InterDigital, Inc.
Form 10-K
February 24, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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	23-1882087
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
200 Bellevue Parkway, Suite 300	19809
Wilmington, Delaware	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code (302) 281-3600

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Securities registered pursuant to Section 12(b) of the Act:	
Common Stock (par value $0.01 per share)	NASDAQ
(title of class)	(name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

_____

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $1,823,567,304 as of June 28, 2013.

The number of shares outstanding of the registrant's common stock was 40,452,673 as of February 20, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with the registrant's 2014 annual meeting of shareholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. BUSINESS.

Overview

InterDigital, Inc. ("InterDigital") designs and develops advanced technologies that enable and enhance wireless communications and capabilities. Since our founding in 1972, our engineers have designed and developed a wide range of innovations that are used in digital cellular and wireless products and networks, including 2G, 3G, 4G and IEEE 802-related products and networks. We are a leading contributor of intellectual property to the wireless communications industry.

Given our long history and focus on advanced research and development, InterDigital has one of the most significant patent portfolios in the wireless industry. As of December 31, 2013, InterDigital's wholly owned subsidiaries held a portfolio of over 20,500 patents and patent applications related to the fundamental technologies that enable wireless communications. In that portfolio are a number of patents and patent applications that we believe are or may be essential or may become essential to cellular and other wireless standards, including 2G, 3G, 4G and the IEEE 802 suite of standards. That portfolio has largely been built through internal development, supplemented by joint development projects with other companies as well as select patent acquisitions. Products incorporating our patented inventions include: mobile devices, such as cellular phones, tablets, notebook computers and wireless personal digital assistants; wireless infrastructure equipment, such as base stations; and components, dongles and modules for wireless devices.

InterDigital derives revenues primarily from patent licensing and sales, technology solutions licensing and sales and engineering services. In 2013, our total revenues were $325.4 million, a decrease of $337.7 million compared to 2012. Our revenues in 2012 included $384.0 million related to the sale of less than ten percent of our patent portfolio. Our patent licensing revenues in 2013 were $264.2 million, a decrease of $12.4 million compared to 2012. Additional information about our revenues, profits and assets, as well as additional financial data, is provided in the selected financial data in Part II, Item 6, and in the financial statements and accompanying Notes in Part II, Item 8, of this Form 10-K.

Our Strategy

Our objective is to continue to be a leading designer and developer of technology solutions and intellectual property for the wireless industry and to monetize those solutions and intellectual property through a combination of licensing, sales and other revenue opportunities.

To execute our strategy, we intend to:

- Develop and source innovative technologies related to wireless. We intend to maintain a leading position in advanced wireless technology, by leveraging our expertise in digital cellular and wireless products to guide internal research and development capabilities and by directing our efforts in partnering with leading inventors and industry players to source new technologies.
- Establish and grow our patent-based revenue. We intend to grow our licensing revenue base by adding licensees, expanding into adjacent technology areas that align with our intellectual property position and leveraging the continued growth of the overall mobile technology market. Those licensing efforts can be self-driven or executed in conjunction with licensing partnerships, trusts and other efforts, and may involve the vigorous defense of our intellectual property through litigation and other means. We also believe that the size and growth rate of our patent portfolio enable us to sell patent assets that are not essential to our core licensing programs as a sustainable revenue stream, as well as to execute patent swaps that can strengthen our overall portfolio.
- Pursue commercial opportunities for our advanced platforms and solutions. We intend to pursue, through our InterDigital Solutions unit, the commercialization of our technology platforms and solutions. As part of our ongoing research and development efforts, InterDigital often builds out entire functioning platforms in various technology areas. InterDigital Solutions seeks to bring those technologies to market through various structures including technology licensing, joint ventures, and partnerships.
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Maintain a collaborative relationship with key industry players and worldwide standards bodies. We intend to continue contributing to the ongoing process of defining wireless standards and other industry-wide efforts and incorporating our inventions into those technology areas. Those efforts, and the knowledge gained through them, underpin internal development efforts and also help guide technology and intellectual property sourcing through partners and other external sources.

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Technology Research and Development

InterDigital pursues a diversified approach to sourcing the innovations that underpin our business. That approach incorporates internally driven research and development efforts by our InterDigital Labs unit, as well as externally focused efforts by our Innovation Partners unit. As of December 31, 2013, our patent portfolio consisted of approximately 1,700 U.S. patents (approximately 180 of which were issued in 2013) and approximately 10,300 non-U.S. patents (approximately 1,300 of which were issued in 2013). As of the same date, we also had numerous patent applications pending worldwide, with approximately 1,200 applications pending in the United States and approximately 7,300 pending non-U.S. applications. The patents and applications comprising our portfolio relate predominantly to digital wireless radiotelephony technology (including, without limitation, 2G, 3G and 4G technologies). Issued patents expire at differing times ranging from 2014 through 2032.

InterDigital Labs

As an early participant in the digital wireless market, InterDigital developed pioneering solutions for the primary cellular air interface technologies in use today, TDMA and CDMA. That early involvement, our continued development of those advanced digital wireless technologies and innovations in OFDM/OFDMA and MIMO technologies have enabled us to create our significant worldwide portfolio of patents. In conjunction with our participation in certain standards bodies, we have filed declarations stating that we have patents that we believe are or may be essential or may become essential to cellular and other wireless standards and that, with respect to our essential patents, we are prepared to grant licenses on fair, reasonable and non-discriminatory terms or similar terms consistent with the requirements of the respective standards organizations.

Our capabilities in the development of advanced digital wireless technologies are based on the efforts of a highly specialized engineering team, leveraging leading-edge equipment and software platforms. As of December 31, 2013, we employed approximately 164 engineers, 74% of whom hold advanced degrees (including 46 doctorate degrees). Over the last three years, investment in development has ranged from $63.3 million to $67.9 million, and the largest portion of this expense has been personnel costs. Additional information about our development expenses is provided in the results of operations, under the heading "Operating Expenses," in Part II, Item 7, of this Form 10-K.

Our current research efforts are focused on technology solutions to solve the industry's challenge of delivering connectivity and content to handsets and various other connected devices, such as tablets and laptops, as well as areas of network infrastructure including spectrum research and wireless backhaul. We have taken a broad approach to solve these challenges, which includes air interface enhancements, policy-driven bandwidth management, cognitive radio and intelligent and optimized data delivery. We are developing technologies that will enable efficient multimedia content delivery across heterogeneous devices and networks, to enable richer multimedia experience with optimal data usage and radio network efficiency. From an air interface perspective, we are creating evolved system architectures that enable operation in small cells and additional frequency bands, improved cell-edge performance as well as device-to-device communications. These solutions provide interference mitigation across cells, uniform coverage and significantly improved data rates, system capacity and energy efficiency. We are also developing technologies that will optimize use of the current network resources by dynamically allocating and aggregating bandwidth across different networks and spectrum bands. With the goal of reducing the looming bandwidth supply/demand gap in mobile networks, our technologies will enable the aggregation, segregation and offload of traffic. In the field of machine-to-machine (M2M) applications and the Internet of Things (IoT), we are developing technologies to enable seamless interconnection for multiple access types (cellular, WLAN, WPAN) and M2M service frameworks that can be managed by an operator and leveraged by a diverse set of vertical applications.

Innovation Partners

In fourth quarter 2012, we announced an enhancement to our technology sourcing strategy with the formation of Innovation Partners, an external sourcing model based around partnerships with leading inventors and research organizations, as well as the acquisition of technology and patent portfolios that align with InterDigital's roadmap. In 2013, Innovation Partners engaged with a range of external companies to drive research and source intellectual property:

- In December 2013, we announced that we had signed a collaboration agreement with VTT Technical Research Centre of Finland, a multi-technological applied research organization in Northern Europe. The initial engagement focuses on

the future of "user-centric context aware" research that will create value for the mobile ecosystem.

- In September 2013, we signed a development agreement with a wholly owned subsidiary of DDD Group plc regarding its next generation HD and UHD video processing technologies. The agreement focused on collaboration to combine DDD's image processing techniques with InterDigital's user-adaptive video streaming technology to explore the feasibility of the combined solution for applications in streaming video to mobile devices and Smart TVs.

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- In February 2013, we entered into a collaboration with BIO-key International, Inc., a company involved in fingerprint biometric identification solutions and advanced mobile credentialing and identity verification. The engagement brought together BIO-key's research and development and InterDigital's identity and access management research.

InterDigital's Technology Position

Cellular Technologies

We have a long history of developing cellular technologies, including those related to CDMA and TDMA and, more recently, OFDM/OFDMA and MIMO. A number of our TDMA-based and CDMA-based inventions are being used in all 2G, 2.5G and 3G wireless networks and mobile terminal devices.

We led the industry in establishing TDMA-based TIA/EIA-54 as a U.S. digital wireless standard in the 1980s. We developed a substantial portfolio of TDMA-based patented inventions. These inventions include or relate to fundamental elements of TDMA-based systems in use around the world. Some of our TDMA inventions include or relate to:

- The fundamental architecture of commercial TD/FDMA systems;
- Methods of synchronizing TD/FDMA systems;
- A flexible approach to managing system capacity through the reassignment of online subscriber units to different time slots and/or frequencies in response to system conditions;
- The design of a multi-component base station, utilizing distributed intelligence, which allows for more robust performance; and
- Initializing procedures that enable roaming.

We have also developed and patented innovative CDMA technology solutions. Today, we hold a significant worldwide portfolio of CDMA patents and patent applications. Similar to our TDMA inventions, we believe that a number of our CDMA inventions are or may be essential or may become essential to the implementation of CDMA systems in use today. Some of our CDMA inventions include or relate to:

- Global pilot: The use of a common pilot channel to synchronize sub-channels in a multiple access environment;
- Bandwidth allocation: Techniques including multi-channel and multi-code mechanisms;
- Power control: Highly efficient schemes for controlling the transmission output power of terminal and base station devices, a vital feature in a CDMA system;
- Joint detection and interference cancellation techniques for reducing interference;
- Soft handover enhancement techniques between designated cells;
- Various sub-channel access and coding techniques;
- Packet data;
- Fast handoff;
- Geo-location for calculating the position of terminal users;
- Multi-user detection;
- High-speed packet data channel coding; and
- High-speed packet data delivery in a mobile environment, including enhanced uplink.

The cellular industry has ongoing initiatives aimed at technology improvements. We have engineering development projects to build and enhance our technology portfolio in many of these areas, including the LTE and LTE-Advanced projects for 3GPP radio technology, further evolution of the 3GPP WCDMA Standard (including HSPA+) and continuing improvements to the legacy GSM-EDGE Radio Access Network. The common goal is to improve the user experience and reduce the cost to operators via increased capacity, reduced cost per bit, increased data rates, improved cell-edge or coverage solutions and reduced latency. Of the above technologies, LTE is the most advanced in that it uses the newer OFDMA/MIMO. Some of our LTE inventions include or relate to:

- MIMO technologies for reducing interference and increasing data rates;
- OFDM/OFDMA/SC-FDMA;

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- Power control;
- Hybrid-ARQ for fast error correction;
- Discontinuous reception for improved battery life;
- Control channel structures for efficient signaling;
- Advanced resource scheduling/allocation (bandwidth on-demand);
- Security;
- Home Node-B (femto cells);
- Relay communications for improved cell-edge performance;
- LTE receiver implementations;
- Carrier aggregation for LTE-Advanced;
- Multi-carrier HSDPA;
- Coordinated Multi-Point Communications for LTE-Advanced; and
- Machine Type Communications.

Other Wireless Technologies

Our strong wireless background includes engineering and corporate development activities that focus on solutions that apply to other wireless market segments. These segments primarily fall within the continually expanding scope of the IEEE 802, IETF and ETSI standards. We are building a portfolio of technology related to WLAN, Wi-Fi, WMAN and the digital cellular area that includes, for example, improvements to the IEEE 802.11 PHY and MAC to increase peak data rates (i.e., IEEE 802.11n, 802.11ac, 802.11ad and future variants), handover among radio access technologies (IEEE 802.21), mesh networks (IEEE 802.11s), radio resource measurements (IEEE 802.11k), wireless network management (IEEE 802.11v), wireless network security and broadband wireless (IEEE 802.16, including WiMAX wireless technology). We are actively developing technology for newer Wi-Fi and WLAN standards focused on fast initial link setup (802.11ai), hotspot operation (WFA HOTSPOT 2.0) and the use of additional spectrum bands, such as TV-Whitespace (802.11af) and sub 1 GHz (802.11ah). We also are expanding our portfolio of technologies in areas such as M2M or MTC, mobility, spectrum management and session continuity within ETSI and IETF. In addition, we have commenced development of a portfolio related to improved video delivery, including solutions related to the ITU-T HEVC standards.

Patent-Based Revenue

We believe that companies making, importing, using or selling products compliant with the standards covered by our patent portfolio, including all manufacturers of mobile handsets, tablets and other devices, require a license under our patents and will require licenses under patents that may issue from our pending patent applications. We have successfully entered into license agreements with many of the leading mobile communications companies globally, including Apple Inc. ("Apple"), Sony Corporation of America, HTC Corporation and BlackBerry Limited, among others. In 2012, we began the process of securing license agreements with companies shipping 4G products.

Most of our patent license agreements are structured on a royalty-bearing basis, while others are structured on a paid-up basis or a combination thereof. Upon entering into a new patent license agreement, the licensee typically agrees to pay consideration for sales made prior to the effective date of the license agreement (i.e., past patent royalties) and also agrees to pay royalties or license fees on licensed products sold during the term of the agreement. We expect that, for the most part, new license agreements will follow this model. Almost all of our patent license agreements provide for the payment of royalties based on sales of licensed products designed to operate in accordance with particular standards (convenience-based licenses), as opposed to the payment of royalties if the manufacture, sale or use of the licensed product infringes one of our patents (infringement-based licenses).

In most cases, we recognize the revenue from per-unit royalties in the period when we receive royalty reports from licensees. In circumstances where we receive consideration for past patent royalties, we recognize such payments as revenue in the period in which the patent license agreement is signed. Some of these patent license agreements provide for the non-refundable prepayment of royalties that are usually made in exchange for prepayment discounts. As the licensee reports sales of covered products, the royalties are calculated and either applied against any prepayment or become payable in cash or other consideration. Additionally, royalties on sales of licensed products under the license agreement become payable or applied

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against prepayments based on the royalty formula applicable to the particular license agreement. These formulas include flat dollar rates per unit, a percentage of sales, a percentage of sales with a per-unit cap and other similar measures. The formulas can also vary by other factors, including territory, covered standards, quantity and dates sold. Some of our patent licenses are paid up, requiring no additional payments relating to designated sales under agreed upon conditions. Those conditions can include paid-up licenses for a period of time, for a class of products, for a number of products sold, under certain patents or patent claims, for sales in certain countries or a combination thereof. Licenses have become paid-up based on the payment of fixed amounts or after the payment of royalties for a term. With the exception of amounts allocated to past patent royalties, we recognize revenues related to fixed amounts on a straight-line basis. Our license agreements typically contain provisions that give us the right to audit our licensees' books and records to ensure compliance with the licensees' reporting and payment obligations under those agreements. From time to time, these audits reveal underreporting or underpayments under the applicable agreements. In such cases, we seek payment for the amount owed and enter into negotiations with the licensee to resolve the discrepancy.

The company also pursues, on occasion, targeted sales of portions of its large and growing patent portfolio as a revenue stream. This strategy is based on the expectation that the company's portfolio and its growth rate extend well beyond the requirements for a successful licensing program. In addition, the strategy leverages the desire from new entrants in the mobile technology space to build strong intellectual property positions to support their businesses.

Signal Trust for Wireless Innovation

On October 17, 2013, InterDigital announced the formation of the Signal Trust for Wireless Innovation. The goal of the Signal Trust is to monetize a large InterDigital patent portfolio related to cellular infrastructure. More than 500 patents and patent applications were transferred to the Signal Trust, focusing primarily on 3G and LTE technologies and developed by InterDigital's engineers and researchers over more than a decade. A number of these innovations have been contributed to the worldwide standards process, resulting in a portfolio that includes patents for pioneering inventions that the company believes are used pervasively in the cellular wireless industry.

InterDigital has committed funding to the Signal Trust to help ensure its successful launch, and the company will also be the primary beneficiary of the Signal Trust. The distributions from the Signal Trust will support continued research related to cellular wireless technologies. A small portion of the proceeds from the Signal Trust will be used to fund, through the newly formed Signal Foundation for Wireless Innovation, scholarly analysis of intellectual property rights and the technological, commercial and creative innovations they facilitate.

Other Potential Revenue Sources

The company's strong technology expertise and research and development team also form the basis for other potential revenue opportunities, focused around such areas as engineering services, research joint ventures and the continued development, commercialization and licensing of research and development projects that have progressed to a pre-commercial or commercial phase.

InterDigital Solutions

In fourth quarter 2012, the company announced the formation of InterDigital Solutions. This unit is focused on commercializing market-ready technologies. These include:

- Smart Access Manager, a standards-based bandwidth management solution for operators, infrastructure companies and device manufacturers. Smart Access Manager enables operators and others to integrate Wi-Fi management seamlessly into their offerings, and, at the end of 2013, was in field trials with operators in the United States, Europe and elsewhere.
- User-Aware Video, a solution that uses contextual awareness of viewers and viewing conditions to deliver real-time and streaming video with the minimum required bandwidth to ensure an optimal viewing experience.

InterDigital Solutions' mission also includes leveraging InterDigital's technology and people in strategic engineering services engagements that supplement the company's core research while acting as new sources of revenue.

Convida Wireless

During 2012, we completed the formation of a joint venture with Sony Corporation of America. Called Convida Wireless, the joint venture combines InterDigital's advanced M2M research capabilities with Sony's consumer electronics expertise. Convida Wireless provides an outlet for driving new research in the growing M2M wireless communications field.

Wireless Communications Industry Overview

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The wireless communications industry continues to experience rapid growth worldwide, as well as an expansion of device types entering the market. IHS iSuppli estimates that just over 1.7 billion handsets and tablets alone were shipped in 2013—a number that is expected to grow to more than 2 billion devices yearly in 2017 (source: IHS iSuppli, Smartphone and Mobile Broadband Devices Tracker, 2013). In addition, the rate of uptake of the latest 4G technologies has been very rapid, with global LTE subscriber growth increasing an estimated 115% in 2013 over 2012 (IHS iSuppli Research, January 2013).

Worldwide shipments of mobile handsets, PCs and tablets, 2007-2017 ('000s). Source: IHS iSuppli Connected Devices Database, Q4 2013.

Worldwide shipments of LTE handsets, 2011-2017 ('Ms). Source: IHS iSuppli Design Forecast -- Mobile Handsets, H2 2013.

To achieve economies of scale and support interoperability among different participants, products for the wireless industry have typically been designed to operate in accordance with certain standards. Wireless communications standards are formal guidelines for engineers, designers, manufacturers and service providers that regulate and define the use of the radio frequency spectrum in conjunction with providing detailed specifications for wireless communications products. A primary goal of the standards is to ensure interoperability of products marketed by multiple companies. A large number of international and regional wireless Standards Development Organizations (“SDOs”), including the ITU, ETSI, TIA (USA), IEEE, ATIS (USA), TTA (Korea), ARIB (Japan) and ANSI, have responsibility for the development and administration of wireless communications standards. New standards are typically adopted with each new generation of products, are often compatible with previous generations and are defined to ensure equipment interoperability and regulatory compliance.

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Standards have evolved in response to consumer demand for services and expanded capabilities of mobile devices. Cellular standards have evolved from voice-oriented services to multimedia services that exploit the higher speeds offered by newer technologies, such as 3G, or, most recently, LTE. The wireless communications industry has also made significant advances in non-cellular wireless technologies. In particular, IEEE 802.11 WLAN has gained momentum in recent years as a wireless broadband solution in the home, office and select public areas. IEEE 802.11 technology offers high-speed data connectivity through unlicensed spectra within a relatively modest operating range. The IEEE wireless standards bodies are creating sets of standards to enable higher data rates, provide coverage over longer distances, enable roaming and integrate more fully with cellular networks.

SDOs typically ask participating companies to declare formally whether they believe they hold patents or patent applications essential to a particular standard and whether they are willing to license those patents on either a royalty-bearing basis on fair, reasonable and nondiscriminatory terms or on a royalty-free basis. To manufacture, have made, sell, offer to sell or use such products on a non-infringing basis, a manufacturer or other entity doing so must first obtain a license from the holder of essential patent rights. The SDOs do not have enforcement authority against entities that fail to obtain required licenses, nor do they have the ability to protect the intellectual property rights of holders of essential patents.

InterDigital often publicly characterizes its business, including license agreements and development projects, as pertaining to standards generally characterized as 2G, 3G and/or 4G. In doing this, we generally rely on the positions of the applicable standards-setting organizations in defining the relevant standards. However, the definitions may evolve or change over time, including after we have characterized certain transactions.

Business Activities

2013 Patent Licensing Activity

In first quarter 2013, we entered into a new agreement with SII Mobile Communications Inc. to extend patent coverage to include 4G technologies, including LTE and LTE-Advanced, as well as products not previously covered under the parties' existing agreement. The patent license agreements now provide SII Mobile Communications with worldwide, non-transferable, non-exclusive, royalty-bearing patent coverage for certain products designed to operate in accordance with 2G, 3G and 4G wireless technologies. SII Mobile Communications Inc. is a subsidiary of Seiko Instruments Inc. and is headquartered in Japan.

In third quarter 2013, we entered into an amendment to our worldwide, non-exclusive, royalty-bearing patent license agreement with Panasonic Mobile Communications Co., Ltd. (“PMC”), headquartered in Japan. This amendment expanded the scope of our existing agreement with PMC to cover its sales of products designed to operate in accordance with 4G wireless technologies, including LTE, LTE-Advanced and WiMax standards, in addition to 2G and 3G wireless technologies. PMC is a worldwide leader in the development and manufacture of mobile communications products.

In fourth quarter 2013, we entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with Teltronics S.A. Unipersonal ("Teltronics"), headquartered in Spain. The agreement covers products that are designed to operate in accordance with 4G wireless technologies, including LTE, LTE-Advanced and WiMax. Teltronics is a world leader in the design and manufacturing of mission-critical radio communications equipment and systems.

Customers Generating Revenues Exceeding 10% of Total 2013 Revenues

Pegatron Corporation ("Pegatron"), Intel Mobile Communications GmbH ("Intel") and Sony Corporation of America ("Sony") comprised approximately 30%, 18% and 12% of our total 2013 revenues, respectively.

In 2008, we entered into a patent license agreement with Pegatron (the “2008 Pegatron PLA”) that covers Pegatron and its affiliates. Under the terms of the 2008 Pegatron PLA, we granted Pegatron a non-exclusive, non-transferable, world-wide royalty-bearing license covering the sale of certain products designed to operate in accordance with 2G and 3G wireless standards. In 2007, we entered into a worldwide, non-transferable, non-exclusive, fixed-fee royalty-bearing patent license agreement with Apple (the “2007 Apple PLA”). In second quarter and fourth quarter 2013, we received arbitration awards in separate proceedings we initiated against Pegatron and Apple, respectively. Taken together, these arbitration awards clarified that Pegatron owes us royalties on certain products it produces for Apple. The Pegatron arbitration award confirmed that, to the extent that Pegatron manufactures products for Apple that are not licensed under the 2007 Apple PLA, those products are covered by the 2008 Pegatron PLA and are royalty

bearing under that agreement. The Apple arbitration award declared that Apple iPads, and any Apple products designed to operate on CDMA2000 or LTE networks, are not licensed under the Apple PLA. As a result of these two arbitration awards, we recognized $96.1 million of revenue associated with sales of Apple products under the 2008 Pegatron PLA in 2013, $71.4 million of which was recognized as past patent royalties and $24.7 million of which was recognized as per-unit royalties.

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In third quarter 2013, we received an arbitration award in a proceeding initiated in 2012 to determine whether royalties were owed on specific product classes pursuant to our technology solutions agreement with Intel (the "Intel Agreement"). As a result of the award, in third quarter 2013, we recognized related revenue of $51.6 million that had been deferred pending the resolution of the arbitration, resulting in the recognition during 2013 of a total of $59.3 million of revenue associated with the Intel Agreement.

In fourth quarter 2012, we entered into a patent license agreement with Sony that covers Sony's sale of 3G and 4G products (the "Sony PLA"). During 2013, we recognized $40.0 million of revenue associated with the Sony PLA.

Patent Infringement and Declaratory Judgment Proceedings

From time to time, if we believe any party is required to license our patents in order to manufacture and sell certain products and such party refuses to do so, we may institute legal action against them. This legal action typically takes the form of a patent infringement lawsuit or an administrative proceeding such as a Section 337 proceeding before the United States International Trade Commission (“USITC” or the "Commission"). In a patent infringement lawsuit, we would typically seek damages for past infringement and an injunction against future infringement. In a USITC proceeding, we would seek an exclusion order to bar infringing goods from entry into the United States, as well as a cease and desist order to bar further sales of infringing goods that have already been imported into the United States. The response from the subject party can come in the form of challenges to the validity, enforceability, essentiality and/or applicability of our patents to their products. The subject party may also respond by alleging that our efforts to enter into a license with that party do not comply with any obligations we may have in connection with our participation in standards-setting organizations, and therefore that we are not entitled to the relief that we seek. For example, the subject party may allege that we have not complied with an obligation to offer a license to that party on fair, reasonable and non-discriminatory terms and conditions. In addition, a party might file a declaratory judgment action to seek a court's declaration that our patents are invalid, unenforceable, not infringed by the other party's products or are not essential. Our response to such a declaratory judgment action may include claims of infringement. When we include claims of infringement in a patent infringement lawsuit, a favorable ruling for the company can result in the payment of damages for past patent royalties, the setting of a royalty for future sales or issuance by the court of an injunction enjoining the manufacturer from manufacturing and/or selling the infringing product.

Contractual Arbitration Proceedings

We and our customers, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales and royalties. Our license agreements typically provide for audit rights as well as private arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by the arbitrators or by settlement between the parties. Parties to arbitration might have the right to have the award reviewed in a court of competent jurisdiction. However, based on public policy favoring the use of arbitration, it is generally difficult to have arbitration awards vacated or modified. The party securing an arbitration award may seek to have that award converted into a judgment through an enforcement proceeding. The purpose of such a proceeding is to secure a judgment that can be used for, if need be, seizing assets of the other party.

Competition

With respect to our technology development activities, we face competition from companies, including in-house development teams at other wireless device companies and semiconductor companies and wireless operators, developing other and similar technologies that are competitive with our solutions that we may market or set forth into the standards-setting arena.

Due to the exclusionary nature of patent rights, we do not compete, in a traditional sense, with other patent holders for licensing relationships or sale transactions. Other patent holders do not have the same rights to the inventions and technologies encompassed by our patent portfolio. In any device or piece of equipment that contains intellectual property, the manufacturer may need to obtain licenses from multiple holders of intellectual property. In licensing our patent portfolio, we compete with other patent holders for a share of the royalties, which may face practical limitations. We believe that licenses under a number of our patents are required to manufacture and sell 2G, 3G and 4G products. However, numerous companies also claim that they hold 2G, 3G and 4G patents that are or may be essential or may become essential to cellular and other wireless standards. To the extent that multiple parties all seek

royalties on the same product, the manufacturers could claim to have difficulty in meeting the financial requirements of each patent holder. In the past, certain manufacturers have sought antitrust exemptions to act collectively on a voluntary basis. In addition, certain manufacturers have sought to limit aggregate licensing fees or rates for essential patents. Similarly, potential purchasers of our patents often amass patent portfolios for defensive and/or cross-

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licensing purposes and could choose to acquire patent assets within the same general technology space from other patent holders.

In the last several years, intellectual property has emerged as a strategically important asset class and a number of large patent acquisition transactions have taken place. As new participants have entered the mobile ecosystem, the market for intellectual property has become increasingly competitive, with many large, well-capitalized companies pursuing mobile ecosystem related patent portfolios. As we enhance our technology sourcing by supplementing our internal research and development efforts with acquisitions of intellectual property assets, we compete with such other companies over available mobile ecosystem related assets.

Employees

As of December 31, 2013, we had approximately 290 employees. None of our employees are represented by a collective bargaining unit.

Geographic Concentrations

We have one reportable segment. During 2013, the majority of our revenue was derived from a limited number of licensees based outside of the United States, primarily in Asia. These revenues were paid in U.S. dollars and were not subject to any substantial foreign exchange transaction risk. The table below lists the countries of the headquarters of our licensees and customers and the total revenue derived from each country or region for the periods indicated (in thousands):

	For the Year Ended December 31,	
	2013	2012