalents, restricted cash and short-term investments

As of September 30, 2020 and December 31, 2019, we had the following amounts of cash, cash equivalents, restricted cash and short-term investments (in thousands):

	September 30, 2020	December 31, 2019	Increase / (Decrease)
Cash and cash equivalents	\$ 746,561	\$ 745,491	\$ 1,070
Restricted cash included within prepaid and other current assets	4,401	10,526	(6,125)
Restricted cash included within other non-current assets	1,081	1,081	—
Short-term investments	172,822	179,204	(6,382)
Total cash, cash equivalents, restricted cash and short-term investments	<u>\$ 924,865</u>	<u>\$ 936,302</u>	<u>\$ (11,437)</u>

The net decrease in cash, cash equivalents, restricted cash and short-term investments was attributable to cash used in financing activities of \$127.3 million, primarily related to the repayment of our 2020 Notes and dividend payments, and by cash used in investing activities of \$29.3 million, excluding sales and purchases of short-term investments. These decreases were partially offset by cash provided by operating activities of \$144.2 million. Refer to the sections below for further discussion of these items.

Cash flows from operations

We generated the following cash flows in our operating activities in first nine months 2020 and 2019 (in thousands):

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	Nine months ended September 30,		
	2020	2019	Increase / (Decrease)
Net cash provided by operating activities	\$ 144,212	\$ 71,976	\$ 72,236

Our cash flows provided by operating activities are principally derived from cash receipts from patent license and technology solutions agreements, offset by cash operating expenses and income tax payments. The \$72.2 million change in net cash provided by operating activities was primarily driven by higher cash receipts primarily related to new patent license agreements signed over the last twelve months, as well as the timing of cash receipts related to patent license agreements. The table below sets forth the significant items comprising our cash flows provided by operating activities during the nine months ended September 30, 2020 and 2019 (in thousands):

	Nine months ended September 30,		
	2020	2019	Increase / (Decrease)
Cash Receipts:			
Patent royalties	\$ 303,918	\$ 217,284	\$ 86,634
Technology solutions	4,678	5,765	(1,087)
Total cash receipts	308,596	223,049	85,547
Cash Outflows:			
Cash operating expenses ^a	147,310	140,590	6,720
Income taxes paid ^b	18,211	16,483	1,728
Total cash outflows	165,521	157,073	8,448
Other working capital adjustments	1,137	6,000	(4,863)
Cash flows provided by operating activities	\$ 144,212	\$ 71,976	\$ 72,236

(a) Cash operating expenses include operating expenses less depreciation of fixed assets, amortization of patents, non-cash compensation and non-cash changes in fair value.

(b) Income taxes paid include foreign withholding taxes.

Cash flows from investing and financing activities

Net cash used in investing activities in first nine months 2020 was \$22.0 million, a (\$266.2 million) change from \$244.2 million net cash provided by investing activities in first nine months 2019. During first nine months 2020, we sold \$7.4 million of short-term marketable securities, net of purchases. During first nine months 2019, we sold \$263.4 million of short-term marketable securities, net of purchases.

Net cash used in financing activities for first nine months 2020 was \$127.3 million, an increase of \$68.6 million from net cash used in financing activities of \$58.7 million for first nine months 2019. This change was primarily attributable to a net proceeds of \$140.2 million from the debt refinancing (net of related expenses) in second quarter 2019 and \$10.3 million proceeds from noncontrolling interests received in first nine months 2019. These first nine months 2019 activities were partially offset by a reduction of \$171.3 million in share repurchases, as well as \$94.9 million payment on long-term debt related to the repayment of our 2020 Notes during the first nine months 2020.

Other

Our combined short-term and long-term deferred revenue balance as of September 30, 2020 was approximately \$356.7 million, a net increase of \$86.4 million from December 31, 2019. This increase in deferred revenue was primarily attributable to timing of cash receipts from our dynamic fixed-fee royalty agreements, including the second quarter 2020 patent license agreement with Huawei.

Based on current license agreements, we expect the amortization of dynamic fixed-fee royalty payments to reduce the September 30, 2020 deferred revenue balance of \$356.7 million by \$248.1 million over the next twelve months.

[Table of Contents](#)**Convertible Notes**

See Note 8, “*Long-Term Debt*” to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for definitions of capitalized terms below.

Our 2024 Notes, which for purposes of this discussion are also referred to as the “Convertible Notes”, are included in the dilutive earnings per share calculation using the treasury stock method. Under the treasury stock method, we must calculate the number of shares of common stock issuable under the terms of the Convertible Notes based on the average market price of our common stock during the applicable reporting period and include that number in the total diluted shares figure for the period. At the time we issued the Convertible Notes, we entered into the 2024 Call Spread Transactions that together were designed to have the economic effect of reducing the net number of shares that will be issued in the event of conversion of the Convertible Notes by, in effect, increasing the conversion price of the Convertible Notes from our economic standpoint. However, under GAAP, since the impact of the 2024 Note Hedge Transactions is anti-dilutive, we exclude from the calculation of fully diluted shares the number of shares of our common stock that we would receive from the counterparties to these agreements upon settlement.

During periods in which the average market price of our common stock is above the applicable conversion price of the Convertible Notes (\$81.29 per share for the 2024 Notes as of September 30, 2020) or above the strike price of the warrants (\$109.43 per share for the 2024 Warrant Transactions as of September 30, 2020), the impact of conversion or exercise, as applicable, would be dilutive and such dilutive effect is reflected in diluted earnings per share. As a result, in periods where the average market price of our common stock is above the conversion price or strike price, as applicable, under the treasury stock method, we calculate the number of shares issuable under the terms of the Convertible Notes and the warrants based on the average market price of the stock during the period, and includes that number in the total diluted shares outstanding for the period.

Under the treasury stock method, changes in the price per share of our common stock can have a significant impact on the number of shares that we must include in the fully diluted earnings per share calculation. As described in Note 8, “*Long-Term Debt*,” it is our current intent and policy to settle all conversions of the Convertible Notes through a combination settlement of cash and shares of common stock, with a specified dollar amount of \$1,000 per \$1,000 principal amount of the Convertible Notes and any remaining amounts in shares (“net share settlement”). Assuming net share settlement upon conversion, the following table illustrates how, based on the \$400.0 million aggregate principal amount of the 2024 Notes as of September 30, 2020, and the approximately 4.9 million warrants related to the 2024 Notes outstanding as of the same date, changes in our stock price would affect (i) the number of shares issuable upon conversion of the Convertible Notes, (ii) the number of shares issuable upon exercise of the warrants subject to the 2024 Warrant Transactions, (iii) the number of additional shares deemed outstanding with respect to the Convertible Notes, after applying the treasury stock method, for purposes of calculating diluted earnings per share (“Total Treasury Stock Method Incremental Shares”), (iv) the number of shares of common stock deliverable to us upon settlement of the 2024 Note Hedge Transactions and (v) the number of shares issuable upon concurrent conversion of the Convertible Notes, exercise of the warrants subject to the 2024 Warrant Transactions, and settlement of the 2024 Note Hedge Transactions:

2024 Notes

Market Price Per Share	Shares Issuable Upon Conversion of the 2024 Notes	Shares Issuable Upon Exercise of the 2024 Warrant Transactions	Total Treasury Stock Method Incremental Shares	Shares Deliverable to InterDigital upon Settlement of the 2024 Note Hedge Transactions	Incremental Shares Issuable ^(a)
(Shares in thousands)					
\$85	215	—	215	(215)	—
\$90	476	—	476	(476)	—
\$95	710	—	710	(710)	—
\$100	921	—	921	(921)	—
\$105	1,111	—	1,111	(1,111)	—
\$110	1,284	25	1,309	(1,284)	25
\$115	1,442	238	1,680	(1,442)	238
\$120	1,587	433	2,020	(1,587)	433
\$125	1,721	613	2,334	(1,721)	613
\$130	1,844	779	2,623	(1,844)	779

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(a) Represents incremental shares issuable upon concurrent conversion of convertible notes, exercise of warrants and settlement of the hedge agreements.

RESULTS OF OPERATIONS

Third Quarter 2020 Compared to Third Quarter 2019

Revenues

The following table compares third quarter 2020 revenues to third quarter 2019 revenues (in thousands):

	Three months ended September 30,		Total Increase/(Decrease)	
	2020	2019		
Variable patent royalty revenue	\$ 7,377	\$ 4,683	\$ 2,694	58 %
Fixed-fee royalty revenue	77,338	63,736	13,602	21 %
Current patent royalties ^a	84,715	68,419	16,296	24 %
Non-current patent royalties ^b	507	(370)	877	237 %
Total patent royalties	85,222	68,049	17,173	25 %
^a Current technology solutions revenue	2,271	3,724	(1,453)	(39)%
Patent sales ^b	—	750	(750)	(100)%
Total revenue	\$ 87,493	\$ 72,523	\$ 14,970	21 %

- a. Recurring revenues are comprised of current patent royalties, inclusive of Dynamic Fixed-Fee Agreement royalties, and current technology solutions revenue.
- b. Non-recurring revenues are comprised of non-current patent royalties, which primarily include past patent royalties and royalties from static agreements, as well as patent sales.

The \$15.0 million increase in total revenue was primarily due to a \$14.8 million increase in recurring revenue and a \$0.9 million increase in non-current patent royalties both primarily driven by eight new patent license agreements signed over the last twelve months, including Huawei and ZTE.

In third quarter 2020 and third quarter 2019, 67% and 77% of our total revenue, respectively, was attributable to companies that individually accounted for 10% or more of our total revenue. In third quarter 2020 and third quarter 2019, the following companies accounted for 10% or more of our total revenue:

	Three months ended September 30,	
	2020	2019
Apple	32%	39%
Samsung	22%	27%
Huawei	13%	—%
LG	<10%	11%

Operating Expenses

The following table summarizes the changes in operating expenses between third quarter 2020 and third quarter 2019 by category (in thousands):

	Three months ended September 30,		Increase/(Decrease)	
	2020	2019		
Patent administration and licensing	\$ 40,364	\$ 34,772	\$ 5,592	16 %
Development	20,845	20,506	339	2 %
Selling, general and administrative	10,854	13,471	(2,617)	(19)%
Total operating expenses	\$ 72,063	\$ 68,749	\$ 3,314	5 %

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Operating expenses increased to \$72.1 million in third quarter 2020 from \$68.7 million in third quarter 2019. The \$3.3 million increase in total operating expenses was primarily due to changes in the following items (in thousands):

	Increase/(Decrease)
Revenue sharing for Madison Arrangement	1,319
Corporate initiatives	600
Patent maintenance	595
Intellectual property enforcement and non-patent litigation	386
Other	414
Total increase in operating expenses	<u>\$ 3,314</u>

The \$3.3 million increase in operating expenses was primarily driven a \$1.3 million increase related to revenue sharing from the Madison Arrangement, a \$0.6 million increase from corporate initiatives for tax planning opportunities, a \$0.6 million increase in patent maintenance costs attributable to patents acquired over the last twelve months and a \$0.4 million increase in intellectual property enforcement costs primarily driven by the on-going Lenovo and Xiaomi litigations.

Patent Administration and Licensing Expense: The increase in patent administration and licensing expense primarily resulted from the above-noted increases related to patent maintenance and intellectual property enforcement costs. These increases were partially offset by lower one-time costs related to Technicolor Acquisitions, as well lower personnel-related costs, among other decreases.

Development Expense: Development expense were relatively flat as compared to third quarter 2019.

Selling, General and Administrative Expense: The decrease in selling, general and administrative expense was primarily due to the lower one-time costs associated with the Technicolor acquisitions as well as reduced travel due to 2020 COVID-19 travel restrictions, and lower personnel-related costs.

Non-Operating Income (Expense)

The following table compares third quarter 2020 non-operating income (expense) to third quarter 2019 non-operating income (expense) (in thousands):

	Three months ended September 30,			
	2020	2019	Change	
Interest expense	\$ (10,365)	\$ (10,920)	\$ 555	5 %
Interest and investment income	825	3,687	(2,862)	(78)%
Gain on asset acquisition	—	8,515	(8,515)	(100)%
Other income (expense), net	3,169	(4,399)	7,568	172 %
Total non-operating income (expense)	<u>\$ (6,371)</u>	<u>\$ (3,117)</u>	<u>\$ (3,254)</u>	<u>(104)%</u>

The change in non-operating income (expense) between periods was primarily driven by the recognition of a gain of \$8.5 million related to the sale of our Hillcrest product business in third quarter 2019. Additionally, third quarter 2019 includes a \$3.3 million loss resulting from the partial impairment of one of our strategic long-term investments, which is included in the "Other income (expense), net" caption in the table above.

Income taxes

In third quarter 2020, we had an effective tax rate of (141.8)%. In third quarter 2020, the Company recorded a net discrete benefit of \$18.5 million that primarily related to the expected amendment of a prior year tax return to utilize a tax asset generated in the current year, as well as the reversal of a tax reserve. This is compared to an effective tax rate of 27.1% based on the statutory federal tax rate net of discrete federal and state taxes during third quarter 2019.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") was signed into law. The Tax Reform Act imposes a 13.125% tax rate on income that qualifies as Foreign Derived Intangible Income ("FDII"). On July 9, 2020, the IRS issued final regulations for FDII. The Company is currently evaluating and will record the impact, if any, as applicable.

First Nine Months 2020 Compared to First Nine Months 2019

[Table of Contents](#)**Revenues**

The following table compares first nine months 2020 revenues to first nine months 2019 revenues (in thousands):

	Nine months ended September 30,		Total Increase/(Decrease)	
	2020	2019		
Variable patent royalty revenue	\$ 17,920	\$ 22,557	\$ (4,637)	(21)%
Fixed-fee royalty revenue	221,023	190,345	30,678	16 %
Current patent royalties ^a	238,943	212,902	26,041	12 %
Non-current patent royalties ^b	20,461	(4,908)	25,369	517 %
Total patent royalties	259,404	207,994	51,410	25 %
Current technology solutions revenue ^a	8,797	7,794	1,003	13 %
Patent sales ^b	—	975	(975)	(100)%
Total revenue	<u>\$ 268,201</u>	<u>\$ 216,763</u>	<u>\$ 51,438</u>	<u>24 %</u>

(a) Recurring revenues are comprised of current patent royalties, inclusive of Dynamic Fixed-Fee Agreement royalties, and current technology solutions revenue.

(b) Non-recurring revenues are comprised of non-current patent royalties, which primarily include past patent royalties and royalties from static agreements, as well as patent sales.

The \$51.4 million increase in total revenue was primarily driven a \$27.0 million increase in recurring revenue and a \$25.4 million increase in non-current patent royalties both primarily driven by eight new patent license agreements signed over the last twelve months, including Huawei and ZTE. The increase in non-current patent royalties was also due to the inclusion of a \$5.5 million net charge recorded as contra non-recurring revenue during nine months ended 2019 related to a restructured licensing arrangement with a long-term customer.

In first nine months 2020 and first nine months 2019, 68% and 77% of our total revenue, respectively, was attributable to companies that individually accounted for 10% or more of our total revenue. In first nine months 2020 and first nine months 2019, the following companies accounted for 10% or more of our total revenue:

	Nine months ended September 30,	
	2020	2019
Apple	31%	39%
Samsung	22%	27%
Huawei	15%	—%
LG	< 10%	11%

Operating Expenses

The following table summarizes the changes in operating expenses between first nine months 2020 and first nine months 2019 by category (in thousands):

	Nine months ended September 30,		Increase/(Decrease)	
	2020	2019		
Patent administration and licensing	\$ 119,167	\$ 108,196	\$ 10,971	10 %
Development	61,755	56,028	5,727	10 %
Selling, general and administrative	35,251	40,000	(4,749)	(12)%
Total operating expenses	<u>\$ 216,173</u>	<u>\$ 204,224</u>	<u>\$ 11,949</u>	<u>6 %</u>

Operating expenses increased 6% to \$216.2 million in first nine months 2020 from \$204.2 million in first nine months 2019. The \$11.9 million increase in total operating expenses was primarily due to changes in the following items (in thousands):

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	Increase/(Decrease)
Recurring operations of the Technicolor Acquisitions	\$ 11,183
One-time costs related to the Technicolor Acquisitions	(5,011)
Revenue sharing for Madison Arrangement	1,958
Corporate initiatives	2,552
Intellectual property enforcement and non-patent litigation	2,536
Amortization	1,771
Performance-based incentive compensation	1,443
Personnel-related costs	(4,316)
Other	(167)
Total increase in operating expenses	<u>\$ 11,949</u>

The \$11.9 million increase in operating expenses was primarily driven by the Technicolor Acquisitions, which contributed \$49.2 million to our first nine months 2020 operating expenses. The \$49.2 million of operating expenses is comprised of \$45.4 million of recurring costs, of which \$13.0 million relates to patent amortization, \$1.8 million relates to transaction and integration costs and the remaining \$2.0 million relates to revenue sharing from the Madison arrangement. during first nine months 2020. This compares to \$41.1 million of operating expenses in first nine months 2019. First nine months 2019 was comprised of \$34.3 million of recurring costs, of which \$12.5 million relates to patent amortization, and the remaining \$6.9 million related to transaction and integration costs.

During first nine months 2020, the Company incurred \$2.6 million of additional costs attributable to corporate initiatives as part of its on-going efforts to optimize its cost structure, including the closure of our San Diego office. The \$2.5 million increase in intellectual property enforcement costs was primarily driven the on-going Lenovo and Xiaomi litigations. Amortization expense increased by \$1.8 million and was largely driven by patents acquired over the last twelve-months. Performance-based incentive compensation increased by \$1.4 million, primarily due to increased performance accruals driven by the Huawei PLA signed in second quarter 2020. Lastly, corporate initiatives to optimize our cost structure drove a \$4.3 million decrease in personnel-related costs.

Patent Administration and Licensing Expense: The increase in patent administration and licensing expense primarily resulted from the above-noted increases related to intellectual property enforcement costs and performance-based incentive compensation, as well as increased patent maintenance costs.

Development Expense: The increase in development expense primarily resulted from the above-noted increases related to the Technicolor Acquisitions. These increases were partially offset by lower personnel-related costs, primarily related to our second quarter 2019 sale of the Hillcrest product business and reductions in other non-cellular research areas.

Selling, General and Administrative Expense: The decrease in selling, general and administrative expense primarily resulted from the above-noted reduction in personnel-related costs, as well as lower one-time costs associated with the Technicolor acquisitions. These decreases were partially offset by the above-noted increases in performance-based incentive compensation and corporate initiatives.

Non-Operating Income (Expense)

The following table compares first nine months 2020 non-operating income (expense) to first nine months 2019 non-operating income (expense) (in thousands):

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	Nine months ended September 30,		Change	
	2020	2019		
Interest expense	\$ (30,881)	\$ (30,305)	\$ (576)	(2)%
Interest and investment income	5,044	10,173	(5,129)	(50)%
Gain on asset acquisition and sale of business	—	22,690	(22,690)	(100)%
Loss on extinguishment of long-term debt	—	(5,488)	5,488	(100)%
Other income (expense), net	8,762	(3,603)	12,365	343 %
Total non-operating income (expense)	<u>\$ (17,075)</u>	<u>\$ (6,533)</u>	<u>\$ (10,542)</u>	<u>(161)%</u>

The change in non-operating income (expense) between periods was primarily driven by the recognition of an aggregate \$22.7 million gain on asset acquisition and sale of business during first nine months 2019, of which \$14.2 million relates to the Technicolor R&I acquisition in second quarter 2019 and \$8.5 million relates to the gain on sale of our Hillcrest product business in third quarter 2019. These gains were partially offset by the recognition of a \$5.5 million loss on extinguishment of debt recognized in connection with the settlement of a portion of our 2020 Notes in second quarter 2019. Additionally, first nine months 2019 includes a \$3.3 million loss resulting from the partial impairment of one of our strategic long-term investments, which is included in the "Other income (expense), net" caption in the table above. Comparatively, the other income (expense) first nine months 2020 includes a \$5.5 million gain resulting from observable price changes in orderly transactions of one of our long-term strategic investments.

Income taxes

In first nine months 2020, we had an effective tax rate of (16.8)%. The negative effective tax rate was driven by a net discrete benefit of \$18.2 million that primarily relates to the expected amendment of a prior year tax return to utilize a tax asset generated in the current year, as well as the reversal of a tax reserve. This is compared to an effective tax rate of 50.1% based on the statutory federal tax rate net of discrete federal and state taxes during first nine months 2019. During first nine months 2019, we recorded discrete expense of \$3.1 million related to the R&I Acquisition, the extinguishment of long-term debt, the filing of amended federal income tax returns and the sale of our Hillcrest product business.

As noted above, on December 22, 2017, the Tax Reform Act was signed into law. The Tax Reform Act imposes a 13.125% tax rate on income that qualifies as FDII. The reduction in benefit is primarily related to the differences in our FDII deduction between the periods. The difference in the FDII deduction between the periods was driven by the timing of income between book and tax mostly related to revenue recognition. On July 9, 2020, the IRS issued final regulations for FDII. The Company is currently evaluating and will record the impact, if any, as applicable.

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

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

- Our expectations regarding the potential effects of new accounting standards on our financial position, results of operations or cash flows;
- Our expectation that the amortization of dynamic fixed-fee royalty payments will reduce our September 30, 2020 deferred revenue balance over the next twelve months;
- Our expectations with respect to revenue to be recognized based on contracts signed and committed Dynamic Fixed-Fee Agreement payments as of September 30, 2020;
- Our expectations and estimations regarding the income tax effects, and the impact on the Company, of the Tax Reform Act, including our forecasted net benefit related to our income qualifying as FDII;
- Our expectations with respect to anticipated tax refunds to be received from amending certain tax returns;
- The timing, outcome and impact of, and plans, expectations and beliefs with respect to, our various litigation, arbitration, regulatory and administrative matters;
- Our belief that we have the ability to obtain additional liquidity through debt and equity financings;

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- Our expectations with respect to the impact of the Technicolor Acquisitions on our financial statements and our business;
- Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, debt obligations, existing stock repurchase program and dividend program for the next twelve months;
- Our expectation that we will continue to pay dividends comparable to our quarterly \$0.35 per share cash dividend in the future;
- Our expectations regarding our customers' ability to continue to pay fixed fee payments owed to us despite the ongoing COVID-19 pandemic; and
- Our expectations regarding the potential effects of the ongoing COVID-19 pandemic on our financial position, results of operations and cash flows.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A of our 2019 Form 10-K and Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2019 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

See Note 5, “*Litigation and Legal Proceedings*,” to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings, which is incorporated herein by reference.

Item 1A. RISK FACTORS.

Reference is made to Part I, Item 1A, “Risk Factors” included in our 2019 Form 10-K for information concerning risk factors, which should be read in conjunction with the factors set forth in the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 -- Forward-Looking Statements in Part I, Item 2 of this Quarterly Report on Form 10-Q. Except as set forth below, there have been no material changes with respect to the risk factors disclosed in our 2019 Form 10-K. The risk factors set forth below update, and should be read together with, the risk factors in our 2019 Form 10-K. You should carefully consider such factors, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q and in the 2019 Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

The extent to which the COVID-19 pandemic or any other potential future public health crises, pandemics or similar events will adversely impact our business, financial condition and results of operations is highly uncertain and cannot be predicted.

The COVID-19 pandemic has created significant worldwide uncertainty, volatility and economic disruption. The extent to which COVID-19 and any other potential future public health crises, pandemics or similar events will adversely impact our business, financial condition and results of operations is dependent upon numerous factors, many of which are highly uncertain, rapidly changing and uncontrollable. These factors include, but are not limited to: (i) the duration and scope of the pandemic or other event; (ii) governmental, business and individual actions that have been and continue to be taken in response to the pandemic or other event, including travel restrictions, quarantines, social distancing, work-from-home and shelter-in-place orders and shut-downs; (iii) the impact on our customers, including those that are presently unlicensed, and other business partners; (iv) the impact on U.S. and global economies and the timing and rate of economic recovery; (v) potential adverse effects on the financial markets and access to capital; (vi) potential goodwill or other impairment charges; (vii) increased cybersecurity risks as a result of pervasive remote working conditions; (viii) our ability to effectively carry out our operations due to any adverse impacts on the health and safety of our employees and their families; (ix) the ability of our customers to timely satisfy their payment obligations to us; and (x) fluctuations in global shipments of handsets and consumer electronics devices. Furthermore, as a result of the COVID-19 pandemic, our employees have been required to work from home and our office locations have remain closed. The significant increase in remote working, particularly for an extended period of time, could exacerbate certain risks to our business, including an increased risk of cybersecurity events, improper dissemination of personal or confidential information and breakdowns in internal controls and processes.

Any of the foregoing factors could amplify the other risks and uncertainties described in our 2019 Form 10-K and could materially adversely affect our business, financial condition, and results of operations. Because the COVID-19 pandemic is unprecedented and continuously evolving, the other potential impacts to our risk factors described in our 2019 Form 10-K are uncertain.

We may have exposure to additional tax liabilities.

The United States government enacted tax reform in 2017 and continues to provide regulatory guidance related to tax reform provisions, and state authorities continue to provide guidance around its application of tax reform provisions, that in each case could impact future effective tax rates favorably or unfavorably. The international tax environment also continues to change as a result of both coordinated efforts by governments and unilateral measures designed by individual countries, which could ultimately have an adverse effect on the taxation of international businesses such as ours. Accordingly, our tax rate could be adversely affected by several factors, many of which are outside of our control, including: changing tax laws, regulations and interpretations thereof; changes in tax rates; and assessments and any related tax, interest or penalties. If we are deemed to owe additional taxes, our business, financial condition, and results of operations could be adversely affected.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**Issuer Purchases of Equity Securities**

The following table provides information regarding the Company's purchase of its common stock during the third quarter 2020.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2020 - July 31, 2020	—	\$ —	—	\$ 71,464,670
August 1, 2020 - August 31, 2020	—	\$ —	—	\$ 71,464,670
September 1, 2020 - September 30, 2020	—	\$ —	—	\$ 71,464,670
Total	—	\$ —	—	\$ 71,464,670

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

(2) Shares were purchased pursuant to the 2014 Repurchase Program, \$300 million of which was authorized by the Company's Board of Directors in June 2014, with an additional \$100 million authorized by the Company's Board of Directors in each of June 2015, September 2017, December 2018, and May 2019, respectively. The 2014 Repurchase Program has no expiration date. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans, or privately negotiated purchases.

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

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 6. EXHIBITS.

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

Exhibit Number	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.+
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.+
101.INS	Inline Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline Schema Document
101.CAL	Inline Calculation Linkbase Document
101.DEF	Inline Definition Linkbase Document
101.LAB	Inline Labels Linkbase Document
101.PRE	Inline Presentation Linkbase Document
104	Inline Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

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This exhibit will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that InterDigital, Inc. specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERDIGITAL, INC.

Date: November 5, 2020

/s/ WILLIAM J. MERRITT

William J. Merritt

President and Chief Executive Officer

Date: November 5, 2020

/s/ RICHARD J. BREZSKI

Richard J. Brezski

Chief Financial Officer