

INTERDIGITAL COMMUNICATIONS CORP  
Form 10-Q  
August 07, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

*For the quarterly period ended June 30, 2006*

**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**

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**INTERDIGITAL COMMUNICATIONS CORPORATION**

**(Exact name of registrant as specified in its charter)**

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**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  
Class

51,720,639  
Outstanding at August 1, 2006

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**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

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**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

InterDigital® is a trademark of InterDigital Communications Corporation. 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**

**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.

**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.

**CDMA**

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).

**Chip**

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

**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.

**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.

**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).

**Internet**

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

**IPR**

Intellectual Property Right.

**ITC**

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

**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.

**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.

**TDMA**

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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.

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

A 2G CDMA standard.

**TIA**

The Telecommunications Industry Association.

**UMTS**

Universal Mobile Telecommunications System. The European name for 3G mobile telephony. UMTS uses WCDMA standards created by 3GPP.

**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.

## INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## PART I FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	JUNE 30, 2006	DECEMBER 31, 2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 228,899	\$ 27,877
Short-term investments	107,944	77,831
Accounts receivable	115,084	19,534
Deferred tax assets	46,503	42,103
Prepaid and other current assets	14,248	8,370
Total current assets	512,678	175,715
PROPERTY AND EQUIPMENT, NET	12,642	10,660
PATENTS, NET	65,421	59,516
DEFERRED TAX ASSETS	16,469	48,681
OTHER NON-CURRENT ASSETS	11,365	4,965
	105,897	123,822
TOTAL ASSETS	\$ 618,575	\$ 299,537
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 363	\$ 350
Accounts payable	9,187	7,163
Accrued compensation and related expenses	7,674	17,040
Deferred revenue	104,297	20,055
Taxes payable	7,993	160
Other accrued expenses	8,302	5,766
Total current liabilities	137,816	50,534
LONG-TERM DEBT	1,387	1,572
LONG-TERM DEFERRED REVENUE	172,230	71,193
OTHER LONG-TERM LIABILITIES	3,588	1,924
TOTAL LIABILITIES	315,021	125,223
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		

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Common Stock, \$.01 par value, 100,000 shares authorized, 63,409 and 60,537 shares issued and 53,521 and 54,032 shares outstanding	634	605
Additional paid-in capital	423,615	377,648
Retained Earnings (Accumulated deficit)	73,463	(109,839)
Accumulated other comprehensive loss	(183)	(192)
	497,529	268,222
Treasury stock, 9,888 and 6,506 shares of common held at cost	193,975	93,908
Total shareholders' equity	303,554	174,314
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 618,575</b>	<b>\$ 299,537</b>

The accompanying notes are an integral part of these statements.

## INTERDIGITAL COMMUNICATIONS CORPORATION 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,	
	2006	2005	2006	2005
REVENUES	\$ 296,617	\$ 38,601	\$ 348,223	\$ 74,098
OPERATING EXPENSES:				
Sales and marketing	1,561	1,537	3,385	3,817
General and administrative	5,695	5,912	10,716	12,478
Patents administration and licensing	12,804	10,080	22,786	21,327
Development	15,887	14,921	31,897	31,094
	35,947	32,450	68,784	68,716
Income from operations	260,670	6,151	279,439	5,382
OTHER INCOME:				
Interest and investment income, net	3,914	677	5,422	1,467
Income before income taxes	264,584	6,828	284,861	6,849
INCOME TAX PROVISION	(94,221)	(2,817)	(101,559)	(3,720)
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 170,363	\$ 4,011	\$ 183,302	\$ 3,129
NET INCOME PER COMMON SHARE - BASIC	\$ 3.13	\$ 0.07	\$ 3.36	\$ 0.06
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	54,397	53,642	54,590	54,344
NET INCOME PER COMMON SHARE - DILUTED	\$ 2.98	\$ 0.07	\$ 3.20	\$ 0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	57,128	56,790	57,358	57,799

The accompanying notes are an integral part of these statements.

## INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 183,302	\$ 3,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,693	5,493
Deferred revenue recognized	(100,936)	(28,795)
Increase in deferred revenue	286,215	35,105
Deferred income taxes	27,812	4,933
Non-cash compensation	2,929	5,233
Increase in deferred charges	(9,870)	(34)
Other	(14)	(89)
(Increase) decrease in assets:		
Receivables	(95,550)	(3,957)
Other current assets	(2,351)	1,042
Increase (decrease) in liabilities:		
Accounts payable	1,889	151
Accrued compensation	(7,133)	(1,984)
Accrued taxes payable	7,670	
Other accrued expenses	2,564	(178)
<b>Net cash provided by operating activities</b>	<b>303,220</b>	<b>20,049</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(96,128)	(81,620)
Sales of short-term investments	65,992	109,736
Purchases of property and equipment	(4,484)	(3,011)
Capitalized patent costs	(9,972)	(8,607)
Acquisition of patents		(8,050)
<b>Net cash (used) provided by investing activities</b>	<b>(44,592)</b>	<b>8,448</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	28,316	1,910
Payments on long-term debt, including capital lease obligations	(172)	(161)
Repurchase of Common Stock	(100,067)	(34,085)
Tax benefit from stock options	14,317	
<b>Net cash used by financing activities</b>	<b>(57,606)</b>	<b>(32,336)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>201,022</b>	<b>(3,839)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>27,877</b>	