

INTERDIGITAL COMMUNICATIONS CORP
Form 10-Q
May 10, 2007
Table of Contents

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 March 31, 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 COMMUNICATIONS CORPORATION

(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)

(610) 878-7800

(Registrant's Telephone Number, Including Area Code)

23-1882087
(I.R.S. Employer

Identification No.)

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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

46,907,463
Outstanding at May 4, 2007

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

INDEX

	PAGES
Part I Financial Information:	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited):</u>	1
<u>Condensed Consolidated Balance Sheets March 31, 2007 and December 31, 2006</u>	1
<u>Condensed Consolidated Statements of Income Three Months Ended March 31, 2007 and 2006</u>	2
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2007 and 2006</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	12
Item 4. <u>Controls and Procedures</u>	12
Part II Other Information:	
Item 1. <u>Legal Proceedings</u>	
Item 1A. <u>Risk Factors</u>	13
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
Item 6. <u>Exhibits</u>	14
<u>Signatures</u>	15
Exhibit 10.1	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

Table of Contents

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

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.

Table of Contents

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.

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

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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.

Table of Contents

Hertz

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

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

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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.

Table of Contents

Mbps

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.

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.

Table of Contents

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.

WCDMA

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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.

v

Table of Contents

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 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)**

	MARCH 31, 2007	DECEMBER 31, 2006
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 118,720	\$ 166,385
Short-term investments	94,099	97,581
Accounts receivable	110,994	131,852
Deferred tax assets	45,438	43,520
Prepaid and other current assets	13,045	14,464
Total current assets	382,296	453,802
PROPERTY AND EQUIPMENT, NET	21,538	16,682
PATENTS, NET	73,488	70,496
DEFERRED TAX ASSETS	11,022	6,418
OTHER NON-CURRENT ASSETS	20,149	16,678
	126,197	110,274
TOTAL ASSETS	\$ 508,493	\$ 564,076
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 332	\$ 369
Accounts payable	25,116	21,913
Accrued compensation and related expenses	5,202	9,725
Deferred revenue	67,538	70,709
Taxes payable	5,643	11,448
Other accrued expenses	5,587	7,064
Total current liabilities	109,418	121,228
LONG-TERM DEBT	1,148	1,203
LONG-TERM DEFERRED REVENUE	237,047	160,895
OTHER LONG-TERM LIABILITIES	11,809	5,274
TOTAL LIABILITIES	359,422	288,600

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COMMITMENTS AND CONTINGENCIES

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, 64,726 and 64,393 shares issued and 47,203 and 51,347 shares outstanding	647	644
Additional paid-in capital	451,549	445,930
Retained Earnings	130,929	115,383
Accumulated other comprehensive loss	(15)	(46)
	583,110	561,911
Treasury stock, 17,523 and 13,046 shares of common held at cost	434,039	286,435
Total shareholders equity	149,071	275,476
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 508,493	\$ 564,076

The accompanying notes are an integral part of these statements.

Table of Contents**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(in thousands, except per share data)****(unaudited)**

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
REVENUES	\$ 67,818	\$ 51,606
OPERATING EXPENSES:		
Sales and marketing	2,096	1,824
General and administrative	6,544	5,021
Patents administration and licensing	13,205	9,982
Development	21,784	16,010
	43,629	32,837
Income from operations	24,189	18,769
OTHER INCOME:		
Interest and investment income, net	2,633	1,508
Income before income taxes	26,822	20,277
INCOME TAX PROVISION	(9,153)	(7,338)
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 17,669	\$ 12,939
NET INCOME PER COMMON SHARE - BASIC	\$ 0.35	\$ 0.24
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	49,782	54,785
NET INCOME PER COMMON SHARE - DILUTED	\$ 0.34	\$ 0.23
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	51,880	56,884

The accompanying notes are an integral part of these statements.

Table of Contents**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,669	\$ 12,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,941	3,366
Deferred revenue recognized	(31,107)	(29,908)
Increase in deferred revenue	104,088	225,528
Deferred income taxes	(6,522)	(27,225)
Share-based compensation	2,236	1,305
Other	38	(26)
Decrease (increase) in assets:		
Receivables	20,858	(93,870)
Deferred charges	1,192	(12,765)
Other current assets	1,367	(1,211)
(Decrease) increase in liabilities:		
Accounts payable	(635)	(241)
Accrued compensation	(4,626)	(9,473)
Accrued taxes payable	(5,808)	15,643
Other liabilities	1,903	2,484
Net cash provided by operating activities	105,594	86,546
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(53,831)	(88,659)
Sales of short-term investments	57,344	33,592
Purchases of property and equipment	(7,112)	(3,249)
Capitalized patent costs	(5,166)	(4,529)
Long-term investments	(5,000)	
Net cash used by investing activities	(13,765)	(62,845)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	2,099	9,386
Payments on long-term debt, including capital lease obligations	(92)	(84)
Repurchase of Common stock	(143,926)	
Tax benefit from share-based compensation	2,425	3,212
Net cash (used) provided by financing activities	(139,494)	12,514
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(47,665)	36,215
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	166,385	27,877
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 118,720	\$ 64,092