InterDigital, Inc.
Form 10-Q
July 30, 2010

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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 June 30, 2010

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)	**(I.R.S. Employer Identification No.)**

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)

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 (Section 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 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 (Do not check if a smaller reporting company)	Smaller reporting company 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.

Common Stock, par value $0.01 per share	**44,053,187**
Title of Class	Outstanding at July 26, 2010

INTERDIGITAL, INC. AND SUBSIDIARIES
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InterDigital® is a registered trademark and SlimChip™ is a trademark of InterDigital, Inc. All other trademarks, service marks and/or trade names appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

INTERDIGITAL, INC. AND SUBSIDIARIES
PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTERDIGITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	JUNE 30, 2010	DECEMBER 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 217,431	$ 210,863
Short-term investments	268,364	198,943
Accounts receivable, less allowances of $1,000 and $1,500	159,086	212,905
Deferred tax assets	65,879	68,500
Prepaid and other current assets	12,410	11,111
Total current assets	723,170	702,322
PROPERTY AND EQUIPMENT, NET	9,265	10,399
PATENTS, NET	125,798	119,170
DEFERRED TAX ASSETS	41,633	31,652
OTHER NON-CURRENT ASSETS	44,858	44,942
	221,554	206,163
TOTAL ASSETS	$ 944,724	$ 908,485
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 291	$ 584
Accounts payable	9,328	6,284
Accrued compensation and related expenses	15,606	10,592
Deferred revenue	169,855	193,409
Taxes payable	51,232	33,825
Other accrued expenses	6,180	7,866
Total current liabilities	252,492	252,560
LONG-TERM DEBT	327	468
LONG-TERM DEFERRED REVENUE	417,252	474,844
OTHER LONG-TERM LIABILITIES	9,143	11,076

TOTAL LIABILITIES	679,214	738,948
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Preferred Stock, $0.10 par value, 0 and 14,399 shares authorized 0 shares issued and outstanding		
Common Stock, $0.01 par value, 100,000 shares authorized, 67,605 and 66,831 shares issued and 44,035 and 43,261 shares outstanding	676	668
Additional paid-in capital	503,203	491,068
Retained earnings	330,561	246,771
Accumulated other comprehensive income	317	277
	834,757	738,784
Treasury stock, 23,570 shares of common held at cost	569,247	569,247
Total shareholders equity	265,510	169,537
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 944,724	$ 908,485

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010	**2009**	**2010**	**2009**
REVENUES	$ 91,153	$ 74,928	$ 207,340	$ 145,489
OPERATING EXPENSES:				
Selling, general and administrative	7,008	5,987	14,527	14,241
Patent administration and licensing	14,707	15,580	32,530	27,717
Development	16,364	13,226	32,528	40,096
Repositioning		(93)		36,970
	38,079	34,700	79,585	119,024
Income from operations	53,074	40,228	127,755	26,465
OTHER INCOME:				
Interest and investment income, net	889	625	1,489	1,454
Income before income taxes	53,963	40,853	129,244	27,919
INCOME TAX PROVISION	(19,000)	(14,408)	(45,454)	(10,160)
NET INCOME	$ 34,963	$ 26,445	$ 83,790	$ 17,759
NET INCOME PER COMMON SHARE-BASIC	$ 0.79	$ 0.60	$ 1.90	$ 0.40
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC	43,971	43,479	43,794	43,490
NET INCOME PER COMMON SHARE-DILUTED	$ 0.78	$ 0.59	$ 1.87	$ 0.39
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-DILUTED	44,527	44,313	44,383	44,387

The accompanying notes are an integral part of these statements.

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

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 83,790	$ 17,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,803	12,874
Deferred revenue recognized	(133,643)	(111,026)
Increase in deferred revenue	52,497	385,014
Deferred income taxes	(7,360)	(43,530)
Share-based compensation	2,634	5,225
Non-cash repositioning charges		30,568
Other	161	(181)
Decrease (increase) in assets:		
Receivables	53,819	(210,618)
Deferred charges	(2,530)	3,095
Other current assets	1,169	1,028
Increase (decrease) in liabilities:		
Accounts payable	1,703	(764)
Accrued compensation	2,784	(24,401)
Accrued taxes payable	17,407	33,000
Other accrued expenses	(1,686)	5,247
Net cash provided by operating activities	81,548	103,290
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(309,548)	(106,199)
Sales of short-term investments	240,151	50,991
Purchases of property and equipment	(1,088)	(1,872)
Capitalized patent costs	(13,868)	(13,806)
Capitalized technology license costs		(1,115)
Net cash used in investing activities	(84,353)	(72,001)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	8,465	3,241
Payments on long-term debt, including capital lease obligations	(434)	(1,463)
Repurchase of common stock		(14,001)
Tax benefit from share-based compensation	1,342	652

Net cash provided (used) by financing activities	9,373	(11,571)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,568	19,718
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	210,863	100,144
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 217,431	$ 119,862

The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(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 June 30, 2010, and the results of our operations for the th and six months ended June 30, 2010 and 2009 and our cash flows for the six months ended June 30, 2010 and 2009. 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 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. 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, 2009 (our 2009 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on February 26, 2010. 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 Classification

The classification of certain prior period amounts have been changed to conform to the current year presentation.

Change in Accounting Policies

There have been no material changes in our existing accounting policies from the disclosures included in our 2009 Form 10-K.

New Accounting Guidance

Accounting Standards Updates: Revenue Arrangements with Multiple Deliverables

In September 2009, the Financial Accounting Standards Board (FASB) finalized revenue recognition guidance for *Revenue Arrangements with Multiple Deliverables*. By providing another alternative for determining the selling price of deliverables, the Accounting Standard Update related to revenue arrangements with multiple deliverables will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction s economics and will often result in earlier revenue recognition. In addition, the residual method of allocating arrangement consideration is no longer permitted under this new guidance. This guidance is effective for fiscal years beginning on or after June 15, 2010. However, adoption is permitted as early as the interim period ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We have not yet adopted this guidance. We believe that revenue recognition related to new agreements with multiple elements may be accelerated in the future.

Accounting Standards Updates: Fair Value Measurements

In January 2010, the FASB issued authoritative guidance on improving disclosures about fair value measurements. This guidance requires new disclosures about transfers in and out of Level 1 and 2 measurements and separate disclosures about activity relating to Level 3 measurements. In addition, this guidance clarifies existing fair value disclosures about the level of disaggregation and the input and valuation techniques used to measure fair value. The guidance only relates to disclosure and does not impact the Company s consolidated financial statements. The Company adopted this guidance in first quarter 2010. There was no significant impact to the Company s disclosures upon adoption, as the Company does not have any such transfers.

2. SIGNIFICANT EVENTS:

Patent Licensing

In first quarter 2010, we entered into a worldwide, non-exclusive patent license agreement with Casio Hitachi Mobile Communications Co., Ltd. (CHMC). The patent license agreement covers the sale by CHMC of all wireless end-user terminal devices compliant with 2G and 3G cellular standards through June 1, 2010. In addition, in first quarter 2010, we identified additional royalty obligations in a routine audit of an existing licensee. In first half 2010, we have recognized revenue totaling $39.9 million, including $35.7 million related to past sales, in connection with these two items.

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Technology Solutions

In second quarter 2010, we entered into a strategic relationship for 3G technology transfer and a licensing agreement with Capital Semiconductor Limited (CapiSemi), whereby we will deliver our SlimChip modem core for integration into CapiSemi s chips for 3G mobile devices. We will also provide comprehensive engineering support for the efficient integration of the SlimChip modem core into CapiSemi s products for the 3G cellular market.

In first quarter 2010, we entered into a technology transfer and license agreement with Beceem Communications Inc. (Beceem). Beceem was granted non-exclusive, worldwide licenses to certain 2G and 3G signal processing technologies to develop, implement, and use in multimode 4G chips.

We are accounting for portions of these and other technology solutions agreements using the proportional performance method. During second quarter 2010 and second quarter 2009, we recognized related revenue of $2.4 million and $0.0 million, respectively. As of June 30, 2010 and December 31, 2009, our deferred revenue balances associated with our technology solutions agreements were $2.2 million and $0.0 million, respectively. We did not have any amounts of unbilled accounts receivable at June 30, 2010 or December 31, 2009.

3. REPOSITIONING:

On March 30, 2009, we announced a repositioning plan that included the expansion of our technology development and licensing business, the cessation of further ASIC development of our SlimChip modem and efforts to monetize the SlimChip technology investment through IP licensing and technology sales. In connection with the repositioning, the Company incurred a charge of $38.6 million during 2009, of which $37.0 million was recognized in first half 2009. Of the total charge of $38.6 million, approximately $30.6 million represents long-lived asset impairments for assets used in the product and product development, including $21.2 million of acquired intangible assets and $9.4 million of property, equipment, and other assets.

In addition, the repositioning resulted in a reduction in force of approximately 100 employees across the Company s three locations, the majority of which were terminated effective April 3, 2009. Approximately $8.0 million of the total repositioning charge represents cash obligations associated with severance and contract termination costs. Substantially all of the remaining contract termination costs are scheduled to be paid by the end of the calendar year.

We did not incur any additional repositioning charges in first half 2010, nor do we expect to incur any additional repositioning costs in the future in conjunction with the wind-down activities related to our SlimChip product development.

The following table provides information related to our accrued liability for repositioning costs through June 30, 2010, which is included on our balance sheet within *Other accrued expenses* (in thousands):

	Asset Impairments	Severance and Related Costs	Contract Termination Costs	Total
Accrued Liability for Repositioning Costs:				
December 31, 2009	$	$ 201	$ 399	$ 600
Payments		(98)	(6)	(104)
March 31, 2010		**103**	**393**	**496**
Payments		(103)	(47)	(150)
June 30, 2010	**$**	**$**	**$ 346**	**$ 346**

4. INCOME TAXES:

In first half 2010, our effective tax rate was approximately 35.2% based on the statutory federal tax rate net of discrete state and foreign taxes. During first half 2009, our effective tax rate was approximately 36.4% based on the statutory federal tax rate net of discrete state and foreign taxes.

During both first half 2010 and first half 2009, we paid approximately $16.5 million of foreign withholding tax. We previously accrued the first half 2010 payment and established a corresponding deferred tax asset representing the associated foreign tax credit that we expect to utilize to offset future U.S. federal income taxes.

Our future book tax expense may also be affected by charges associated with any share-based tax shortfalls that may occur under the FASB s guidance related to share-based payments. However, we cannot predict if, when or to what extent this will affect our future tax expense. If, in the course of future tax planning, we identify tax saving opportunities that entail amending prior year returns in order to avail ourselves fully of credits that we previously considered unavailable to us, we will recognize the benefit of the credits in the period in which they are both identified and quantified, thereby reducing the book tax expense in that period.

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5. NET INCOME PER SHARE:

The following table sets forth a reconciliation of the shares and the net income applicable to common shareholders used in the basic and diluted net income per share computations (in thousands, except per share data):

	For the Three Months Ended June 30, 2010		2009	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income	$ 34,963	$ 34,963	$ 26,445	$ 26,445
Less: income applicable to participating securities	(313)	(309)	(405)	(397)
Net income applicable to common shareholders	$ 34,650	$ 34,654	$ 26,040	$ 26,048
Denominator:				
Weighted-average shares outstanding: Basic	43,971	43,971	43,479	43,479
Dilutive effect of stock options		556		834
Weighted-average shares outstanding: Diluted		44,527		44,313
Earnings Per Share:				
Net income: Basic	$ 0.79	$ 0.79	$ 0.60	$ 0.60
Dilutive effect of stock options		(0.01)		(0.01)
Net income: Diluted		$ 0.78		$ 0.59

	For the Six Months Ended June 30, 2010		2009	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net income	$ 83,790	$ 83,790	$ 17,759	$ 17,759
Less: income applicable to participating securities	(742)	(732)	(281)	(275)
Net income applicable to common shareholders	$ 83,048	$ 83,058	$ 17,478	$ 17,484
Denominator:				
Weighted-average shares outstanding: Basic	43,794	43,794	43,490	43,490
Dilutive effect of stock options		589		897
Weighted-average shares outstanding: Diluted		44,383		44,387

Earnings Per Share:				
Net income: Basic	$ 1.90	$ 1.90	$ 0.40	$ 0.40
Dilutive effect of stock options		(0.03)		(0.01)
Net income: Diluted		$ 1.87		$ 0.39

For the three and six months ended June 30, 2010, options to purchase less than 0.1 million shares and approximately 0.1 million shares, respectively, of common stock were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the weighted-average market price of our common stock during these periods and, therefore, their effect would have been anti-dilutive.

For both the three and six months ended June 30, 2009, options to purchase approximately 0.5 million shares of common stock were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the weighted-average market price of our common stock during these periods and, therefore, their effect would have been anti-dilutive.

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6. LITIGATION AND LEGAL PROCEEDINGS:

Nokia United States International Trade Commission (USITC or the Commission) Proceeding and Related Delaware District Court and Southern District of New York Proceedings

In August 2007, InterDigital filed a USITC complaint against Nokia Corporation and Nokia, Inc. (collectively, Nokia) alleging that Nokia engaged in an unfair trade practice by