

InterDigital, Inc.  
Form 10-Q  
August 09, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

*For the quarterly period ended June 30, 2007*

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 1-11152

\_\_\_\_\_  
**INTERDIGITAL, INC.**

(Exact Name of Registrant as Specified in Its Charter)

\_\_\_\_\_

**PENNSYLVANIA**  
(State or other jurisdiction of

incorporation or organization)

**781 Third Avenue, King of Prussia, PA 19406-1409**

(Address of Principal Executive Offices and Zip Code)

**23-1882087**  
(I.R.S. Employer

Identification No.)

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(610) 878-7800

(Registrant's Telephone Number, Including Area Code)

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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 is a large accelerated filer , an accelerated filer , or a non-accelerated filer  (as defined by Rule 12b-2 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 \$.01 per share**  
Title of Class

**47,090,120**  
Outstanding at August 3, 2007

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**INTERDIGITAL, INC.**

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

**GLOSSARY OF TERMS**

**1xEV-DO**

First Evolution Data Optimized. An evolution of cdma2000.

**2G**

Second Generation. A generic term usually used in reference to voice-oriented digital wireless products, primarily mobile handsets that provide basic voice services.

**2.5G**

A generic term usually used in reference to fully integrated voice and data digital wireless devices offering higher data rate services and features compared to 2G.

**3G**

Third Generation. A generic term usually used in reference to the generation of digital mobile devices and networks after 2G and 2.5G, which provide high speed data communications capability along with voice services.

**3GPP**

3G Partnership Project. A partnership of worldwide accredited Standards organizations the purpose of which is to draft specifications for Third Generation mobile telephony.

**ANSI**

American National Standards Institute. The United States national standards accreditation and policy agency. ANSI monitors and provides oversight of all accredited U.S. Standards Development Organizations to insure they follow an open public process.

**ASIC**

Application Specific Integrated Circuit. A computer chip developed for a specific purpose, and frequently designed using a microprocessor core and integrating other functions unique to the application in which the chip will be used. Many SOC designs are ASICs.

**Bandwidth**

A range of frequencies that can carry a signal on a transmission medium, measured in Hertz and computed by subtracting the lower frequency limit from the upper frequency limit.

**Base Station**

The central radio transmitter/receiver, or group of central radio transmitters/receivers, that maintains communications with subscriber equipment sets within a given range (typically, a cell site).

**CDMA**

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Code Division Multiple Access. A method of digital spread spectrum technology wireless transmission that allows a large number of users to share access to a single radio channel by assigning unique code sequences to each user.

### **cdmaOne**

A wireless cellular system application based on 2G narrowband CDMA technologies (e.g., TIA/EIA-95).

### **cdma2000®**

A Standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne). The CDMA family includes, without limitation, CDMA2000 1x, CDMA 1xEV-DO, CDMA2000 1xEV-DV and CDMA2000 3x. Although CDMA2000 1x is included under the IMT-2000 family of 3G Standards, its functionality is similar to 2.5G technologies. CDMA2000® and cdma2000® are registered trademarks of the Telecommunications Industry Association (TIA USA).

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### **Chip**

An electronic circuit that consists of many individual circuit elements integrated onto a single substrate.

### **Chip Rate**

The rate at which information signal bits are transmitted as a sequence of chips. The chip rate is usually several times the information bit rate.

### **Circuit**

The connection of channels, conductors and equipment between two given points through which an electric current may be established.

### **Digital**

Information transmission where the data is represented in discrete numerical form.

### **Digital Cellular**

A cellular communications system that uses over-the-air digital transmission.

### **Duplex**

A characteristic of data transmission; either full duplex or half duplex. Full duplex permits simultaneous transmission in both directions of a communications channel. Half duplex means only one transmission at a time.

### **EDGE**

Enhanced Data rates for GSM Evolution. Technology designed to deliver data at rates up to 473.6 Kbps, triple the data rate of GSM wireless services, and built on the existing GSM Standard and core network infrastructure. EDGE systems built in Europe are considered a 2.5G technology.

### **FABLESS**

Fabless means fabrication carried out by another party under a contract.

### **FDMA**

Frequency Division Multiple Access. A technique in which the available transmission of bandwidth of a channel is divided by frequencies into narrower bands over fixed time intervals resulting in more efficient voice or data transmissions over a single channel.

### **Frequency**

The rate at which an electrical current or signal alternates, usually measured in Hertz.

### **GPRS**

General Packet Radio Systems. A packet-based wireless communications service that enables high-speed wireless Internet and other data communications via GSM networks.

### **GSM**

Global System for Mobile Communications. A digital cellular Standard, based on TDMA technology, specifically developed to provide system compatibility across country boundaries.

**Hertz**

The unit of measuring radio frequency (one cycle per second).

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### **HSDPA**

High Speed Downlink Packet Access. An enhancement to WCDMA/UMTS technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology enhancement.

### **IEEE**

Institute of Electrical and Electronic Engineers. A membership organization of engineers that among its activities produces data communications standards.

### **IEEE 802**

A Standards body within the IEEE that specifies communications protocols for both wired and wireless local area and wide area networks (LAN/WAN).

### **IC**

Integrated Circuit. A multifunction circuit formed in or around a semiconductor base.

### **Internet**

A network comprised of numerous interconnected commercial, academic and governmental networks in over 100 countries.

### **IPR**

Intellectual Property Right.

### **ISO**

International Standards Organization. An international organization, which sets international electrical and electronics standards. The U.S. member body is ANSI.

### **ITU**

International Telecommunication Union. An international organization established by the United Nations with membership from virtually every government in the world. Publishes recommendations for engineers, designers, OEMs, and service providers through its three main activities: defining and adoption of telecommunications standards; regulating the use of the radio frequency spectrum; and furthering telecommunications development globally.

### **ITC**

InterDigital Technology Corporation, one of our wholly-owned Delaware subsidiaries.

### **Kbps**

Kilobits per Second. A measure of information-carrying capacity (i.e., the data transfer rate) of a circuit, in thousands of bits.

### **LAN**

Local Area Network. A private data communications network linking a variety of data devices located in the same geographical area and which share files, programs and various devices.

### **Mbps**

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Megabits per Second. A measure of information carrying capacity of a circuit; millions of bits per second.

### **Modem**

A combination of the words modulator and demodulator, referring to a device that modifies a signal (such as sound or digital data) to allow it to be carried over a medium such as wire or radio.

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### **Multiple Access**

A methodology (e.g., FDMA, TDMA, CDMA) by which multiple users share access to a transmission channel. Most modern systems accomplish this through demand assignment where the specific parameter (frequency, time slot, or code) is automatically assigned when a subscriber requires it.

### **OEM**

Original Equipment Manufacturer. A manufacturer of equipment (e.g., base stations, terminals) that sells to operators.

### **Protocol**

A formal set of conventions governing the format and control of interaction among communicating functional units.

### **RF**

Radio Frequency. The range of electromagnetic frequencies above the audio range and below visible light.

### **SOC**

System-on-a-chip. The embodiment on a single silicon chip of the essential components that comprise the operational core of a digital system.

### **Standards**

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies in order to allow for interoperability.

### **TDD**

Time Division Duplexing. A duplex operation using a single frequency, divided by time, for transmission and reception.

### **TDMA**

Time Division Multiple Access. A method of digital wireless transmission that allows a multiplicity of users to share access (in a time ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.

### **Terminal/Terminal Unit**

Equipment at the end of a communications path. Often referred to as an end-user device or handset. Terminal units include mobile phone handsets, personal digital assistants, computer laptops and telephones.

### **TIA/EIA-54**

The original TDMA digital cellular Standard in the United States. Implemented in 1992 and then upgraded to the TIA/EIA-136 digital Standard in 1996.

### **TIA/EIA-95**

A 2G CDMA Standard.

### **TIA/EIA-136**

A United States Standard for digital TDMA technology.

**TIA (USA)**

The Telecommunications Industry Association.

**WAN**

Wide Area Network. A data network that extends a LAN outside of its coverage area, via telephone common carrier lines, to link to other LANs.

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**WCDMA**

Wideband Code Division Multiple Access or Wideband CDMA. The next generation of CDMA technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology.

**Wideband**

A communications channel with a user data rate higher than a voice-grade channel; usually 64Kbps to 2Mbps.

**Wireless**

Radio-based systems that allow transmission of information without a physical connection, such as copper wire or optical fiber.

**Wireless LAN (WLAN)**

Wireless Local Area Network. A collection of devices (computers, networks, portables, mobile equipment, etc.) linked wirelessly over a limited local area.

**Table of Contents****INTERDIGITAL, INC. AND SUBSIDIARIES****PART I FINANCIAL INFORMATION****Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****INTERDIGITAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

(unaudited)

	JUNE 30,	DECEMBER 31,
	2007	2006
<b><u>ASSETS</u></b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 107,954	\$ 166,385
Short-term investments	83,679	97,581
Accounts receivable	105,511	131,852
Deferred tax assets	52,558	43,520
Prepaid and other current assets	16,348	14,464
Total current assets	366,050	453,802
PROPERTY AND EQUIPMENT, NET	22,995	16,682
PATENTS, NET	78,281	70,496
DEFERRED TAX ASSETS	13,846	6,418
OTHER NON-CURRENT ASSETS, NET	26,048	16,678
	141,170	110,274
TOTAL ASSETS	\$ 507,220	\$ 564,076
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 295	\$ 369
Accounts payable	30,989	21,913
Accrued compensation and related expenses	7,207	9,725
Deferred revenue	74,941	70,709
Taxes payable	15,837	11,448
Other accrued expenses	9,306	7,064
Total current liabilities	138,575	121,228
LONG-TERM DEBT	1,093	1,203
LONG-TERM DEFERRED REVENUE	214,994	160,895
OTHER LONG-TERM LIABILITIES	13,423	5,274
TOTAL LIABILITIES	368,085	288,600

COMMITMENTS AND CONTINGENCIES

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### SHAREHOLDERS EQUITY:

Preferred Stock, \$.10 par value, 14,399 shares authorized 0 shares issued and outstanding		
Common Stock, \$.01 par value, 100,000 shares authorized, 64,885 and 64,393 shares issued and 47,047 and 51,347 shares outstanding	649	644
Additional paid-in capital	456,141	445,930
Retained Earnings	126,523	115,383
Accumulated other comprehensive loss	(44)	(46)
	583,269	561,911
Treasury stock, 17,838 and 13,046 shares of common held at cost	444,134	286,435
<b>Total shareholders equity</b>	<b>139,135</b>	<b>275,476</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 507,220</b>	<b>\$ 564,076</b>

The accompanying notes are an integral part of these statements.

**Table of Contents****INTERDIGITAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
REVENUES	\$ 55,006	\$ 296,617	\$ 122,824	\$ 348,223
OPERATING EXPENSES:				
Sales and marketing	1,879	1,561	3,975	3,385
General and administrative	6,126	5,695	12,670	10,716
Patents administration and licensing	18,075	12,804	31,280	22,786
Development	21,193	15,887	42,977	31,897
Arbitration award	16,612		16,612	
	63,885	35,947	107,514	68,784
(Loss) income from operations	(8,879)	260,670	15,310	279,439
OTHER INCOME:				
Interest and investment income, net	2,272	3,914	4,905	5,422
(Loss) income before income taxes	(6,607)	264,584	20,215	284,861
INCOME TAX BENEFIT (PROVISION)	2,201	(94,221)	(6,952)	(101,559)
NET (LOSS) INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ (4,406)	\$ 170,363	\$ 13,263	\$ 183,302
NET (LOSS) INCOME PER COMMON SHARE - BASIC	\$ (0.09)	\$ 3.13	\$ 0.27	\$ 3.36
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	46,957	54,397	48,362	54,590
NET (LOSS) INCOME PER COMMON SHARE - DILUTED	\$ (0.09)	\$ 2.98	\$ 0.26	\$ 3.20
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	46,957	57,128	50,379	57,358

The accompanying notes are an integral part of these statements.

**Table of Contents****INTERDIGITAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)****FOR THE SIX MONTHS**

	<b>ENDED JUNE 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 13,263	\$ 183,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,890	6,693
Deferred revenue recognized	(58,185)	(100,936)
Increase in deferred revenue	116,516	286,215
Deferred income taxes	(16,466)	27,812
Share-based compensation	4,583	2,929
Other	15	(14)
Decrease (increase) in assets:		
Receivables	26,341	(95,550)
Deferred charges	1,092	(9,870)
Other current assets	(2,166)	(2,351)
Increase (decrease) in liabilities:		
Accounts payable	17,319	