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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 March 31, 2017*

**OR**

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

*For the transition period from \_\_\_\_\_ to \_\_\_\_\_*

Commission File Number 1-33579

**INTERDIGITAL, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**PENNSYLVANIA**  
 (State or Other Jurisdiction of  
 Incorporation or Organization)

**23-1882087**  
 (I.R.S. Employer  
 Identification No.)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

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**

**34,681,903**

Title of Class

**Outstanding at April 25, 2017**

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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)

	<b>MARCH 31, 2017</b>	<b>DECEMBER 31, 2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 139,073	\$ 404,074
Short-term investments	747,067	548,687
Accounts receivable	402,533	228,464
Prepaid and other current assets	53,562	39,894
Total current assets	1,342,235	1,221,119
PROPERTY AND EQUIPMENT, NET	12,033	12,626
PATENTS, NET	306,075	310,768
DEFERRED TAX ASSETS	170,976	149,532
OTHER NON-CURRENT ASSETS	34,069	33,808
	523,153	506,734
<b>TOTAL ASSETS</b>	<b>\$ 1,865,388</b>	<b>\$ 1,727,853</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	17,694	14,050
Accrued compensation and related expenses	11,145	22,065
Deferred revenue	328,324	360,192
Taxes payable	39,190	10,660
Dividends payable	10,404	10,290
Other accrued expenses	7,908	8,223
Total current liabilities	414,665	425,480
LONG-TERM DEBT	275,222	272,021
LONG-TERM DEFERRED REVENUE	398,960	261,013
OTHER LONG-TERM LIABILITIES	16,400	14,971
<b>TOTAL LIABILITIES</b>	<b>1,105,247</b>	<b>973,485</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
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, 70,699 and 70,318 shares issued and 34,679 and 34,298 shares outstanding	707	703
Additional paid-in capital	667,152	683,549
Retained earnings	1,143,955	1,120,766
Accumulated other comprehensive loss	(559)	(514)
	1,811,255	1,804,504
Treasury stock, 36,020 shares of common held at cost	1,064,795	1,064,795
Total InterDigital, Inc. shareholders' equity	746,460	739,709
Noncontrolling interest	13,681	14,659
Total equity	760,141	754,368
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,865,388</b>	<b>\$ 1,727,853</b>

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)

	<b>FOR THE THREE MONTHS ENDED MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
REVENUES:		
Patent licensing royalties	\$ 89,226	\$ 106,954
Technology solutions	5,304	810
	<u>94,530</u>	<u>107,764</u>
OPERATING EXPENSES:		
Patent administration and licensing	29,407	27,167
Development	18,521	20,269
Selling, general and administrative	12,634	11,972
	<u>60,562</u>	<u>59,408</u>
Income from operations	33,968	48,356
OTHER EXPENSE (NET)	(2,814)	(7,137)
Income before income taxes	31,154	41,219
INCOME TAX BENEFIT (PROVISION)	1,624	(14,068)
NET INCOME	<u>\$ 32,778</u>	<u>\$ 27,151</u>
Net loss attributable to noncontrolling interest	(978)	(920)
NET INCOME ATTRIBUTABLE TO INTERDIGITAL, INC.	<u>\$ 33,756</u>	<u>\$ 28,071</u>
NET INCOME PER COMMON SHARE — BASIC	<u>\$ 0.98</u>	<u>\$ 0.80</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	<u>34,370</u>	<u>35,045</u>
NET INCOME PER COMMON SHARE — DILUTED	<u>\$ 0.93</u>	<u>\$ 0.79</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	<u>36,220</u>	<u>35,377</u>
CASH DIVIDENDS DECLARED PER COMMON SHARE	<u>\$ 0.30</u>	<u>\$ 0.20</u>

The accompanying notes are an integral part of these statements.

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

	<b>FOR THE THREE MONTHS ENDED MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 32,778	\$ 27,151
Unrealized (loss) gain on investments, net of tax	(45)	252
Comprehensive income	<u>\$ 32,733</u>	<u>\$ 27,403</u>
Comprehensive loss attributable to noncontrolling interest	<u>(978)</u>	<u>(920)</u>
Total comprehensive income attributable to InterDigital, Inc.	<u><u>\$ 33,711</u></u>	<u><u>\$ 28,323</u></u>

The accompanying notes are an integral part of these statements.

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

	<b>FOR THE THREE MONTHS ENDED MARCH 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 32,778	\$ 27,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,528	12,876
Amortization of deferred financing costs and accretion of debt discount	3,201	5,866
Deferred revenue recognized	(78,921)	(34,594)
Increase in deferred revenue	185,000	80,440
Deferred income taxes	(21,444)	(11,291)
Tax benefit from share-based compensation	—	(46)
Share-based compensation	5,317	6,643
Other	1	(141)
(Increase) decrease in assets:		
Receivables	(174,069)	(60,740)
Deferred charges and other assets	(13,486)	(1,344)
Increase (decrease) in liabilities:		
Accounts payable	2,516	(1,232)
Accrued compensation and other expenses	(9,805)	(15,951)
Accrued taxes payable and other tax contingencies	28,529	12,001
Net cash (used in) provided by operating activities	(25,855)	19,638
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(429,941)	(19,446)
Sales of short-term investments	231,516	308,936
Purchases of property and equipment	(268)	(1,594)
Capitalized patent costs	(7,787)	(8,062)
Acquisition of patents	—	(4,500)
Long-term investments	(501)	—
Net cash (used in) provided by investing activities	(206,981)	275,334
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from exercise of stock options	82	—
Payments on long-term debt	—	(230,000)
Dividends paid	(10,292)	(7,068)
Taxes withheld upon restricted stock unit vestings	(21,955)	(3,405)
Repurchase of common stock	—	(40,399)
Net cash (used in) financing activities	(32,165)	(280,872)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(265,001)	14,100
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	404,074	510,207
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 139,073	\$ 524,307
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	2,370	5,245
Income taxes paid, including foreign withholding taxes	2,990	14,423
Non-cash investing and financing activities:		
Dividend payable	10,404	6,923
Accrued capitalized patent costs, property and equipment, and acquisition of patents	(1,128)	(523)

The accompanying notes are an integral part of these statements.

**INTERDIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(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 March 31, 2017, and the results of our operations for the three months ended March 31, 2017 and 2016 and our cash flows for the three months ended March 31, 2017 and 2016. 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, 2016 (our "2016 Form 10-K") as filed with the Securities and Exchange Commission ("SEC") on February 23, 2017. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

***Change in Accounting Policies***

There have been no material changes or updates to our existing accounting policies from the disclosures included in our 2016 Form 10-K except as set forth below under "New Accounting Guidance."

**New Accounting Guidance**

***Accounting Standards Update: Stock Compensation***

In March 2016, the FASB issued ASU No. 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. We applied the standard beginning in first quarter 2017. Certain elements of our accounting for compensation costs associated with share-based transactions changed upon adoption of ASC 2016-09. We no longer account for these costs net of estimated award forfeitures. Instead, we adjust expense recognized to date in the event of canceled awards as they occur. The elimination of estimated forfeitures did not have a material impact on our financial statements for first quarter 2017. Additionally, tax windfalls and shortfalls related to the tax effects of employee share-based compensation no longer reside within additional paid-in-capital. Rather, these windfalls and shortfalls are included in our tax provision. We also adjusted our disclosures included within our Consolidated Statements of Cash Flows. Tax windfalls and shortfalls related to employee share-based compensation awards are included within operating activities on a prospective basis and cash paid to tax authorities for shares withheld is included within financing activities retrospectively. Although these changes have no impact on the amount of share-based compensation expense we ultimately recognize, the inclusion of windfalls and shortfalls in the tax provision could increase our earnings volatility between periods. Refer to the Note 2, "Income Taxes," for detail regarding the impact of these changes on our financial statements for first quarter 2017.

***Accounting Standards Update: Revenue Recognition***

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods). The guidance permits the use of either a retrospective or cumulative effect transition method.



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We expect the new guidance will affect our recognition of revenue from both our fixed-fee and per-unit license agreements. For accounting purposes under this new guidance, we will separate our fixed-fee license agreements into two categories: (i) those agreements that provide rights, over the term of the license, to future technologies that are highly interdependent or highly interrelated to the technologies provided at the inception of the agreement ("Dynamic Fixed-Fee Agreements") and (ii) those agreements that do not provide for rights to such future technologies ("Static Fixed-Fee Agreements"). Under our current accounting practices, after the fair value allocation between the past and future components of the agreement, we recognize the future components of revenue from all fixed-fee license agreements on a straight-line basis over the term of the related license agreement. Upon adoption of the new guidance, we expect to continue to recognize revenue from Dynamic Fixed-Fee Agreements on a straight-line basis over the term of the related license agreement, while we expect to recognize most or all of the revenue from Static Fixed-Fee Agreements in the quarter the license agreement is signed. Based on our preliminary classifications of fixed-fee license agreements as either "Dynamic" or "Static," in first quarter 2017, approximately 69% of our fixed-fee revenue was derived from Dynamic Fixed-Fee Agreements, with the remainder coming from Static Fixed-Fee Agreements.

In addition, under our current accounting practices, we recognize revenue from our per-unit license agreements in the period in which we receive the related royalty report, generally one quarter in arrears from the period in which the underlying sales occur. Upon adoption of the new guidance, we will be required to record per-unit royalty revenue in the same period in which the licensee's underlying sales occur. Because we do not expect to receive the per-unit licensee royalty reports for sales during a given quarter within the time frame necessary to adequately review the reports and include the actual amounts in our quarterly results for such quarter, we expect to accrue the related revenue based on estimates of our licensees' underlying sales, subject to certain constraints on our ability to estimate such amounts. As a result of accruing revenue for the quarter based on such estimates, adjustments will likely be required in the following quarter to true-up revenue to the actual amounts reported by our licensees. In addition, to the extent we receive prepayments related to per-unit license agreements that do not provide rights, over the term of the license, to future technologies that are highly interdependent or highly interrelated to the technologies provided at the inception of the agreement, we will recognize such prepayments as revenue in the period in which all remaining revenue recognition criteria have been met.

We do not intend to adopt the new guidance early and have not reached a final conclusion on the transition method we will adopt.

#### ***Accounting Standards Update: Leases***

In February 2016, the FASB issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of 2020. Early adoption is permitted. We are in the process of determining the effect the adoption will have on the Company's consolidated financial statements.

#### ***Accounting Standards Update: Clarifying the Definition of a Business***

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." ASU 2017-01 narrows the existing definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities (collectively, the set) is not a business. To be considered a business, the set would need to include an input and a substantive process that together significantly contribute to the ability to create outputs, as defined by the ASU. The Company adopted this guidance early during first quarter 2017 and it had no immediate impact on the Company's consolidated financial statements.

#### ***Accounting Standards Update: Simplifying the Test for Goodwill Impairment***

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2) from the goodwill impairment test. Instead, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The Company adopted this guidance early during first quarter 2017 and it had no immediate impact on the Company's consolidated financial statements.

## **2. INCOME TAXES**

In first quarter 2017, based on the statutory federal tax rate net of discrete federal and state taxes, our effective tax rate was a benefit of 5.2%. The effective tax rate for the three months ending March 31, 2017 was favorably impacted by our

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current year adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," as discussed above in Note 1, "*Basis of Presentation*." In conjunction with our adoption of the standard, we recorded discrete benefits of \$11.8 million for excess tax benefits related to share-based compensation. The effective rate would have been a provision of 32.6% not including these discrete benefits. This is compared to an effective tax rate provision of 34.1% based on the statutory federal tax rate net of discrete federal and state taxes during first quarter 2016. Additionally, our first quarter 2017 effective tax rate includes an estimated deduction for domestic productions activities, which was not present in first quarter 2016.

During first quarter 2017 and 2016, we paid approximately \$3.0 million and \$14.3 million, respectively, of foreign source withholding tax. Additionally, as of March 31, 2017 and December 31, 2016, we have included \$39.2 million and \$10.7 million, respectively, of foreign source withholding tax within our taxes payable and deferred tax asset balances. These amounts are related to receivables from foreign licensees.

### 3. NET INCOME PER SHARE

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

	For the Three Months Ended March 31,			
	2017		2016	
	Basic	Diluted	Basic	Diluted
<b>Numerator:</b>				
Net income applicable to InterDigital, Inc.	\$ 33,756	\$ 33,756	\$ 28,071	\$ 28,071
<b>Denominator:</b>				
Weighted-average shares outstanding: Basic	34,370	34,370	35,045	35,045
Dilutive effect of stock options, RSUs, convertible securities and warrants		1,850		332
Weighted-average shares outstanding: Diluted		36,220		35,377
<b>Earnings Per Share:</b>				
Net income: Basic	\$ 0.98	\$ 0.98	\$ 0.80	\$ 0.80
Dilutive effect of stock options, RSUs, convertible securities and warrants		(0.05)		(0.01)
Net income: Diluted		\$ 0.93		\$ 0.79

Certain shares of common stock issuable upon the exercise or conversion of certain securities have been excluded from our computation of earnings per share for first quarter 2016 because the strike price or conversion rate, as applicable, of such securities was greater than the average market price of our common stock for such period 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 earnings per share for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2017	2016
Restricted stock units and stock options	29	173
Convertible securities	—	7,724
Warrants	—	8,496
<b>Total</b>	<b>29</b>	<b>16,393</b>

### Convertible Notes

During periods in which the average market price of the Company's common stock is above the applicable conversion price of the Company's 1.50% Senior Convertible Notes due 2020 (for purposes of this discussion, the "Convertible Notes") (\$72.37 per share as of March 31, 2017) or above the strike price of our outstanding warrants (\$88.46 per share as of March 31, 2017), the impact of conversion or exercise, as applicable, would be dilutive and such dilutive effect is reflected in diluted

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earnings per share. 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. See Note 7, "Long-Term Debt," for additional information about the Convertible Notes and warrants.

#### 4. LITIGATION AND LEGAL PROCEEDINGS

##### ***ARBITRATIONS AND COURT PROCEEDINGS (OTHER THAN DE DISTRICT COURT ACTIONS RELATED TO USITC PROCEEDINGS)***

##### **Huawei China Proceedings**

On February 21, 2012, InterDigital was served with two complaints filed by Huawei Technologies Co., Ltd. in the Shenzhen Intermediate People's Court in China on December 5, 2011. The first complaint named as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, LLC (now InterDigital Communications, Inc.), and alleged that InterDigital had abused its dominant market position in the market for the licensing of essential patents owned by InterDigital by engaging in allegedly unlawful practices, including differentiated pricing, tying and refusal to deal. The second complaint named as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. and alleged that InterDigital had failed to negotiate on FRAND terms with Huawei. Huawei asked the court to determine the FRAND rate for licensing essential Chinese patents to Huawei and also sought compensation for its costs associated with this matter.

On February 4, 2013, the Shenzhen Intermediate People's Court issued rulings in the two proceedings. With respect to the first complaint, the court decided that InterDigital had violated the Chinese Anti-Monopoly Law by (i) making proposals for royalties from Huawei that the court believed were excessive, (ii) tying the licensing of essential patents to the licensing of non-essential patents, (iii) requesting as part of its licensing proposals that Huawei provide a grant-back of certain patent rights to InterDigital and (iv) commencing a USITC action against Huawei while still in discussions with Huawei for a license. Based on these findings, the court ordered InterDigital to cease the alleged excessive pricing and alleged improper bundling of InterDigital's Chinese essential and non-essential patents, and to pay Huawei 20.0 million RMB (approximately \$3.2 million) in damages related to attorneys' fees and other charges, without disclosing a factual basis for its determination of damages. The court dismissed Huawei's remaining allegations, including Huawei's claim that InterDigital improperly sought a worldwide license and improperly sought to bundle the licensing of essential patents on multiple generations of technologies. With respect to the second complaint, the court determined that, despite the fact that the FRAND requirement originates from ETSI's Intellectual Property Rights policy, which refers to French law, InterDigital's license offers to Huawei should be evaluated under Chinese law. Under Chinese law, the court concluded that the offers did not comply with FRAND. The court further ruled that the royalties to be paid by Huawei for InterDigital's 2G, 3G and 4G essential Chinese patents under Chinese law should not exceed 0.019% of the actual sales price of each Huawei product.

On March 11, 2013, InterDigital filed notices of appeal with respect to the judgments in both proceedings, seeking reversal of the court's February 4, 2013 rulings. On October 16, 2013, the Guangdong Province High Court issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the second proceeding, and on October 21, 2013, issued a ruling affirming the ruling of the Shenzhen Intermediate People's Court in the first proceeding.

InterDigital believes that the decisions are seriously flawed both legally and factually. For instance, in determining a purported FRAND rate, the Chinese courts applied an incorrect economic analysis by evaluating InterDigital's lump-sum 2007 patent license agreement with Apple (the "2007 Apple PLA") in hindsight to posit a running royalty rate. Indeed, the ALJ in USITC Inv. No. 337-TA-800 rejected that type of improper analysis. Moreover, the Chinese courts had an incomplete record and applied incorrect facts, including with respect to the now-expired and superseded 2007 Apple PLA, which had been found in an arbitration between InterDigital and Apple to be limited in scope.

On April 14, 2014, InterDigital filed a petition for retrial of the second proceeding with the Chinese Supreme People's Court ("SPC"), seeking dismissal of the judgment or at least a higher, market-based royalty rate for a license to InterDigital's Chinese standards-essential patents ("SEPs"). The petition for retrial argues, for example, that (1) the lower court improperly determined a Chinese FRAND running royalty rate by using as a benchmark the 2007 Apple lump sum fixed payment license agreement, and looking in hindsight at the unexpectedly successful sales of Apple iPhones to construct an artificial running royalty rate that neither InterDigital nor Apple could have intended and that would have varied significantly depending on the relative success or failure in hindsight of Apple iPhone sales; (2) the 2007 Apple PLA was also an inappropriate benchmark because its scope of product coverage was significantly limited as compared to the license that the

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court was considering for Huawei, particularly when there are other more comparable license agreements; and (3) if the appropriate benchmarks had been used, and the court had considered the range of royalties offered by other similarly situated SEP holders in the wireless telecommunications industry, the court would have determined a FRAND royalty that was substantially higher than 0.019%, and would have found, consistent with findings of the ALJ's initial determination in the USITC 337-TA-800 proceeding, that there was no proof that InterDigital's offers to Huawei violated its FRAND commitments.

The SPC held a hearing on October 31, 2014, regarding whether to grant a retrial and requested that both parties provide additional information regarding the facts and legal theories underlying the case. The SPC convened a second hearing on April 1, 2015 regarding whether to grant a retrial. If the retrial is granted, the SPC will likely schedule one or more additional hearings before it issues a decision on the merits of the case. The SPC retrial proceeding was excluded from the dismissal provisions of the August 2016 patent license agreement between Huawei and InterDigital, and a decision in this proceeding is still pending.

## **ZTE China Proceedings**

On July 10 and 11, 2014, InterDigital was served with two complaints filed by ZTE Corporation in the Shenzhen Intermediate People's Court in China on April 3, 2014. The first complaint names as defendants the Company's wholly owned subsidiaries InterDigital Technology Corporation, InterDigital Communications, Inc., InterDigital Patent Holdings, Inc. and IPR Licensing, Inc. This complaint alleges that InterDigital has failed to comply with its FRAND obligations for the licensing of its Chinese standards-essential patents. ZTE is asking the court to determine the FRAND rate for licensing InterDigital's standards-essential Chinese patents to ZTE and also seeks compensation for its litigation costs associated with this matter. The second complaint names as defendants InterDigital, Inc. and its wholly owned subsidiaries InterDigital Technology Corporation and InterDigital Communications, Inc. This complaint alleges that InterDigital has a dominant market position in China and the United States in the market for the licensing of essential patents owned by InterDigital, and abused its dominant market position in violation of the Chinese Anti-Monopoly Law by engaging in allegedly unlawful practices, including excessively high pricing, tying, discriminatory treatment, and imposing unreasonable trading conditions. ZTE seeks relief in the amount of 20.0 million RMB (approximately \$2.9 million based on the exchange rate as of March 31, 2017), an order requiring InterDigital to cease the allegedly unlawful conduct and compensation for its litigation costs associated with this matter.

On August 7, 2014, InterDigital filed petitions challenging the jurisdiction of the Shenzhen Intermediate People's Court to hear the actions. On August 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the anti-monopoly law case. InterDigital filed an appeal of this decision on September 26, 2014. On September 28, 2014, the court denied InterDigital's jurisdictional challenge with respect to the FRAND case, and InterDigital filed an appeal of that decision on October 27, 2014. On December 18, 2014, the Guangdong High Court issued decisions on both appeals upholding the Shenzhen Intermediate Court's decisions that it had jurisdiction to hear these cases. On February 10, 2015, InterDigital filed a petition for retrial with the Supreme People's Court regarding its jurisdictional challenges to both cases.

The Shenzhen Court held hearings on the anti-monopoly law case on May 11, 13, 15 and 18, 2015. At the May hearings, ZTE withdrew its claims alleging discriminatory treatment and the imposition of unfair trading conditions and increased its damages claim to 99.8 million RMB (approximately \$14.5 million based on the exchange rate as of March 31, 2017). The Shenzhen Court held hearings in the FRAND case on July 29-31, 2015 and held a second hearing on the anti-monopoly law case on October 12, 2015. Both cases remain pending. It is possible that the court may schedule further hearings in these cases before issuing its decisions.

The Company has not recorded any accrual at March 31, 2017 for contingent losses associated with these matters based on its belief that losses, while reasonably possible, are not probable in accordance with accounting guidance.

## **Pegatron Actions**

In first quarter 2015, we learned that on or about February 3, 2015, Pegatron Corporation ("Pegatron") filed a civil suit in Taiwan Intellectual Property Court against InterDigital, Inc. and certain of its subsidiaries alleging breach of the Taiwan Fair Trade Act (the "Pegatron Taiwan Action"). Pegatron and InterDigital entered into a patent license agreement in April 2008 (the "Pegatron PLA"). Pegatron was a subsidiary of Asustek Computer Incorporated until the completion of its spin-off from Asustek in June 2010. On May 26, 2015, InterDigital, Inc. received a copy of the civil complaint filed by Pegatron in the Taiwan Intellectual Property Court. The complaint named as defendants InterDigital, Inc. as well as InterDigital's wholly owned subsidiaries InterDigital Technology Corporation and IPR Licensing, Inc. (together, for purposes of this discussion, "InterDigital"). The complaint alleged that InterDigital abused its market power by improperly setting, maintaining or changing the royalties Pegatron is required to pay under the Pegatron PLA, and engaging in unreasonable discriminatory

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treatment and other unfair competition activities in violation of the Taiwan Fair Trade Act. The complaint sought minimum damages in the amount of approximately \$52 million, which amount could be expanded during the litigation, and that the court order multiple damages based on its claim that the alleged conduct was intentional. The complaint also sought an order requiring InterDigital to cease enforcing the royalty provisions of the Pegatron PLA, as well as all other conduct that allegedly violates the Fair Trade Act.

On June 5, 2015 InterDigital filed an Arbitration Demand with the American Arbitration Association's International Centre for Dispute Resolution ("ICDR") seeking declaratory relief denying all of the claims in Pegatron's Taiwan Action and for breach of contract. On or about June 10, 2015, InterDigital filed a complaint in the United States District Court for the Northern District of California, San Jose Division (the "CA Northern District Court") seeking a Temporary Restraining Order, Preliminary Injunction, and Permanent Anti-suit Injunction against Pegatron prohibiting Pegatron from prosecuting the Pegatron Taiwan Action. The complaint also seeks specific performance by Pegatron of the dispute resolution procedures set forth in the Pegatron PLA and compelling arbitration of the disputes in the Pegatron Taiwan Action. On June 29, 2015, the court granted InterDigital's motion for a temporary restraining order and preliminary injunction requiring Pegatron take immediate steps to dismiss the Taiwan Action without prejudice. On July 1, 2015, InterDigital was informed that Pegatron had withdrawn its complaint in the Taiwan Intellectual Property Court and that the case had been dismissed without prejudice.

On August 3, 2015, Pegatron filed an answer and counterclaims to InterDigital's CA Northern District Court complaint. Pegatron accused InterDigital of violating multiple sections of the Taiwan Fair Trade Act, violating Section Two of the Sherman Act, breaching ETSI, IEEE, and ITU contracts, promissory estoppel (pled in the alternative), violating Section 17200 of the California Business & Professions Code, and violating the Delaware Consumer Fraud Act. These counterclaims stem from Pegatron's accusation that InterDigital violated FRAND obligations. As relief, Pegatron seeks a declaration regarding the appropriate FRAND terms and conditions for InterDigital's "declared essential patents," a declaration that InterDigital's standard essential patents are unenforceable due to patent misuse, an order requiring InterDigital to grant Pegatron a license on FRAND terms, an order enjoining InterDigital's alleged ongoing breaches of its FRAND commitments, and damages in the amount of allegedly excess non-FRAND royalties Pegatron has paid to InterDigital, plus interest and treble damages. On August 7, 2015, Pegatron responded to InterDigital's arbitration demand, disputing the arbitrability of Pegatron's claims. On September 24, 2015, InterDigital moved to compel arbitration and dismiss Pegatron's counterclaims or, in the alternative, stay the counterclaims pending the parties' arbitration. Pegatron's opposition to this motion was filed on October 22, 2015, and InterDigital's reply was filed on November 12, 2015. On January 20, 2016, the court granted InterDigital's motion to compel arbitration of Pegatron's counterclaims and to stay the counterclaims pending the arbitrators' determination of their arbitrability. On January 27, 2016, the parties stipulated to stay all remaining aspects of the CA Northern District case pending such an arbitrability determination. On the same day, the court granted the stay and administratively closed the case. The arbitration remains pending.

### Asustek Actions

On April 15, 2015, Asustek Computer Incorporated ("Asus") filed a complaint in the CA Northern District Court against InterDigital, Inc., and its subsidiaries InterDigital Communications, Inc., InterDigital Technology Corporation, IPR Licensing, Inc., and InterDigital Patent Holdings, Inc. The complaint asserted the following causes of action: violation of Section Two of the Sherman Act, violation of Section 17200 of the California Business and Professions Code, breach of contract resulting from ongoing negotiations, breach of contract leading to and resulting in the parties' April 2008 patent license agreement (the "2008 Asus PLA"), promissory estoppel, waiver, and fraudulent inducement to contract. Among other allegations, Asus alleged that InterDigital breached its FRAND commitment. As relief, Asus sought a judgment that the 2008 Asus PLA is void or unenforceable, damages in the amount of excess royalties Asus paid under the 2008 Asus PLA plus interest, a judgment setting the proper FRAND terms and conditions for InterDigital's patent portfolio, an order requiring InterDigital to grant Asus a license on FRAND terms and conditions, and punitive damages and other relief.

In response, on May 30, 2015, InterDigital filed an Arbitration Demand with the ICDR. InterDigital claimed that Asus breached the 2008 Asus PLA's dispute resolution provision by filing its CA Northern District Court lawsuit and sought declaratory relief that it is not liable for any of the claims in Asus's complaint. On June 2, 2015, InterDigital filed in the CA Northern District Court a motion to compel arbitration on each of Asus's claims. On August 25, 2015, the court granted InterDigital's motion for all of Asus's claims except its claim for breach of contract resulting from ongoing negotiations. Aside from this claim, the court ruled that the issue of arbitrability should be decided by an arbitrator, and stayed the proceedings pending that determination.

Asus asserted counterclaims in the arbitration that mirrored its CA Northern District Court claims, except that it did not assert the breach of contract claim that the court determined was not arbitrable and it added a claim of violation of the Delaware Consumer Fraud Act. Asus also contended that its counterclaims were not arbitrable. InterDigital added a claim for breach of the 2008 Asus PLA's confidentiality provision.



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On July 14, 2016, Asus filed a motion to lift the stay in the CA Northern District Court proceeding along with a notice of the arbitral tribunal's decision on arbitrability, informing the court of the arbitrators' decision that, other than InterDigital's breach of contract claims and Asus's fraudulent inducement claim, no other claim or counterclaim is arbitrable. Asus then filed in the CA Northern District Court an amended complaint on August 18, 2016. This amended complaint includes all of the claims in Asus's first CA Northern District Court complaint except fraudulent inducement and adds a claim of violation of the Delaware Consumer Fraud Act. It seeks the same relief as its first CA Northern District Court complaint, but also seeks a ruling that each of InterDigital's patents "declared [to standards-setting organizations] to be essential or potentially essential" is unenforceable and any contracts InterDigital entered into in furtherance of its unlawful conduct are void. On September 8, 2016, InterDigital filed its answer and counterclaims to Asus' amended complaint. It denied Asus's claims and filed a counterclaim for declaratory judgment that Asus's tort claims are invalid or preempted as applied under the First Amendment to the U.S. Constitution, the Patent Clause of the U.S. Constitution, and Title 35 of the U.S. Code. On September 28, 2016, Asus answered and denied InterDigital's counterclaims. On December 16, 2016, the court set a case schedule that includes a May 2019 trial date.

With respect to its arbitration counterclaim for fraudulent inducement, Asus stated in its pleadings that it was seeking return of excess royalties (which totaled close to \$63 million as of the August 2016 date referenced in the pleadings and has increased with additional royalty payments made by Asus since such time), plus interest, costs and attorneys' fees. The evidentiary hearing in the arbitration was held in January 2017, and the parties presented oral closing arguments on March 22, 2017. InterDigital has not yet received the arbitrators' decision, which is expected by June 2017.

The Company has not recorded any accrual at March 31, 2017, for contingent losses associated with these matters. While a material loss is reasonably possible, the Company cannot estimate the potential range of loss with respect to the arbitration matter given the range of possible outcomes, nor with respect to the CA Northern District Court proceeding, as this matter is not at a sufficiently advanced stage to allow for such an estimate.

### **Microsoft Sherman Act Delaware Proceedings**

On August 20, 2015, Microsoft Mobile, Inc. and Microsoft Mobile Oy (collectively "Microsoft") filed a complaint in the United States District Court for the District of Delaware (the "Delaware District Court") against InterDigital, Inc., InterDigital Communications, Inc., InterDigital Technology Corporation, InterDigital Patent Holdings, Inc., InterDigital Holdings, Inc., and IPR Licensing, Inc. The complaint alleges that InterDigital has monopolized relevant markets for 3G and 4G cellular technology in violation of Section 2 of the Sherman Act. As relief, Microsoft seeks declaratory judgments that InterDigital has violated Section 2 of the Sherman Act, that "each of InterDigital's U.S. patents declared by it to be Essential" to the 3G and 4G standards is unenforceable, and that all agreements InterDigital has entered into in furtherance of its alleged unlawful conduct are void. Microsoft also seeks an award of treble damages and the following injunctive relief: requiring InterDigital to grant Microsoft a non-confidential license to its U.S. standards essential patents ("SEPs") on FRAND terms as determined by a court, requiring InterDigital to disclose to Microsoft the terms of its other SEP licenses, preventing InterDigital from enforcing any exclusion orders it might receive with respect to its SEPs, and requiring InterDigital to re-assign any declared SEPs that it has assigned to controlled entities.

On November 4, 2015, InterDigital filed a motion to dismiss and to strike Microsoft's complaint. A hearing on this motion was held on March 1, 2016, and on April 13, 2016, the Delaware District Court denied InterDigital's motion. On April 27, 2016, InterDigital filed a motion with the Delaware District Court to certify questions addressed in the court's April 13, 2016 decision for interlocutory appeal. The court denied InterDigital's motion for certification of interlocutory appeal on June 13, 2016.

On May 27, 2016, InterDigital filed its answer and counterclaims. InterDigital denied Microsoft's claim that InterDigital violated Section 2 of the Sherman Act and asserted several defenses. InterDigital also filed two counterclaims for declaratory judgment: (i) that Microsoft's Sherman Act claim is invalid and preempted as applied under the First Amendment of the U.S. Constitution, the Patent Clause of the U.S. Constitution, and Title 35 of the U.S. Code; and (ii) that Microsoft waived entitlement to benefit from FRAND commitments by InterDigital due to Microsoft's reverse hold-up behavior. Microsoft filed an answer to InterDigital's counterclaims on June 20, 2016. Trial is scheduled to begin in September 2018.

### **REGULATORY PROCEEDINGS**

#### **Investigation by Taiwan Fair Trade Commission**

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

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or pay an administrative fine. During second quarter 2016, InterDigital was informed by its local counsel that the staff of the TFTC has completed its investigation and has forwarded its recommendations to the Commission. InterDigital is fully cooperating with the TFTC's investigation.

### **Investigation by National Development and Reform Commission of China**

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

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

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

### ***USITC PROCEEDINGS AND RELATED DELAWARE DISTRICT COURT PROCEEDINGS***

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

##### ***USITC Proceeding (337-TA-868)***

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

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On December 23, 2013, InterDigital and Huawei reached a settlement agreement to enter into binding arbitration to resolve their global patent licensing disputes. Pursuant to the settlement agreement, InterDigital and Huawei moved to dismiss all litigation matters pending between the parties except the action filed by Huawei in China to set a fair, reasonable and non-discriminatory (“FRAND”) rate for the licensing of InterDigital’s Chinese standards-essential patents (discussed above under “Huawei China Proceedings”), the decision in which InterDigital is permitted to further appeal. As a result, effective February 12, 2014, the Huawei Respondents were terminated from the 337-TA-868 investigation.

From February 10 to February 20, 2014, ALJ Essex presided over the evidentiary hearing in this investigation. The patents in issue in this investigation as of the hearing were U.S. Patent Nos. 7,190,966 (the “’966 patent”) and 7,286,847 (the “’847 patent”) asserted against ZTE and Samsung, and U.S. Patent No. 7,941,151 (the “’151 patent”) asserted against ZTE, Samsung and Nokia.

On June 3, 2014, InterDigital and Samsung filed a joint motion to terminate the investigation as to Samsung on the basis of settlement. The ALJ granted the joint motion by initial determination issued on June 9, 2014, and the USITC determined not to review the initial determination on June 30, 2014.

On June 13, 2014, the ALJ issued an Initial Determination (“ID”) in the 337-TA-868 investigation. In the ID, the ALJ found that no violation of Section 337 had occurred in connection with the importation of 3G/4G devices by ZTE or Nokia, on the basis that the accused devices do not infringe asserted claims 1-6, 8-9, 16-21 or 23-24 of the ’151 patent, claims 1, 3, 6, 8, 9, or 11 of the ’966 patent, or claims 3 or 5 of the ’847 patent. The ALJ also found that claim 16 of the ’151 patent was invalid as indefinite. Among other determinations, the ALJ further determined that InterDigital did not violate any FRAND obligations, a conclusion also reached by the ALJ in the 337-TA-800 investigation, and that Respondents have engaged in patent “hold out.”

On June 30, 2014, InterDigital filed a Petition for Review with the USITC seeking review and reversal of certain of the ALJ’s conclusions in the ID. On the same day, Respondents filed a Conditional Petition for Review urging alternative grounds for affirmance of the ID’s finding that Section 337 was not violated and a Conditional Petition for Review with respect to FRAND issues.

In June 2014, Microsoft Mobile Oy (“MMO”) was added as a respondent in the investigation.

On August 14, 2014, the Commission determined to review in part the June 13, 2014 ID but terminated the investigation with a finding of no violation.

On October 10, 2014, InterDigital filed a petition for review with the U.S. Court of Appeals for the Federal Circuit (the “Federal Circuit”), appealing certain of the adverse determinations in the Commission’s August 8, 2014 final determination including those related to the ’966 and ’847 patents. On June 2, 2015, InterDigital moved to voluntarily dismiss the Federal Circuit appeal, because, even if it were to prevail, it did not believe there would be sufficient time following the court’s decision and mandate for the USITC to complete its proceedings on remand such that the accused products would be excluded before the ’966 and ’847 patents expire in June 2016. The court granted the motion and dismissed the appeal on June 18, 2015.

### ***Related Delaware District Court Proceedings***

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

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



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

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

On March 13, 2013, InterDigital filed an amended Delaware District Court complaint against Nokia and Samsung, respectively, to assert allegations of infringement of the recently issued '244 patent. On April 1, 2013, Nokia filed its answer and counterclaims to InterDigital's amended Delaware District Court complaint. On April 24, 2013, Samsung filed its answer and a counterclaim to InterDigital's amended Delaware District Court complaint.

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

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

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

On February 11, 2014, the Delaware District Court judge entered an InterDigital, Nokia, and ZTE stipulated Amended Scheduling Order that bifurcated issues relating to damages, FRAND-related affirmative defenses, and any FRAND-related counterclaims.

On August 28, 2014, the court granted in part a motion by InterDigital for summary judgment that the asserted '151 patent is not unenforceable by reason of inequitable conduct, holding that only one of the references forming the basis of defendants' allegations would remain in issue, and granted a motion by InterDigital for summary judgment that the asserted claims of the '966 and '847 patents are not invalid for lack of enablement.

On August 5, 2014, InterDigital and Samsung filed a stipulation of dismissal in light of the parties' settlement agreement. On the same day, the court granted the stipulation of dismissal and dismissed the action with prejudice.

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By order dated August 28, 2014, MMO was joined in the case as a defendant.

The ZTE trial addressing infringement and validity of the '966, '847, '244 and '151 patents was held from October 20 to October 27, 2014. During the trial, the judge determined that further construction of certain claim language of the '151 patent was required, and the judge decided to hold another trial as to ZTE's infringement of the '151 patent at a later date. On October 28, 2014, the jury returned a unanimous verdict in favor of InterDigital, finding that the '966, '847 and '244 patents are all valid and infringed by ZTE 3G and 4G cellular devices. The court issued formal judgment to this effect on October 29, 2014.

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

The ZTE trial addressing infringement of the '151 patent was held from April 20 to April 22, 2015. On April 22, 2015, the jury returned a verdict in favor of ZTE, finding that the '151 patent is not infringed by ZTE 3G and 4G cellular devices.

On April 23, 2015, InterDigital filed a motion to partially dismiss its complaint pertaining to the '151 patent against Nokia and MMO, as well as Nokia and MMO's counterclaims that relate to the '151 patent (including inequitable conduct), and on April 27, 2015, the judge granted the motion.

On April 27, 2015, the court ruled that Nokia Corporation should be severed for a separate trial addressing infringement of the '244 patent.

On May 5, 2015, the court scheduled the Nokia Inc./MMO jury trial addressing infringement of the '244 patent for November 16, 2015. On May 29, 2015, the court entered a new scheduling order for damages and FRAND-related issues due to changes in the schedule of the liability portion of the MMO proceedings, scheduling trials related to damages and FRAND-related issues for October 2016 with ZTE and November 2016 with MMO.

On September 14, 2015, a panel of Administrative Law Judges of the United States Patent and Trademark Office Patent Trial and Appeal Board (the "PTAB") issued a final written decision in two Inter Partes Review ("IPR") cases concerning the '244 patent. These IPR proceedings were commenced on petitions filed by ZTE Corporation and ZTE (USA) Inc. and by Microsoft Corporation, respectively. Specifically, the panel determined that a number of claims of the '244 patent are unpatentable as obvious. IPR Licensing, Inc. appealed to the Federal Circuit seeking review of the PTAB's decision. Oral argument in the appeal was heard on April 7, 2017. On April 20, 2017, the Federal Circuit affirmed the PTAB's decision that most of the challenged claims of the '244 patent are unpatentable as obvious. However, the court vacated and remanded the PTAB's obviousness finding as to claim 8, which will return the matter to the PTAB for further proceedings as to that claim.

On October 13, 2015, by stipulation of the parties, the Delaware District Court stayed the action involving MMO and Nokia Inc., including the November 2015 and November 2016 trials concerning infringement of the '244 patent and damages and FRAND-related issues, respectively, pending completion of the IPR proceedings, including all appeals and subsequent proceedings before the PTAB. This stay is with respect to MMO and Nokia Inc. only, and does not apply to the Delaware action pending against ZTE.

On May 12, 2015, Nokia/MMO moved for summary judgment of non-infringement of the '244 patent, alleging that the accused devices do not practice a particular claim element of the '244 patent. On June 2, 2015, InterDigital opposed Nokia/MMO's motion, and filed a cross-motion for partial summary judgment that the accused devices infringe the claim element at issue in Nokia/MMO's motion for summary judgment. On October 13, 2015, the Delaware District Court denied the pending summary judgment cross-motions without prejudice in light of the stay discussed above, indicating that the motions could be considered refiled if and when the stay is lifted if either party requests it.

On December 21, 2015, the court entered another scheduling order that vacated the October 2016 date for the ZTE trial related to damages and FRAND-related issues as set forth in the May 2015 scheduling order.

On March 18, 2016, the court denied ZTE's motion for judgment as a matter of law, or in the alternative for a new trial, with respect to the '966 and '847 patents. The court postponed its ruling on ZTE's motion as to the '244 patent pending the Federal Circuit's decision on InterDigital's appeal of the September 14, 2015 PTAB ruling and administratively closed that portion of the motion. On April 8, 2016, the court set a new schedule for the FRAND/damages portion of the ZTE case with a target trial date in February 2018.

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On April 18, 2016, ZTE filed a stipulated request for dismissal with prejudice of its counterclaims for breach of contract and patent unenforceability based on FRAND and withdrew its corresponding FRAND-related affirmative defenses. The court granted this request the same day. Also on April 18, 2016, ZTE filed a motion under Federal Rule of Civil Procedure 54(b) seeking certification of partial final judgment on the claims for infringement of the '966 and '847 patents to allow ZTE to file an immediate appeal as to those patents. The motion was granted on June 7, 2016, and a partial final judgment was entered on June 20, 2016. On July 18, 2016, ZTE filed its notice of appeal with the Federal Circuit regarding the Delaware District Court's judgment against ZTE with respect to the '966 and '847 patents. ZTE's appeal is pending. As a result, InterDigital's damages claims are currently effectively stayed pending the appeal.

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

### ***USITC Proceeding (337-TA-800)***

On July 26, 2011, InterDigital's wholly owned subsidiaries InterDigital Communications, LLC (now InterDigital Communications, Inc.), InterDigital Technology Corporation and IPR Licensing, Inc. filed a complaint with the USITC against Nokia Corporation and Nokia Inc., Huawei Technologies Co., Ltd. and FutureWei Technologies, Inc. d/b/a Huawei Technologies (USA) and ZTE Corporation and ZTE (USA) Inc. (collectively, the "337-TA-800 Respondents"), alleging violations of Section 337 of the Tariff Act of 1930 in that they engaged in unfair trade practices by selling for importation into the United States, importing into the United States and/or selling after importation into the United States certain 3G wireless devices (including WCDMA- and cdma2000-capable mobile phones, USB sticks, mobile hotspots and tablets and components of such devices) that infringe several of InterDigital's U.S. patents. The action also extended to certain WCDMA and cdma2000 devices incorporating WiFi functionality. InterDigital's complaint with the USITC sought an exclusion order that would bar from entry into the United States any infringing 3G wireless devices (and components) that are imported by or on behalf of the 337-TA-800 Respondents, and also sought a cease-and-desist order to bar further sales of infringing products that have already been imported into the United States. In May 2012, Huawei Device USA, Inc. was added as a 337-TA-800 Respondent.

The ALJ held an evidentiary hearing from February 12-21, 2013. The patents in issue as of the hearing were U.S. Patent Nos. 8,009,636 (the "'636 patent"), 7,706, 830 (the "'830 patent"), 7,502,406 (the "'406 patent"), 7,616,970 (the "'970 patent"), 7,706,332 (the "'332 patent"), 7,536,013 (the "'013 patent") and 7,970,127 (the "'127 patent"). The ALJ's Initial Determination ("ID") issued on June 28, 2013, finding no violation because the asserted patents were not infringed and/or invalid. Among other determinations, with respect to the 337-TA-800 Respondents' FRAND and other equitable defenses, the ALJ found that Respondents had failed to prove either that InterDigital violated any FRAND obligations, that InterDigital failed to negotiate in good faith, or that InterDigital's licensing offers were discriminatory. The ALJ also found that InterDigital is not precluded from seeking injunctive relief based on any alleged FRAND commitments.

Petitions for review of the ID to the Commission were filed by InterDigital and the 337-TA-800 Respondents on July 15, 2013. On September 4, 2013, the Commission determined to review the ID in its entirety.

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

On December 20, 2013, InterDigital filed in the Federal Circuit a petition for review seeking reversal of the Commission's final determination. On February 18, 2015, the Federal Circuit issued a decision affirming the USITC's determinations that the claims of the '830, '636, '406 and '332 patents were not infringed, that the claims of the '970 patent are invalid, and that the Respondents did not violate Section 337. On April 6, 2015, InterDigital filed a combined petition for panel rehearing and rehearing *en banc* as to the '830 and '636 patents. The petition was denied on May 12, 2015, and the court's mandate issued on May 19, 2015.

### ***Related Delaware District Court Proceeding***

On July 26, 2011, the same date that InterDigital filed USITC Proceeding (337-TA-800), it filed a parallel action in the United States District Court for the District of Delaware against the 337-TA-800 Respondents alleging infringement of the same asserted patents identified in USITC Proceeding (337-TA-800). The Delaware District Court complaint seeks a permanent injunction and compensatory damages in an amount to be determined, as well as enhanced damages based on willful infringement, and recovery of reasonable attorneys' fees and costs. On September 23, 2011, the defendants in the Delaware District Court complaint filed a motion to stay the Delaware District Court action pending the parallel proceedings in the USITC. Because the USITC has instituted USITC Proceeding (337-TA-800), the defendants have a statutory right to a mandatory stay of the Delaware District Court proceeding pending a final determination in the USITC. On October 3, 2011,

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InterDigital amended the Delaware District Court complaint, adding LG as a defendant and adding the same additional patent that InterDigital requested be added to USITC Proceeding (337-TA-800). On October 11, 2011, the Delaware District Court granted the defendants' motion to stay. The case is currently stayed through June 11, 2017.

On January 14, 2014, InterDigital and Huawei filed a stipulation of dismissal of their disputes in this action on account of the confidential settlement agreement mentioned above. On the same day, the Delaware District Court granted the stipulation of dismissal.

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

### ***USITC Proceeding (337-TA-613)***

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

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

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

On November 30, 2009, InterDigital filed with the Federal Circuit a petition for review of certain rulings by the USITC. In its appeal, InterDigital sought reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in the '966 and '847 patents, vacatur of the Commission's determination of no Section 337 violation and a remand for further proceedings before the Commission. On August 1, 2012, the Federal Circuit issued its decision in the appeal, holding that the Commission had erred in interpreting the claim terms at issue and reversing the Commission's finding of non-infringement. The Federal Circuit adopted InterDigital's interpretation of such claim terms and remanded the case back to the Commission for further proceedings. In addition, the Federal Circuit rejected Nokia's argument that InterDigital did not satisfy the domestic industry requirement. On September 17, 2012, Nokia filed a combined petition for rehearing by the panel or en banc with the Federal Circuit. On January 10, 2013, the Federal Circuit denied Nokia's petition.

On January 17, 2013, the Federal Circuit issued its mandate remanding USITC Proceeding (337-TA-613) to the Commission for further proceedings. On February 12, 2014, the Commission issued a notice, order and opinion remanding the investigation to an ALJ. In doing so, the Commission determined certain issues and identified others that would be subject to further proceedings by the ALJ. The Commission assigned the investigation to an ALJ for limited remand proceedings consistent with its February 12, 2014 opinion.

In June 2014, MMO was added as a respondent in the investigation.

The evidentiary hearing in the remand proceeding was held January 26 - 28, 2015. On April 27, 2015, the ALJ issued his Remand Initial Determination ("RID"). The ALJ found that the imported accused handsets (1) contain chips that were not previously adjudicated and (2) infringe the asserted claims of the '966 and '847 patents, that there was no evidence of patent hold-up by InterDigital, that there is evidence of reverse hold-up by the respondents, and that the public interest does not preclude issuance of an exclusion order.

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On May 11, 2015, Nokia Corporation and MMO each filed petitions to the Commission to review the RID. On June 25, 2015, the Commission issued a notice of its decision to review the RID in part. The Commission determined to review the RID's findings concerning the application of the Commission's prior construction of one claim limitation in Investigation Nos. 337-TA-800 and 337-TA-868, the RID's findings as to whether the accused products satisfy that claim limitation, and the RID's public interest findings. The Commission issued its final determination on August 28, 2015, finding that issue preclusion applied with respect to the construction of the claim limitations at issue, and issue preclusion also required a finding of non-infringement. The Commission determined there was no violation of Section 337 and terminated the 337-TA-613 investigation. The Commission found that consideration of the public interest issues was moot and did not address them.

### ***Related Delaware District Court Proceeding***

In addition, in August 2007, on the same date as the filing of USITC Proceeding (337-TA-613), InterDigital also filed a complaint in the Delaware District Court alleging that Nokia's 3G mobile handsets and components infringe the same two InterDigital patents identified in the original USITC complaint. The complaint seeks a permanent injunction and damages in an amount to be determined. This Delaware action was stayed on January 10, 2008, pursuant to the mandatory, statutory stay of parallel district court proceedings at the request of a respondent in a USITC investigation. The Delaware District Court permitted InterDigital to add to the stayed Delaware action the third and fourth patents InterDigital asserted against Nokia in the USITC action. This case remains stayed.

### ***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 above matters have met the requirements for accrual or disclosure of a potential range as of March 31, 2017.

## **5. EQUITY TRANSACTIONS**

Changes in shareholders' equity for the three months ended March 31, 2017 and March 31, 2016 were as follows (in thousands):

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Balance beginning of period, December 31	\$ 739,709	\$ 510,519
Net income attributable to InterDigital, Inc.	33,756	28,071
Unrealized (loss) gain on investments, net	(45)	252
Cash dividends declared	(10,404)	(6,923)
Repurchase of common stock	—	(40,399)
Exercise of common stock options	82	—
Taxes withheld upon vesting of restricted stock units	(21,955)	(3,405)
Tax benefit from share-based compensation	—	(46)
Share-based compensation	5,317	6,643
Total InterDigital, Inc. shareholders' equity end of period	\$ 746,460	\$ 494,712
Noncontrolling Interest Balance beginning of period, December 31	14,659	11,376
Net loss attributable to noncontrolling interest	(978)	(920)
Noncontrolling interest	13,681	10,456
Total Equity end of period	\$ 760,141	\$ 505,168

### **Repurchase of Common Stock**

In June 2014, our Board of Directors authorized a \$300 million share repurchase program (the "2014 Repurchase Program"), and in June 2015, our Board of Directors authorized a \$100 million increase to the 2014 Repurchase Program, bringing the total amount of the program to \$400 million. The Company may repurchase shares under the 2014 Repurchase Program through open market purchases, pre-arranged trading plans or privately negotiated purchases.

The table below sets forth the number of shares repurchased and the dollar value of shares repurchased under the 2014 Repurchase Program during 2016, 2015 and 2014, in thousands. We did not repurchase any shares of common stock in first quarter 2017.



<b>2014 Repurchase Program</b>		
	<b># of Shares</b>	<b>Value</b>
<b>2016</b>	1,304	\$ 64,685
<b>2015</b>	1,836	96,410
<b>2014</b>	3,554	152,625
<b>Total</b>	<u>6,694</u>	<u>\$ 313,720</u>

## Dividends

Cash dividends on outstanding common stock declared in 2017 and 2016 were as follows (in thousands, except per share data):

<b>2017</b>	<b>Per Share</b>	<b>Total</b>	<b>Cumulative by Fiscal Year</b>
First quarter	\$ 0.30	\$ 10,404	\$ 10,404
	<u>\$ 0.30</u>	<u>\$ 10,404</u>	
<b>2016</b>	<b>Per Share</b>	<b>Total</b>	<b>Cumulative by Fiscal Year</b>
First quarter	\$ 0.20	\$ 6,923	\$ 6,923
Second quarter	0.20	6,861	13,784
Third quarter	0.30	10,285	24,069
Fourth quarter	0.30	10,290	34,359
	<u>\$ 1.00</u>	<u>\$ 34,359</u>	

In September 2016, we announced that our Board of Directors had approved an increase in the Company's quarterly cash dividend, to \$0.30 per share. We currently expect to continue to pay dividends comparable to our quarterly \$0.30 per share cash dividend in the future; however, continued payment of cash dividends and changes in the Company's dividend policy will depend on the Company's earnings, financial condition, capital resources and capital requirements, alternative uses of capital, restrictions imposed by any existing debt, economic conditions and other factors considered relevant by our Board of Directors.

## Common Stock Warrants

On March 5 and March 9, 2015, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.8 million and approximately 0.6 million shares of our common stock, respectively, at an initial strike price of approximately \$88.46 per share. The warrants become exercisable and expire in daily tranches over a three and a half month period starting in June 2020. As consideration for the warrants issued on March 5 and March 9, 2015, we received approximately \$37.3 million and approximately \$5.6 million, respectively.

## **6. CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### *Concentration of Credit Risk and Fair Value of Financial Instruments*

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

Our accounts receivable are derived principally from patent license and technology solutions agreements. At March 31, 2017 and December 31, 2016, four licensees comprised 95% and 91% of our net accounts receivable balance, respectively. 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*

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

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

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

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

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets are included within short-term investments on our condensed consolidated balance sheets, unless otherwise indicated. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below as of March 31, 2017 and December 31, 2016 (in thousands):

<b>Fair Value as of March 31, 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market and demand accounts (a)	\$ 119,347	\$ —	\$ —	\$ 119,347
Commercial paper (b)	—	195,480	—	195,480
U.S. government securities	—	342,598	—	342,598
Corporate bonds, asset backed and other securities	—	228,715	—	228,715
	<u>\$ 119,347</u>	<u>\$ 766,793</u>	<u>\$ —</u>	<u>\$ 886,140</u>

(a) Included within cash and cash equivalents.

(b) Includes \$19.7 million of commercial paper that is included within cash and cash equivalents.

<b>Fair Value as of December 31, 2016</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market and demand accounts (a)	\$ 404,074	\$ —	\$ —	\$ 404,074
Commercial paper	—	113,490	—	113,490
U.S. government securities	—	224,330	—	224,330
Corporate bonds, asset backed and other securities	—	210,867	—	210,867
	<u>\$ 404,074</u>	<u>\$ 548,687</u>	<u>\$ —</u>	<u>\$ 952,761</u>

(a) Included within cash and cash equivalents.

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 March 31, 2017 and December 31, 2016 are as follows (in thousands):

	March 31, 2017			December 31, 2016		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Total Long-Term Debt	\$ 316,000	\$ 275,222	\$ 411,394	\$ 316,000	\$ 272,021	\$ 428,575

The aggregate fair value of the principal amount of the long-term debt (Level 2 Notes as defined in Note 7 “Long-Term Debt”) was calculated using inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which were obtained from independent pricing vendors, quoted market prices or other sources.

## 7. LONG-TERM DEBT

### **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 bear interest at a rate of 1.50% per year, payable in cash on March 1 and September 1 of each year, commencing September 1, 2015, and mature on March 1, 2020, unless earlier converted or repurchased.

The 2020 Notes will be convertible into cash, shares of our common stock or a combination thereof, at our election, at an initial conversion rate of 13.8172 shares of common stock per \$1,000 principal amount of 2020 Notes (which is equivalent to an initial conversion price of approximately \$72.37 per share). It is our current intent and policy to settle all conversions through combination settlement of cash and shares of common stock, with a specified dollar amount of \$1,000 per \$1,000 principal amount of the 2020 Notes and any remaining amounts in shares.

Prior to 5:00 p.m., New York City time, on the business day immediately preceding December 1, 2019, the 2020 Notes will be convertible only under certain circumstances as set forth in the indenture to the 2020 Notes, including on any date during any calendar quarter (and only during such calendar quarter) if the closing sale price of our common stock was more than 130% of the applicable conversion price (approximately \$94.08 based on the current conversion price) on each applicable trading day for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter.

Commencing on December 1, 2019, the 2020 Notes will be convertible in multiples of \$1,000 principal amount, at any time prior to 5:00 p.m., New York City time, on the second scheduled trading day immediately preceding the maturity date of the 2020 Notes.

The Company may not redeem the 2020 Notes prior to their maturity date.

On March 5 and March 9, 2015, in connection with the offering of the 2020 Notes, we entered into convertible note hedge transactions that cover approximately 3.8 million and approximately 0.6 million shares of our common stock, respectively, at a strike price that corresponds initially to the initial conversion price of the 2020 Notes and are exercisable upon conversion of the 2020 Notes.

The cost of the March 5 and March 9, 2015 convertible note hedge transactions was approximately \$51.7 million and approximately \$7.7 million, respectively.

On March 5 and March 9, 2015, we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 3.8 million and approximately 0.6 million, respectively, of common stock at an initial strike price of approximately \$88.46 per share. The warrants become exercisable and expire in daily tranches over a three and a half month period starting in June 2020. As consideration for the warrants issued on March 5 and March 9, 2015, we received approximately \$37.3 million and approximately \$5.6 million, respectively.

The Company also repurchased 0.8 million shares of our common stock at \$53.61 per share, the closing price of the stock on March 5, 2015, from institutional investors through one of the initial purchasers and its affiliate, as our agent, concurrently with the pricing of the offering of the 2020 Notes.

### ***Accounting Treatment of the 2020 Notes and related Convertible Note Hedge and Warrant Transactions***

The offering of the 2020 Notes on March 5, 2015 was for \$275.0 million and included an overallotment option that allowed the initial purchasers to purchase up to an additional \$41.0 million aggregate principal amount of 2020 Notes. The initial purchasers exercised their overallotment option on March 9, 2015, bringing the total amount of 2020 Notes issued on March 11, 2015 to \$316.0 million.

In connection with the offering of the 2020 Notes, as discussed above, InterDigital entered into convertible note hedge transactions with respect to its common stock. The \$59.4 million cost of the convertible note hedge transactions was partially



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offset by the proceeds from the sale of the warrants described above, resulting in a net cost of \$16.5 million. Both the convertible note hedge and warrants were classified as equity.

The Company bifurcated the proceeds from the offering of the 2020 Notes between liability and equity components. On the date of issuance, the liability and equity components were calculated to be approximately \$256.7 million and \$59.3 million, respectively. The initial \$256.7 million liability component was determined based on the fair value of similar debt instruments excluding the conversion feature. The initial \$59.3 million (\$38.6 million net of tax) equity component represents the difference between the fair value of the initial \$256.7 million in debt and the \$316.0 million of gross proceeds. The related initial debt discount of \$59.3 million is being amortized using the effective interest method over the life of the 2020 Notes. An effective interest rate of 5.89% was used to calculate the debt discount on the 2020 Notes.

In connection with the above-noted transactions, the Company incurred \$9.3 million of directly related costs. The initial purchasers' transaction fees and related offering expenses were allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt and equity issuance costs, respectively. We allocated \$7.0 million of debt issuance costs to the liability component, which were capitalized as deferred financing costs. These costs are being amortized to interest expense over the term of the debt using the effective interest method. The remaining \$2.4 million of costs allocated to the equity component were recorded as a reduction of the equity component.

The following table reflects the carrying value of the 2020 Notes as of March 31, 2017 and December 31, 2016 (in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Principal	\$ 316,000	\$ 316,000
Less:		
Unamortized interest discount	(36,725)	(39,578)
Deferred financing costs	(4,053)	(4,401)
Net carrying amount of 2020 Notes	<u>\$ 275,222</u>	<u>\$ 272,021</u>

The following table presents the amount of interest cost recognized for the three months ended March 31, 2017 and March 31, 2016 relating to the contractual interest coupon, accretion of the debt discount, and the amortization of financing costs (in thousands):

	<b>For the Three Months Ended March 31, 2017</b>	<b>2016</b>
Contractual coupon interest	\$ 1,185	\$ 2,623
Accretion of debt discount	2,854	5,193
Amortization of deferred financing costs	347	673
Total	<u>\$ 4,386</u>	<u>\$ 8,489</u>

## **8. VARIABLE INTEREST ENTITIES**

As further discussed below, we are the primary beneficiary of two variable interest entities. As of March 31, 2017, the combined book values of the assets and liabilities associated with these variable interest entities included in our Condensed Consolidated Balance Sheet were \$27.8 million and \$5.2 million, respectively. Assets included \$19.3 million of cash and cash equivalents and \$8.5 million of patents, net. As of December 31, 2016, the combined book values of the assets and liabilities associated with these variable interest entities included in our Condensed Consolidated Balance Sheet were \$28.9 million and \$2.3 million, respectively. Assets included \$20.3 million of cash and cash equivalents and \$8.0 million of patents, net. The impact of consolidating these variable interest entities on our Condensed Consolidated Statements of Income was not significant.

### ***Convida Wireless***

In September 2015, we renewed and expanded our joint venture with Sony, Convida Wireless, to include 5G technologies. Convida Wireless was launched in 2013 to combine Sony's consumer electronics expertise with our pioneering Internet of Things ("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.

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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 months ended March 31, 2017 and 2016, we have allocated approximately \$1.0 million and \$0.9 million, respectively, of Convida Wireless' net loss to noncontrolling interests held by other parties.

***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 contributed 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.

## **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 2016 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 “past sales.” Recurring revenues are comprised of “current patent royalties” and “current technology solutions revenue.” Past sales are comprised of “past patent royalties” and “past technology solutions revenue.”

### **Recurring Revenue**

Recurring revenue of \$94.5 million in first quarter 2017 increased \$0.9 million from \$93.6 million in fourth quarter 2016 primarily due to an increase in shipments by certain of our Taiwan-based licensees and the inclusion of revenue from recently acquired Hillcrest Labs ("Hillcrest") for a full quarter. These increases were partially offset by decreased shipments by one of our technology solutions customers.

Refer to "Results of Operations -- First Three Months 2017 Compared to First Three Months 2016" for further discussion of our 2017 revenue.

### **Comparability of Financial Results**

When comparing first quarter 2017 financial results against other periods, the following item should be taken into consideration: the recognition of discrete benefits of \$11.8 million for excess tax benefits related to share-based compensation.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our significant accounting policies are described in Note 1 of the *Notes to Consolidated Financial Statements* included in our 2016 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 2016 Form 10-K. There have been no material changes to our existing critical accounting policies from the disclosures included in our 2016 Form 10-K. Refer to Note 1, “Basis of Presentation,” in the *Notes to Condensed Consolidated Financial Statements* included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements. See below for critical accounting estimates from the current year period.

### **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 and short-term investments**

At March 31, 2017, and December 31, 2016, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>Increase / (Decrease)</b>
Cash and cash equivalents	\$ 139,073	\$ 404,074	\$ (265,001)
Short-term investments	747,067	548,687	198,380
Total cash and cash equivalents and short-term investments	<u>\$ 886,140</u>	<u>\$ 952,761</u>	<u>\$ (66,621)</u>

The net decrease in cash, cash equivalents and short-term investments was primarily attributable to taxes withheld upon the vesting of restricted stock units of \$22.0 million, dividend payments of \$10.3 million, capitalized patent costs of \$7.8 million and \$25.9 million of cash used by operating activities.

[Table of Contents](#)**Cash flows from operations**

We (used) generated the following cash flows from our operating activities in first quarter 2017 and 2016 (in thousands):

	For the Three Months Ended March 31,		
	2017	2016	Increase / (Decrease)
Net cash (used) provided by operating activities	\$ (25,855)	\$ 19,638	\$ (45,493)

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 decrease in cash flows provided by operating activities of \$45.5 million was primarily attributable to a decrease in cash receipts of \$72.7 million. The decrease in cash receipts was primarily driven by the entry into our fixed-fee patent license agreement with Apple in fourth quarter 2016, which impacted the timing of cash receipts associated with royalties on Apple products. In 2016, cash receipts associated with royalties on Apple products were received on a quarterly basis and were included in within Current Royalties. Taxes paid decreased by \$11.4 million primarily due to lower foreign withholding tax payments. The table below sets forth the significant items comprising our cash flows provided by operating activities during the three months ended March 31, 2017 and 2016 (in thousands).

	For the Three Months Ended March 31,		
	2017	2016	Increase / (Decrease)
<b>Cash Receipts:</b>			
Current royalties <sup>a</sup>	\$ 18,823	\$ 76,478	\$ (57,655)
Fixed-fee royalty payments	2,000	19,000	(17,000)
Prepaid royalties	—	3,356	(3,356)
Technology solutions	6,368	1,077	5,291
<b>Total cash receipts</b>	<u>\$ 27,191</u>	<u>\$ 99,911</u>	<u>\$ (72,720)</u>
<b>Cash Outflows:</b>			
Cash operating expenses <sup>b</sup>	40,717	39,889	828
Income taxes paid <sup>c</sup>	2,990	14,423	(11,433)
<b>Total cash outflows</b>	<u>43,707</u>	<u>54,312</u>	<u>(10,605)</u>
<b>Other working capital adjustments</b>	(9,339)	(25,961)	16,622
<b>Cash flows provided by operating activities</b>	<u><u>\$ (25,855)</u></u>	<u><u>\$ 19,638</u></u>	<u><u>\$ (45,493)</u></u>

(a) Current royalties for the three months ended March 31, 2016 include \$4.2 million of past sales.

(b) Cash operating expenses include operating expenses less depreciation of fixed assets, amortization of patents, and non-cash compensation.

(c) Income taxes paid include foreign withholding taxes.

**Working capital**

We believe that working capital adjusted to exclude cash, cash equivalents, short-term investments and to include current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. While we believe cash and short-term investments are important measures of our liquidity, the remaining components of our current assets and current liabilities, with the exception of deferred revenue, could affect our near-term liquidity and/or cash flow. We have no material obligations associated with our deferred revenue, and the amortization of deferred revenue has no impact on our future liquidity and/or cash flow. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at March 31, 2017, and December 31, 2016 (in thousands), as follows:

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	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>Increase / (Decrease)</b>
Current assets	\$ 1,342,235	\$ 1,221,119	\$ 121,116
<b>Less: current liabilities</b>	<b>414,665</b>	<b>425,480</b>	<b>(10,815)</b>
<b>Working capital</b>	<b>927,570</b>	<b>795,639</b>	<b>131,931</b>
<b>Subtract:</b>			
Cash and cash equivalents	139,073	404,074	(265,001)
Short-term investments	747,067	548,687	198,380
<b>Add:</b>			
Current deferred revenue	328,324	360,192	(31,868)
<b>Adjusted working capital</b>	<b>\$ 369,754</b>	<b>\$ 203,070</b>	<b>\$ 166,684</b>

The \$166.7 million net increase in adjusted working capital is primarily attributable to an increase in accounts receivable of \$174.1 million due to the timing of payments related to existing agreements and the payment of accrued compensation of \$10.9 million primarily related to the Company's 2016 short-term incentive plan. This was partially offset by an increase in accrued foreign withholding tax related to the increase in accounts receivable discussed above.

### **Cash flows from investing and financing activities**

Net cash used in investing activities for first quarter 2017 was \$207.0 million, a \$482.3 million change from \$275.3 million net cash provided in first quarter 2016. We purchased \$198.4 million, net of sales, and sold \$289.5 million, net of purchases, of short-term marketable securities in first quarter 2017 and 2016, respectively. Investment costs associated with capitalized patent costs and acquisition of patents decreased to \$7.8 million in first quarter 2017 from \$12.6 million in first quarter 2016, primarily due to a \$4.5 million patent acquisition in first quarter 2016.

Net cash used in financing activities for first quarter 2017 was \$32.2 million, a \$248.7 million decrease from \$280.9 million in first quarter 2016. This decrease was primarily attributable to the repayment of the \$230.0 million aggregate principal amount of the Company's 2.50% Senior Convertible Notes due 2016 (the "2016 Notes") in first quarter 2016 and a \$40.4 million decrease in repurchases of common stock in first quarter 2017. These decreases were partially offset by an \$18.6 million increase in taxes withheld upon the vesting of restricted stock units in first quarter 2017.

### **Other**

Our combined short-term and long-term deferred revenue balance at March 31, 2017, was approximately \$727.3 million, an increase of \$106.1 million from December 31, 2016. We have no material obligations associated with such deferred revenue. The increase was primarily due to a gross increase in deferred revenue of \$185.0 million associated with fixed-fee agreement payments due within twelve months, which were partially offset by \$78.9 million of deferred revenue recognized. The deferred revenue recognized was comprised of \$73.4 million of amortized fixed-fee royalty payments and \$5.5 million in per-unit exhaustion of prepaid royalties.

Based on current license agreements, we expect the amortization of fixed-fee royalty payments and the scheduled expiration of an agreement to reduce the March 31, 2017, deferred revenue balance of \$727.3 million by \$328.3 million over the next twelve months. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

### **Convertible Notes**

Our 1.50% Senior Convertible Notes due 2020 (for purposes of this discussion, 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 convertible note hedge and warrant agreements 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 convertible note hedge agreements 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.

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During periods in which the average market price of the Company's common stock is above the applicable conversion price of the Convertible Notes (\$72.37 per share as of March 31, 2017) or above the strike price of the warrants (\$88.46 per share as of March 31, 2017), 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 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.

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 7, "*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 \$316.0 million aggregate principal amount of Convertible Notes outstanding as of March 31, 2017 and the approximately 4.4 million warrants 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 warrant agreements, (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 hedge agreements and (v) the number of shares issuable upon concurrent conversion of the Convertible Notes, exercise of the warrants and settlement of the convertible note hedge agreements:

Market Price Per Share	Shares Issuable Upon Conversion of Convertible Notes	Shares Issuable Upon Exercise of Warrants	Total Treasury Stock Method Incremental Shares	Shares Deliverable to InterDigital upon Settlement of the Hedge Agreements	Incremental Shares Issuable <sup>(a)</sup>
(Shares in thousands)					
\$70	—	—	—	—	—
\$80	416	—	416	(416)	—
\$85	649	—	649	(649)	—
\$90	855	75	930	(855)	75
\$95	1,040	301	1,341	(1,040)	301
\$100	1,206	504	1,710	(1,206)	504
\$105	1,357	688	2,045	(1,357)	688
\$110	1,494	855	2,349	(1,494)	855
\$115	1,619	1,008	2,627	(1,619)	1,008
\$120	1,733	1,148	2,881	(1,733)	1,148

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

## RESULTS OF OPERATIONS

[Table of Contents](#)**First Quarter 2017 Compared to First Quarter 2016****Revenues**

The following table compares first quarter 2017 revenues to first quarter 2016 revenues (in thousands):

	<b>For the Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase/(Decrease)</b>	
Per-unit royalty revenue	\$ 15,859	\$ 73,689	\$ (57,830)	(78)%
Fixed-fee amortized royalty revenue	73,367	29,098	44,269	152 %
Current patent royalties <sup>a</sup>	89,226	102,787	(13,561)	(13)%
Past patent royalties <sup>b</sup>	—	4,167	(4,167)	(100)%
Total patent licensing royalties	89,226	106,954	(17,728)	(17)%
Current technology solutions revenue <sup>a</sup>	5,304	810	4,494	555 %
Total revenue	<u>\$ 94,530</u>	<u>\$ 107,764</u>	<u>\$ (13,234)</u>	<u>(12)%</u>

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

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

The \$44.3 million increase in fixed-fee revenue was primarily attributable to the signing of patent license agreements with Huawei and Apple in third quarter and fourth quarter 2016, respectively. This increase was offset by decreased per-unit royalty revenue attributable to the elimination of seasonality related to Apple shipments as a result of the fixed-fee Apple agreement. That seasonality, driven by new product launches, had previously resulted in higher per-unit revenue in first quarter under our per-unit patent license agreement with Pegatron. Past patent royalties decreased \$4.2 million primarily due to the resolution of a dispute with an existing licensee in first quarter 2016. Current technology solutions revenue increased by \$4.5 million primarily due to increased shipments by one of our technology solutions customers and the inclusion of revenue from Hillcrest.

In first quarter 2017 and first quarter 2016, 66% and 62% of our total revenue, respectively, was attributable to companies that individually accounted for 10% or more of our total revenue. In first quarter 2017 and first quarter 2016, the following companies accounted for 10% or more of our total revenue:

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Apple	30%	—%
Samsung	18%	16%
Huawei	18%	—%
Pegatron	< 10%	46%

**Operating Expenses**

The following table summarizes the changes in operating expenses between first quarter 2017 and first quarter 2016 by category (in thousands):

	<b>For the Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase/(Decrease)</b>	
Patent administration and licensing	\$ 29,407	\$ 27,167	\$ 2,240	8 %
Development	18,521	20,269	(1,748)	(9)%
Selling, general and administrative	12,634	11,972	662	6 %
Total operating expenses	<u>\$ 60,562</u>	<u>\$ 59,408</u>	<u>\$ 1,154</u>	<u>2 %</u>

Operating expenses increased to \$60.6 million in first quarter 2017 from \$59.4 million in first quarter 2016. The \$1.2 million increase in total operating expenses was primarily due to changes in the following items (in thousands):



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	<b>Increase/ (Decrease)</b>
Commercial initiatives	\$ 2,643
Depreciation and amortization	1,652
Other	559
Personnel-related costs	(2,028)
Performance-based incentive compensation	(1,672)
Total increase in operating expenses	<u>\$ 1,154</u>

The \$2.6 million increase in costs associated with commercial initiatives is primarily related to the acquisition of Hillcrest during fourth quarter 2016. The \$1.7 million increase in depreciation and amortization primarily related to the growth in our patent portfolio driven by both internal patent generation and patent acquisition, largely due to the Hillcrest acquisition. The \$2.0 million decrease in personnel-related costs was primarily attributable to a one-time severance charge recognized in first quarter 2016. The \$1.7 million decrease in performance-based incentive compensation was primarily driven by the recognition of a \$3.0 million non-recurring charge to increase accrual rates associated with our long-term performance-based compensation plans in first quarter 2016. This decrease was partially offset by an increase in expense for certain short- and long-term performance-based incentive compensation plans in first quarter 2017.

**Patent Administration and Licensing Expense:** The increase in patent administration and licensing expense primarily resulted from the above-noted increase in patent amortization. This increase was partially offset by a decrease in patent maintenance costs and the above-noted decrease in performance-based incentive compensation.

**Development Expense:** The decrease in development expense primarily resulted from the above-noted decreases in personnel-related costs and performance-based incentive compensation. These decreases were partially offset by the above-noted increase in commercial initiatives.

**Selling, General and Administrative Expense:** The increase in selling, general and administrative expense primarily resulted from the above-noted increase in commercial initiatives. This increase was partially offset by the above-noted decrease in performance-based incentive compensation.

#### ***Other (Expense) Income***

The following table compares first quarter 2017 other (expense) income to first quarter 2016 other (expense) income (in thousands):

	<b>For the Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	
Interest expense	\$ (4,386)	\$ (8,185)	\$ 3,799	(46)%
Other	(217)	(112)	(105)	94 %
Interest and investment income	1,789	1,160	629	54 %
	<u>\$ (2,814)</u>	<u>\$ (7,137)</u>	<u>\$ 4,323</u>	<u>(61)%</u>

In first quarter 2017, other expense was \$2.8 million as compared to other expense of \$7.1 million in first quarter 2016. The change between periods was primarily due to lower interest expense as a result of the repayment of the 2016 Notes in first quarter 2016. Interest and investment income increased \$0.6 million due to higher investment balances during first quarter 2017 as compared to first quarter 2016.

#### ***Income tax provision***

In first quarter 2017, based on the statutory federal tax rate net of discrete federal and state taxes, our effective tax rate was a benefit of 5.2%. The effective tax rate for the three months ending March 31, 2017 was favorably impacted as a result of our current year adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." In conjunction with our adoption of the standard, we recorded discrete benefits of \$11.8 million for excess tax benefits related to share-based compensation. The effective rate would have been 32.6% not including these discrete benefits. This is compared to an effective tax rate provision of 34.1% based on the statutory federal tax rate net of discrete federal and state taxes during first quarter 2016. Additionally, our first quarter 2017 effective tax rate includes an estimated deduction for domestic productions activities, which was not present in first quarter 2016.





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During first quarter 2017 and 2016, we paid approximately \$3.0 million and \$14.3 million, respectively, of foreign source withholding tax. Additionally, as of March 31, 2017 and December 31, 2016, we have included \$39.2 million and \$10.7 million, respectively, of foreign source withholding tax within our taxes payable and deferred tax asset balances. These amounts are related to receivables from foreign licensees.

## **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, including the new revenue recognition guidance, on our financial position, results of operations or cash flows;
- Our expectation that the amortization of fixed-fee royalty payments and the scheduled expiration of an agreement will reduce our March 31, 2017, deferred revenue balance over the next twelve months;
- 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;
- 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; and
- Our expectation that we will continue to pay dividends comparable to our quarterly \$0.30 per share cash dividend in the future.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A of our 2016 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 2016 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 March 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

#### Asustek Actions

Reference is made to the Asustek arbitration previously disclosed in the 2016 Form 10-K. The parties presented their oral closing arguments to the arbitration panel on March 22, 2017. InterDigital has not yet received the arbitrators' decision, which is expected by June 2017.

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

Reference is made to the USITC proceeding and related Delaware District Court proceedings initiated in January 2013 involving InterDigital and ZTE previously disclosed in the 2016 Form 10-K. With respect to IPR Licensing, Inc.'s appeal to the Federal Circuit seeking review of the September 15, 2015 decision issued by the United States Patent and Trademark Office Patent Trial and Appeal Board (the "PTAB") in two Inter Partes Review ("IPR") cases concerning the '244 patent, oral argument in the appeal was heard on April 7, 2017. On April 20, 2017, the Federal Circuit affirmed the PTAB's decision that most of the challenged claims of the '244 patent are unpatentable as obvious. However, the court vacated and remanded the PTAB's obviousness finding as to claim 8, which will return the matter to the PTAB for further proceedings as to that claim.

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

Reference is made to the USITC proceeding and related Delaware District Court proceeding initiated in July 2011 involving InterDigital, Nokia and ZTE previously disclosed in the 2016 Form 10-K. The Delaware District Court proceeding is now stayed through June 11, 2017.

See Note 4, "Litigation and Legal Proceedings," to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding these and other proceedings.

### Item 1A. RISK FACTORS.

In addition to the factors set forth in the Statement Pursuant to the Private Securities Litigation Reform Act of 1995 -- Forward-Looking Statements in Part I, Item 2 of this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors of the 2016 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q and in the 2016 Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

#### Issuer Purchases of Equity Securities

The Company did not repurchase any shares of its common stock during first quarter 2017.

### 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:

<b>Exhibit Number</b>	<b>Exhibit Description</b>
†*10.1	Compensation Program for Non-Management Directors (as amended March 2017) (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated April 3, 2017).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.**
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.**
101	The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the Securities and Exchange Commission on April 27, 2017, formatted in eXtensible Business Reporting Language:  (i) Condensed Consolidated Balance Sheets at March 31, 2017 and December 31, 2016, (ii) Condensed Consolidated Statements of Income for the three months ended March 31, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 and (v) Notes to Condensed Consolidated Financial Statements.
†	Management contract or compensatory plan or arrangement.
*	Incorporated by reference to the previous filing indicated.
**	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.

[Table of Contents](#)**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: April 27, 2017

/s/ WILLIAM J. MERRITT**William J. Merritt****President and Chief Executive Officer**

Date: April 27, 2017

/s/ RICHARD J. BREZSKI**Richard J. Brezski****Chief Financial Officer**

**EXHIBIT INDEX**

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