InterDigital, Inc.
Form 10-Q
May 02, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
OR
o 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	82-4936666
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o
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 R	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Table of Contents

Common Stock, par value $0.01 per share	31,723,827
Title of Class	Outstanding at April 29, 2019

INDEX

Table of Contents

PART I — FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
INTERDIGITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	MARCH 31, 2019	DECEMBER 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$503,240	$ 475,056
Short-term investments	289,805	470,724
Accounts receivable, less allowances of $537 and $693	33,322	35,032
Prepaid and other current assets	49,579	43,438
Total current assets	875,946	1,024,250
PROPERTY AND EQUIPMENT, NET	10,581	10,051
PATENTS, NET	446,716	454,567
DEFERRED TAX ASSETS	79,766	77,225
OTHER NON-CURRENT ASSETS	66,742	60,465
	603,805	602,308
TOTAL ASSETS	$1,479,751	$ 1,626,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$302,514	$ —
Accounts payable	22,875	19,367
Accrued compensation and related expenses	15,649	26,838
Deferred revenue	84,816	111,672
Taxes payable	7	1,508
Dividends payable	11,195	11,627
Other accrued expenses	11,097	8,383
Total current liabilities	448,153	179,395
LONG-TERM DEBT	19,061	317,377
LONG-TERM DEFERRED REVENUE	138,567	157,634
OTHER LONG-TERM LIABILITIES	48,457	34,139
TOTAL LIABILITIES	654,238	688,545
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred Stock, $0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding	—	—
Common Stock, $0.01 par value, 100,000 shares authorized, 71,250 and 71,134 shares issued and 32,060 and 33,529 shares outstanding	712	711
Additional paid-in capital	683,615	685,512
Retained earnings	1,421,884	1,435,970
Accumulated other comprehensive loss	(1,426)	(2,471)
	2,104,785	2,119,722
Treasury stock, 39,190 and 37,605 shares of common held at cost	1,291,979	1,182,993
Total InterDigital, Inc. shareholders' equity	812,806	936,729
Noncontrolling interest	12,707	1,284

Total equity	825,513	938,013
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 1,479,751	$ 1,626,558

The accompanying notes are an integral part of these statements.

Table of Contents

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2019	2018
REVENUES:		
Patent licensing royalties	$66,378	$87,098
Technology solutions	2,028	346
Patent sales	225	—
	68,631	87,444
OPERATING EXPENSES:		
Patent administration and licensing	36,071	26,916
Development	18,495	16,174
Selling, general and administrative	14,215	14,204
	68,781	57,294
Income (loss) from operations	(150)	30,150
OTHER EXPENSE (NET)	(5,863)	(6,336)
Income (loss) before income taxes	(6,013)	23,814
INCOME TAX BENEFIT	1,799	4,915
NET INCOME (LOSS)	$(4,214)	$28,729
Net loss attributable to noncontrolling interest	(1,411)	(1,501)
NET INCOME (LOSS) ATTRIBUTABLE TO INTERDIGITAL, INC.	$(2,803)	$30,230
NET INCOME (LOSS) PER COMMON SHARE — BASIC	$(0.09)	$0.87
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — BASIC	32,611	34,641
NET INCOME (LOSS) PER COMMON SHARE — DILUTED	$(0.09)	$0.85
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING — DILUTED	32,611	35,606

The accompanying notes are an integral part of these statements.

Table of Contents

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2019	2018
Net income (loss)	$(4,214)	$28,729
Unrealized gain (loss) on investments, net of tax	1,045	(1,747)
Comprehensive income (loss)	$(3,169)	$26,982
Comprehensive loss attributable to noncontrolling interest	(1,411)	(1,501)
Total comprehensive income (loss) attributable to InterDigital, Inc.	$(1,758)	$28,483

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non-Controlling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
BALANCE, DECEMBER 31, 2017	70,749	$ 707	$ 680,040	$ 1,257,632	$ (2,083)	36,127	$ (1,072,488)	$ 9,340	$ 873,148
Cumulative effect of change in accounting principle	—	—	—	161,701	(449)	—	—	—	161,252
Net income attributable to InterDigital, Inc.	—	—	—	30,230	—	—	—	—	30,230
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,501)	(1,501)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	(1,747)	—	—	—	(1,747)
Dividends declared ($0.35 per share)	—	—	115	(12,280)	—	—	—	—	(12,165)
Issuance of common stock, net	208	2	(8,279)	—	—	—	—	—	(8,277)
Amortization of unearned compensation	—	—	816	—	—	—	—	—	816
Repurchase of common stock	—	—	—	—	—	84	(6,024)	—	(6,024)
BALANCE, MARCH 31, 2018	70,957	$ 709	$ 672,692	$ 1,437,283	$ (4,279)	36,211	$ (1,078,512)	$ 7,839	$ 1,035,732
BALANCE, DECEMBER 31, 2018	71,134	$ 711	$ 685,512	$ 1,435,970	$ (2,471)	37,605	$ (1,182,993)	$ 1,284	$ 938,013
Net loss attributable to InterDigital, Inc.	—	—	—	(2,803)	—	—	—	—	(2,803)

Proceeds from and increases in noncontrolling interests	—	—	—	—	—	—	—	12,834	12,834
Net loss attributable to noncontrolling interest	—	—	—	—	—	—	—	(1,411)	(1,411)
Net change in unrealized gain (loss) on short-term investments	—	—	—	—	1,045	—	—	—	1,045
Dividends declared ($0.35 per share)	—	—	103	(11,283)	—	—	—	—	(11,180)
Exercise of common stock options	—	—	2	—	—	—	—	—	2
Issuance of common stock, net	116	1	(4,098)	—	—	—	—	—	(4,097)
Amortization of unearned compensation	—	—	2,096	—	—	—	—	—	2,096
Repurchase of common stock	—	—	—	—	—	1,585	(108,986)	—	(108,986)
BALANCE, MARCH 31, 2019	71,250	$ 712	$683,615	$1,421,884	$ (1,426)	39,190	$(1,291,979)	$ 12,707	$825,513

The accompanying notes are an integral part of these statements.

6

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(4,214)	$28,729
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	18,514	14,699
Non-cash interest expense, net	4,082	3,380
Non-cash change in fair-value	710	—
Change in deferred revenue	(43,423)	(45,292)
Deferred income taxes	(2,801)	(5,551)
Share-based compensation	2,096	816
Other	624	(4)
(Increase) decrease in assets:		
Receivables	1,725	24,396
Deferred charges and other assets	642	(9,100)
Increase (decrease) in liabilities:		
Accounts payable	6,169	1,083
Accrued compensation and other expenses	(13,404)	(7,781)
Accrued taxes payable and other tax contingencies	(1,501)	(5,970)
Net cash used in operating activities	(30,781)	(595)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(707)	(94,134)
Sales of short-term investments	183,809	118,336
Purchases of property and equipment	(1,584)	(399)
Capitalized patent costs	(8,481)	(8,035)
Long-term investments	—	(4,250)
Net cash provided by investing activities	173,037	11,518
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	2	—
Proceeds from non-controlling interests	10,333	—
Dividends paid	(11,629)	(12,155)
Taxes withheld upon restricted stock unit vestings	(4,097)	(8,277)
Repurchase of common stock	(108,986)	(6,024)
Net cash used in financing activities	(114,377)	(26,456)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	27,879	(15,533)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	488,733	433,014
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$516,612	$417,481
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	2,370	2,370
Income taxes paid, including foreign withholding taxes	3,196	8,053

Non-cash investing and financing activities:		
Dividend payable	11,195	12,164
Increases in noncontrolling interests	2,500	—
Accrued capitalized patent costs, acquisition of patents and property and equipment	(1,056)	(2,286)

Refer to Note 2, "Leases" for information regarding the impact of our adoption of the new leases accounting standard, ASC 842, and Note 8, "Cash, Concentration of Credit Risk, and Fair Value of Financial Instruments" for a reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheets.

The accompanying notes are an integral part of these statements.

Table of Contents

INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(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, 2019, and the results of our operations for the three months ended March 31, 2019 and 2018 and our cash flows for the three months ended March 31, 2019 and 2018. 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, 2018 (our “2018 Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”) on February 21, 2019. Definitions of capitalized terms not defined herein appear within our 2018 Form 10-K. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

Change in Accounting Policies

There have been no material changes or updates to our existing accounting policies from the disclosures included in our 2018 Form 10-K, except as indicated in Note 2, "Leases".

Prior Periods' Financial Statement Revision

In connection with the preparation of the condensed consolidated financial statements as of and for the three months ended March 31, 2019, it was identified that we incorrectly attributed tax benefit to the net loss attributable to noncontrolling interest in our presentation of noncontrolling interest.

We assessed the materiality of this misstatement on prior periods’ financial statements in accordance with ASC Topic 250, Accounting Changes and Error Corrections, (“ASC 250”) and concluded it was not material to any prior annual or interim periods. In accordance with ASC 250, we have corrected our presentation of noncontrolling interest for all prior periods presented in this Form 10-Q by revising the condensed consolidated financial statements and other consolidated financial information included herein. We will continue to present the prior periods on this revised basis to the extent we present such prior periods in future filings. Refer to Note 11 for additional information on the revision.

New Accounting Guidance

Accounting Standards Update: Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which outlines a comprehensive change to the lease accounting model and supersedes prior lease guidance. Refer to Note 2, "Leases," for information regarding our adoption of this guidance effective January 1, 2019 and a discussion of the impact to information presented herein, as well as additional required disclosures under the new guidance.

Accounting Standards Update: Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU No. 2018-07, "Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which is intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. The guidance is effective for fiscal years beginning after

December 15, 2018 and early adoption is permitted. We adopted this guidance in first quarter 2019 and it did not have a material impact on our consolidated financial statements.

Accounting Standards Update: Cloud Computing Arrangements

Table of Contents

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract”. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We are in the process of determining the effect the adoption will have on our consolidated financial statements.

Accounting Standards Update: Collaborative Arrangements

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606". The amendments in this ASU provide guidance on how to assess whether certain transactions between collaborative arrangement participants should be accounted for within the revenue recognition standard. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted for entities who have previously adopted the new revenue recognition guidance. We are in the process of determining the effect the adoption will have on our consolidated financial statements.

2. LEASES

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" (or "ASC 842"), which outlines a comprehensive change to the lease accounting model and supersedes prior lease guidance ("ASC 840"). 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, and also changes the definition of a lease and expands the disclosure requirements of lease arrangements.

The Company adopted this guidance on January 1, 2019 using the modified retrospective transition effective date method. As part of that adoption, we have elected the package of three practical expedients, which includes the following: an entity may elect not to reassess whether expired or existing contracts contain a lease under the revised definition of a lease, an entity may elect not to reassess the lease classification for expired or existing leases, and an entity may elect not to reassess whether previously capitalized initial direct costs would qualify for capitalization. The Company has elected not to utilize the hindsight expedient in determining the lease term, and to not record leases with an initial term of 12 months or less on our balance sheet. Additionally, the Company has elected to account for lease components and non-lease components as a single lease component for all asset classes. Lease expense is recognized over the expected term on a straight-line basis. The adoption did not have a material impact on the Company's condensed consolidated statements of income or cash flows.

The Company enters into operating leases primarily for real estate to support research and development sites and general office space in North America, with additional locations in Europe and Asia. The Company does not currently have any finance leases. Certain of our leases include options to extend the lease at our discretion at the end of the lease term, or early terminate the lease subject to certain conditions and penalties. We do not include any renewal options in our lease terms for calculating our lease liabilities as the renewal options allow us to maintain operational flexibility and we are not reasonably certain we will exercise these options.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the specific facts and circumstances present. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable, and, as such, the Company utilizes its incremental borrowing rate as the discount rate based on information available at lease commencement date. Our incremental borrowing rate represents the rate we would incur to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We utilized the incremental borrowing rate as of January 1, 2019, our adoption date, for operating leases that commenced prior to that date. Upon our adoption of ASU 2016-02, the Company recorded the following operating lease right-of-use assets and operating lease liabilities as of January 1, 2019. Additionally, the table below includes the balances of operating lease right-of-use assets and operating lease liabilities as of March 31, 2019 (in thousands):

9

Table of Contents

	Balance Sheet Classification	January 1, 2019	March 31, 2019
Assets			
Operating lease right-of-use assets, net	Other Non-current Assets	$13,634	$12,898
Total Lease Assets		$13,634	$12,898
Liabilities			
Operating lease liabilities - Current	Other Accrued Expenses	$3,519	$3,382
Operating lease liabilities - Noncurrent	Other Long-Term Liabilities	13,652	12,915
Total Lease Liabilities		$17,171	$16,297

The components of lease costs which were included within operating expenses in our condensed consolidated statements of income were as follows (in thousands):

	Three months ended March 31, 2019
Operating lease cost	$ 1,009
Short-term lease cost	212
Variable lease cost	314

For the three months ended March 31, 2019, sublease income was insignificant. Cash paid for amounts included in the measurement of lease liabilities for the three months ended March 31, 2019 was $1.1 million and was included in net cash used in operating activities in our condensed consolidated statements of cash flows. As of March 31, 2019, the weighted average remaining operating lease term was 6.0 years and the weighted average discount rate used to determine the operating lease liabilities was 6.4%. The maturities of our operating lease liabilities as of March 31, 2019 under ASC 842, excluding short-term leases with terms less than 12 months, were as follows (in thousands):

Maturity of Operating Lease Liabilities	March 31, 2019
Remainder 2019	$3,395
2020	3,311
2021	2,805
2022	2,839
2023	2,103
Thereafter	5,428
Total lease payments	$19,881
Less: Imputed interest	(3,584)
Present value of lease liabilities	$16,297

The undiscounted maturities of our operating leases as of December 31, 2018 under ASC 840, including short-term leases with terms less than 12 months, were as follows (in thousands):

Maturity of Operating Leases	December 31, 2018
2019	$ 5,362
2020	3,386
2021	2,883
2022	2,920

2023	2,184
Thereafter	5,582

10

Table of Contents

3. REVENUE

Disaggregated Revenue

The following table presents the disaggregation of our revenue for the three months ended March 31, 2019 and 2018 (in thousands):

	Three months ended March 31,			
	2019	2018	Increase/(Decrease)	
Variable patent royalty revenue	$9,280	$6,083	$3,197	53 %
Fixed-fee royalty revenue	62,873	57,671	5,202	9 %
Current patent royalties [a]	72,153	63,754	8,399	13 %
Non-current patent royalties [b]	(5,775)	23,344	(29,119)	(125)%
Total patent royalties	66,378	87,098	(20,720)	(24)%
Current technology solutions revenue [a]	2,028	346	1,682	486 %
Patent sales [b]	225	—	225	— %
Total revenue	$68,631	$87,444	$(18,813)	(22)%

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

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

During first quarter 2019, we recognized $55.9 million of revenue that had been included in deferred revenue as of the beginning of the period. As of March 31, 2019, we had contract assets of $24.8 million and $1.3 million included within accounts receivable and other non-current assets, respectively. As of December 31, 2018, we had contract assets of $19.7 million and $5.5 million included within accounts receivable and other non-current assets, respectively.

Contracted Revenue

Based on contracts signed and committed Dynamic Fixed-Fee Agreement payments as of March 31, 2019, we expect to recognize the following amounts of revenue over the term of such contracts (in thousands):

	Revenue
Remainder 2019	$189,375
2020	248,250
2021	178,583
2022	85,228
2023	—

4. INCOME TAXES

In first quarter 2019, based on the statutory federal tax rate net of discrete federal and state taxes, we had an effective tax rate of 29.9%. This is compared to an effective tax rate benefit of 20.6% based on the statutory federal tax rate net of discrete federal and state taxes during first quarter 2018. During first quarter 2018, we recorded discrete benefits of $3.4 million related to excess tax benefits related to share-based compensation and our sale of a commercial initiative. The effective tax rate would have been a benefit of 6.3% not including these discrete benefits.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act") was signed into law. The Tax Reform Act imposes a 13.125% tax rate on income that qualifies as Foreign Derived Intangible Income ("FDII"). The reduction in benefit is primarily related to the differences in our FDII deduction between the periods. The difference in the FDII deduction between the periods was driven by the timing of income between book and tax mostly related to revenue recognition. On March 6, 2019, the IRS issued proposed regulations for FDII. The Company is currently evaluating the impact of the proposed regulations and will record the impact, if any, as applicable.

The effective tax rate reported in any given year will continue to be influenced by a variety of factors, including timing differences between the recognition of book and tax revenue, the level of pre-tax income or loss, the foreign vs.

11

Table of Contents

domestic classification of the Company’s customers, and any discrete items that may occur. The Company further notes that its tax positions could be altered by pending IRS regulations that could clarify certain provisions of the Tax Reform Act.

During first quarter 2019 and 2018, we paid approximately $3.1 million and $7.8 million, respectively, of foreign source withholding tax. Additionally, as of March 31, 2019 and December 31, 2018, we included less than $0.1 million and $1.5 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.

5. NET INCOME (LOSS) PER SHARE

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

	Three months ended March 31,			
	2019		2018	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income (loss) applicable to InterDigital, Inc.	$(2,803)	$(2,803)	$30,230	$30,230
Denominator:				
Weighted-average shares outstanding: Basic	32,611	32,611	34,641	34,641
Dilutive effect of stock options, RSUs, convertible securities and warrants		—		965
Weighted-average shares outstanding: Diluted		32,611		35,606
Earnings Per Share:				
Net income (loss) per common share: Basic	$(0.09)	$(0.09)	$0.87	$0.87
Dilutive effect of stock options, RSUs, convertible securities and warrants		—		(0.02)
Net income (loss) per common share: Diluted		$(0.09)		$0.85

Certain shares of common stock issuable upon the exercise or conversion of certain securities have been excluded from our computation of EPS because the strike price or conversion rate, as applicable, of such securities was greater than the average market price of our common stock and, as a result, the effect of such exercise or conversion would have been anti-dilutive.

Set forth below are the securities and the weighted average number of shares of common stock underlying such securities that were excluded from our computation of EPS for the periods presented (in thousands). For the three months ended March 31, 2019, the effects of all potentially dilutive securities were excluded from the computation of diluted EPS as a result of the net loss reported in the period.

	Three months ended March 31,	
	2019	2018
Restricted stock units and stock options	402	25
Convertible securities	4,440	—
Warrants	4,440	4,403
Total	9,282	4,428

Table of Contents

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") ($71.17 per share as of March 31, 2019) or above the strike price of our outstanding warrants ($86.99 per share as of March 31, 2019), the impact of conversion or exercise, as applicable, would be dilutive and such dilutive effect is reflected in diluted EPS. As a result, in periods where the average market price of the Company's common stock is above the conversion price or strike price, as applicable, under the treasury stock method, the Company calculates the number of shares issuable under the terms of the Convertible Notes and the warrants based on the average market price of the stock during the period, and includes that number in the total diluted shares outstanding for the period. See Note 9, "Long-Term Debt," for additional information about the Convertible Notes and warrants.

6. LITIGATION AND LEGAL PROCEEDINGS

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

Asustek Actions

On April 15, 2015, Asustek Computer Incorporated (“Asus”) filed a complaint in the U.S. District Court for the Northern District of California (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 commitment to be prepared to grant licenses to its standards-essential patents on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions. 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.

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 was arbitrable. Asus then filed in the CA Northern District Court an amended complaint on August 18, 2016. This amended complaint included all of the claims in Asus’s first CA Northern District Court complaint except fraudulent inducement and added a claim of violation of the Delaware Consumer Fraud Act. It sought the same relief as its first CA Northern District Court complaint, but also sought a ruling that each of InterDigital’s patents “declared [to standards-setting organizations] to be essential or potentially essential” be unenforceable and any contracts InterDigital entered into in furtherance of its unlawful conduct be void. On September 8, 2016, InterDigital filed its answer and counterclaims to Asus’s amended complaint. It denied Asus’s claims and filed a counterclaim for declaratory judgment that Asus’s tort claims were 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.

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 had increased with additional royalty payments made by Asus since such time), plus interest, costs and attorneys' fees. The

Table of Contents

evidentiary hearing in the arbitration was held in January 2017, and the parties presented oral closing arguments on March 22, 2017. On August 2, 2017, the arbitral tribunal issued its Final Award. The tribunal fully rejected Asus's counterclaim, finding that InterDigital did not fraudulently induce Asus to enter into the 2008 Asus PLA. Accordingly, the tribunal dismissed Asus's fraudulent inducement counterclaim in its entirety. The tribunal also dismissed InterDigital's claims that Asus breached the confidentiality provisions and the dispute resolution provisions of the 2008 Asus PLA. On October 20, 2017, InterDigital and Asus jointly moved to confirm both the tribunal's Final Award and the Interim Award on Jurisdiction in the CA Northern District. The court confirmed both awards on October 25, 2017.

On April 16, 2018, InterDigital filed a motion in the CA Northern District Court proceeding for leave to amend its counterclaims to include a claim of intentional interference with contract. On June 12, 2018, the court denied this motion.

On April 17, 2018, the parties served opening expert reports in the CA Northern District Court proceeding. Asus's damages expert contended that Asus was owed damages in the amount of $75.9 million based on its claims that InterDigital charged royalties inconsistent with its FRAND commitments. Those damages, which represented a substantial portion of the royalties paid by Asus through third quarter 2017, did not reflect Asus's most recent royalty payments. Asus also sought interest, costs and attorneys' fees, as well as, in connection with its Sherman Act claim, treble damages.

On August 16, 2018, the parties filed motions for summary judgment in the CA Northern District Court proceeding. The parties filed oppositions on September 13, 2018 and replies on September 27, 2018, and the court held an oral argument on October 11, 2018.

On December 20, 2018, the CA Northern District Court issued an order on the parties' motions for summary judgment. InterDigital's motion was granted in part and denied in part, and Asus's motion was denied in its entirety. The court: (1) granted summary judgment that Asus was judicially estopped from arguing that the 2008 Asus PLA is not FRAND compliant in light of Asus's prior inconsistent positions; (2) denied to the extent ruled on by the court InterDigital's motion that issue preclusion prevented Asus from re-litigating issues decided in the arbitration; (3) granted summary judgment that Asus could not invalidate the 2008 Asus PLA on the theory that, even if FRAND when signed, the 2008 Asus PLA became non-FRAND thereafter; (4) denied InterDigital's motion for summary judgment that Asus's Sherman Act claim failed as a matter of law; and (5) granted summary judgment that Asus's promissory estoppel and California UCL claims failed as a matter of law. In addition, the court denied Asus's motion for summary judgment that, as a matter of law, InterDigital breached its contractual obligation to license its essential patents on FRAND terms and conditions by engaging in discriminatory licensing practices. As a result of the summary judgment order, Asus' claims of breach of contract leading to and resulting in the 2008 Asus PLA, promissory estoppel, and California UCL claims were dismissed from the case. On December 21, 2018, the court referred the case to a magistrate judge for a settlement conference. The settlement conference was held on February 14, 2019, but a settlement was not reached at that time.

In light of the court's ruling that Asus was judicially estopped from arguing that the 2008 Asus PLA was not FRAND compliant, on March 11, 2019, Asus revised its damages calculations downward, and updated the calculations to include sales through 2018. Asus was seeking damages for what it called "4G capable products" in the amount of $58.3 million for sales through 2018. Any damages attributable to a violation of the Sherman Act would have been subject to mandatory trebling, as well as an award of reasonable attorneys' fees.

On April 4, 2019, Asus informed the court that it would not be proceeding to trial on its waiver and Delaware Consumer Fraud Act claims. A jury trial on Asus' remaining claims--violation of Section 2 of the Sherman Act and breach of contract resulting from ongoing negotiations--was scheduled to commence on May 6, 2019, in the CA Northern District Court.

On April 9, 2019, the parties participated in another court-mandated settlement conference. On April 12, 2019, certain subsidiaries of InterDigital entered into a Settlement Agreement and First Amendment to the Patent License

Agreement with Asus (the “Asus Settlement Agreement”), pursuant to which, among other things, the parties agreed to a multi-year amendment to the 2008 Asus PLA that added coverage for 4G technologies and amended certain other terms. The parties also agreed to dismiss all outstanding litigation and other proceedings among the parties, including, without limitation, the action in the CA Northern District Court described herein. The results of the settlement are reflected in