

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

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

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

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
(State or Other Jurisdiction of
Incorporation or Organization)**

**23-1882087
(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 No
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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

(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 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 \$0.01 per share

Title of Class

44,053,187

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.

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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, | DECEMBER |
|---|-----------------|-----------------|
| | 2010 | 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.

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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 |

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| | | |
|--|------------|------------|
| 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 three 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.

Table of Contents**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.

Table of Contents**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.

Table of Contents**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 selling for importation into the United States, importing into the United States, and selling after importation into the United States, certain 3G mobile handsets and components that infringe two of InterDigital's patents. In November and December 2007, a third patent and fourth patent, respectively, were added to our complaint against Nokia. The complaint seeks an exclusion order barring from entry into the United States infringing 3G mobile handsets and components that are imported by or on behalf of Nokia. Our complaint also seeks a cease-and-desist order to bar further sales of infringing Nokia products that have already been imported into the United States.

In addition, on the same date as our filing of the USITC action referenced above, we also filed a complaint in the Delaware District Court alleging that Nokia's 3G mobile handsets and components infringe the same two InterDigital patents identified in the original USITC complaint. This Delaware action was stayed on January 10, 2008, pursuant to the mandatory, statutory stay of parallel district court proceedings at the request of a respondent in a USITC investigation. Thus, this Delaware action is stayed with respect to the patents in this case until the USITC's determination on these patents becomes final, including any appeals. The Delaware District Court permitted InterDigital to add to the stayed Delaware action the third and fourth patents InterDigital asserted against Nokia in the USITC action. Nokia, joined by Samsung Electronics Co., Ltd. (Samsung), moved to consolidate the Nokia USITC proceeding with an investigation we had earlier initiated against Samsung in the USITC. On October 24, 2007, the Honorable Paul J. Luckern, the Administrative Law Judge overseeing the two USITC proceedings against Samsung and Nokia, respectively, issued an order to consolidate the two pending investigations. Pursuant to the order, the schedules for both investigations were revised to consolidate proceedings and set a unified evidentiary hearing on April 21-28, 2008, the filing of a single initial determination by Judge Luckern by July 11, 2008, and a target date for the consolidated investigations of November 12, 2008, by which date the USITC would issue its final determination (the Target Date).

On December 4, 2007, Nokia moved for an order terminating or, alternatively, staying the USITC investigation as to Nokia, on the ground that Nokia and InterDigital must first arbitrate a dispute as to whether Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation. On January 8, 2008, Judge Luckern issued an order denying Nokia's motion and holding that Nokia has waived its arbitration defense by instituting and participating in the investigation and other legal proceedings. On February 13, 2008, Nokia filed an action in the U.S. District Court for the Southern District of New York (the Southern District Action), seeking to preliminarily enjoin InterDigital from proceeding with the USITC investigation with respect to Nokia, in spite of Judge Luckern's ruling denying Nokia's motion to terminate the USITC investigation. Nokia raised in this preliminary injunction action the same arguments it raised in its motion to terminate the USITC investigation, namely that InterDigital allegedly must first arbitrate its alleged license dispute with Nokia and that Nokia has not waived arbitration of this defense. In the Southern District Action, Nokia also sought to compel InterDigital to arbitrate its alleged license dispute with Nokia and, in the alternative, sought a determination by the District Court that Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation. On March 7, 2008, InterDigital filed a motion to dismiss Nokia's claim in the alternative that Nokia is licensed under the patents asserted by InterDigital against Nokia in the USITC investigation.

On February 8, 2008, Nokia filed a motion for summary determination in the USITC that InterDigital cannot show that a domestic industry exists in the United States as required to obtain relief. Samsung joined this motion. InterDigital opposed this motion. On February 14, 2008, InterDigital filed a motion for summary determination that InterDigital satisfies the domestic industry requirement based on its licensing activities. On February 26, 2008, InterDigital filed a motion for summary determination that it has separately satisfied the so-called economic prong for establishing that a domestic industry exists based on InterDigital's chipset product that practices the asserted patents. Samsung and Nokia opposed these motions. On March 17, 2008, Samsung and Nokia filed a motion to strike any evidence concerning InterDigital's product and to preclude InterDigital from introducing any such evidence in relation

to domestic industry at the evidentiary hearing. On March 26, 2008, the Administrative Law Judge granted InterDigital's motion for summary determination that it has satisfied the so-called economic prong for establishing that a domestic industry exists based on InterDigital's chipset product that practices the asserted patents and denied Samsung's motion to strike and preclude introduction of evidence concerning InterDigital's domestic industry product.

On March 17, 2008, Nokia and Samsung jointly moved for summary determination that U.S. Patent No. 6,693,579, which was asserted against both Samsung and Nokia, is invalid. InterDigital opposed this motion. On April 14, 2008, the Administrative Law Judge denied Nokia's and Samsung's joint motion for summary determination that the 579 patent is invalid.

On March 20, 2008, the U.S. District Court for the Southern District of New York, ruling from the bench, decided that Nokia is likely to prevail on the issue of whether Nokia's alleged entitlement to a license is arbitrable. The Court did not consider or rule on whether Nokia is entitled to such a license. As a result, the Court entered a preliminary injunction requiring InterDigital to participate in arbitration of the license issue and requiring InterDigital to cease participation in the USITC proceeding by April 11, 2008, but only with respect to Nokia. The Court further ordered Nokia to post a \$500,000 bond by March 28, 2008, which Nokia did. InterDigital promptly filed a request for a stay of

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the preliminary injunction and for an expedited appeal with the U.S. Court of Appeals for the Federal Circuit, which transferred the appeal to the U.S. Court of Appeals for the Second Circuit. The preliminary injunction became effective on April 11, 2008, and, in accordance with the Court's order, InterDigital filed a motion with the Administrative Law Judge to stay the USITC proceeding against Nokia pending InterDigital's appeal of the District Court's decision or, if that appeal were unsuccessful, pending the Nokia TDD Arbitration (described below). On April 14, 2008, the Administrative Law Judge ordered that the date for the commencement of the evidentiary hearing, originally scheduled for April 21, 2008, be suspended until further notice from the Administrative Law Judge. The Administrative Law Judge did not at that point change the scheduled date of July 11, 2008 for his initial determination in the investigation or the scheduled Target Date of November 12, 2008 for a decision by the USITC. InterDigital's motion for a stay of the preliminary injunction and for an expedited appeal was considered by a panel of the Second Circuit on April 15, 2008. On April 16, 2008, the Second Circuit denied the motion for stay but set an expedited briefing schedule for resolving InterDigital's appeal on the merits of whether the District Court's order granting the preliminary injunction should be reversed.

On April 17, 2008, InterDigital filed a motion with the USITC to separate the consolidated investigations against Nokia and Samsung in order for the investigation to continue against Samsung pending the expedited appeal or, if the appeal is unsuccessful, pending the Nokia TDD Arbitration. Samsung and Nokia opposed InterDigital's motion. On May 16, 2008, the Administrative Law Judge deconsolidated the investigations against Samsung and Nokia and set an evidentiary hearing date in the investigation against Samsung (337-TA-601) to begin on July 8, 2008.

On May 20, 2008, the Administrative Law Judge denied without prejudice all pending motions in the consolidated investigation (337-TA-613).

On June 17, 2008, a panel of the U.S. Court of Appeals for the Second Circuit heard oral argument on InterDigital's appeal from the order of the U.S. District Court for the Southern District of New York preliminarily enjoining InterDigital from proceeding against Nokia in the consolidated investigation. On July 31, 2008, the Second Circuit reversed the preliminary injunction, finding that Nokia's litigation conduct resulted in a waiver of any right to arbitrate its license dispute. InterDigital promptly notified the Administrative Law Judge in the Nokia investigation (337-TA-613) of the Second Circuit's decision. On August 14, 2008, Nokia filed a petition for rehearing and petition for rehearing en banc of the Second Circuit's decision, and on September 15, 2008, the Second Circuit denied Nokia's petitions. The mandate from the Second Circuit issued to the Southern District of New York on September 22, 2008. Notwithstanding the Second Circuit's decision, on October 17, 2008 Nokia filed a request for a status conference with the District Court to establish a procedural schedule for Nokia to pursue a permanent injunction requiring InterDigital to arbitrate Nokia's alleged license defense, and arguing that the Second Circuit's decision does not bar such an action. On October 23, 2008, InterDigital filed a response with the District Court asserting that the Second Circuit's waiver finding was dispositive, and seeking the dismissal of Nokia's complaint in its entirety. On March 5, 2009, the Court in the Southern District Action granted InterDigital's request and dismissed all of Nokia's claims in the Southern District Action, but delayed issuing a final judgment pending a request by InterDigital seeking to collect against the \$500,000 preliminary injunction bond posted by Nokia. On April 3, 2009, InterDigital filed a motion to collect against the preliminary injunction bond, contending that InterDigital was damaged by at least \$500,000 as a result of the wrongfully obtained preliminary injunction. On March 10, 2010, the District Court denied InterDigital's motion to collect against the preliminary injunction bond. On April 9, 2010, InterDigital filed a notice of appeal with the District Court, indicating that InterDigital is appealing the denial of its motion to collect against the preliminary injunction bond to the U.S. Court of Appeals for the Second Circuit. InterDigital filed its opening brief in the appeal on July 28, 2010. On July 29, 2010, Nokia filed a request with the Second Circuit to set November 26, 2010 as the deadline for filing its brief. The Second Circuit has not yet ruled on this request. InterDigital may file a reply brief within 14 days after Nokia's brief is filed, absent any extension. The Second Circuit has not yet entered a schedule for oral argument.

On September 24, 2008, InterDigital filed a motion to lift the stay of the Nokia investigation (337-TA-613) based on the issuance of the Second Circuit's mandate reversing the preliminary injunction granted to Nokia. The Administrative Law Judge granted InterDigital's motion on September 25, 2008 and lifted the stay. On October 7, 2008, the Administrative Law Judge issued an order in the Nokia investigation setting the evidentiary hearing for May 26-29, 2009. On October 10, 2008, the Administrative Law Judge issued an order resetting the Target Date for

the USITC's Final Determination in the Nokia investigation to December 14, 2009, and requiring a final Initial Determination by the Administrative Law Judge to be entered no later than August 14, 2009.

On January 21, 2009, Nokia filed a motion to schedule a claim construction hearing in the USITC proceeding in early February 2009, and on January 29, 2009, InterDigital filed an opposition to the motion for a claim construction hearing. On February 9, 2009, the Administrative Law Judge denied Nokia's motion for a claim construction hearing.

On February 13, 2009, InterDigital filed a renewed motion for summary determination that InterDigital has satisfied the domestic industry requirement based on its licensing activities, and on February 27, 2009, Nokia filed an opposition to the motion. On March 10, 2009, the Administrative Law Judge granted InterDigital's motion, finding that InterDigital has established, through its licensing activities, that a domestic industry exists in the United States as required to obtain relief before the USITC. On April 9, 2009, the Commission issued a notice that it would not review the Administrative Law Judge's Order granting summary determination of a licensing-based domestic industry, thereby adopting the Administrative Law Judge's decision.

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The evidentiary hearing for the USITC investigation with respect to Nokia was held from May 26, 2009 through June 2, 2009.

On August 14, 2009, the Administrative Law Judge issued an Initial Determination finding no violation of Section 337 of the Tariff Act of 1930. The Initial Determination found that InterDigital's patents were valid and enforceable, but that Nokia did not infringe these patents. In the event that a Section 337 violation were to be found by the Commission, the Administrative Law Judge recommended the issuance of a limited exclusion order barring entry into the United States of infringing Nokia 3G WCDMA handsets and components as well as the issuance of appropriate cease and desist orders.

On August 31, 2009, InterDigital filed a petition for review of certain issues raised in the August 14, 2009 Initial Determination. On that same date, Nokia also filed a contingent petition for review of certain issues in the Initial Determination. Responses to both petitions were filed on September 8, 2009.

On October 16, 2009, the Commission issued a notice that it had determined to review in part the Initial Determination, and that it affirmed the Administrative Law Judge's determination of no violation and terminated the investigation. The Commission determined to review the claim construction of the patent claim terms "synchronize" and "access signal" and also determined to review the Administrative Law Judge's validity determinations. On review, the Commission modified the Administrative Law Judge's claim construction of "access signal" and took no position with regard to the claim term "synchronize" or the validity determinations. The Commission determined not to review the remaining issues decided in the Initial Determination.

On November 30, 2009, InterDigital filed with the United States Court of Appeals for the Federal Circuit a petition for review of certain rulings by the Commission. In the appeal, neither the construction of the term "synchronize" nor the issue of validity can be raised because the Commission took no position on these issues in its determination. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Court on January 4, 2010. InterDigital's opening brief was filed on April 12, 2010. In its appeal, InterDigital seeks reversal of the Commission's claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the Commission's determination of no Section 337 violation, and a remand for further proceedings before the Commission. InterDigital is not appealing the Commission's determination of non-infringement with respect to U.S. Patent Nos. 6,973,579 and 7,117,004. Nokia and the Commission filed their briefs on July 13, 2010. In their briefs, Nokia and the Commission argue that the Commission correctly construed the claim terms asserted by InterDigital in its appeal and that the Commission properly determined that Nokia did not infringe the patents on appeal. Nokia also argues that the Commission's finding of noninfringement should be affirmed based on an additional claim term. Nokia further argues that the Commission erred in finding that InterDigital could satisfy the domestic industry requirement based solely on its patent licensing activities and without proving that an article in the United States practices the claimed inventions, and that the Commission's finding of no Section 337 violation should be affirmed on that additional basis. InterDigital's reply brief is due to be filed by August 30, 2010, absent any extension. The Court has not yet entered a schedule for oral argument.

InterDigital has no obligation as a result of the above matter and we have not recorded a related liability in our financial statements.

Other

We are party to certain other disputes and legal actions in the ordinary course of business. We do not believe that these matters, even if adversely adjudicated or settled, would have a material adverse effect on our financial condition, results of operations or cash flows.

7. REPURCHASE OF COMMON STOCK:

In March 2009, our Board of Directors authorized a \$100.0 million share repurchase program (the "2009 Repurchase Program"). The Company can repurchase shares under the program through open market purchases, pre-arranged trading plans, or privately negotiated purchases. During 2009, we repurchased approximately 1.0 million shares for \$25.0 million under the 2009 Repurchase Program, of which approximately 0.6 million shares were repurchased for \$14.7 million during second quarter 2009. We did not make any share repurchases during first half 2010 or from July 1, 2010 through July 30, 2010.

Table of Contents**8. COMPREHENSIVE INCOME:**

The following table summarizes comprehensive income for the periods presented (in thousands):

| | For the Three Months Ended June 30, | |
|--------------------------------|--|-------------|
| | 2010 | 2009 |
| Net income | \$ 34,963 | \$ 26,445 |
| Unrealized gain on investments | 67 | 134 |
| Total comprehensive income | \$ 35,030 | \$ 26,579 |

| | For the Six Months Ended June 30, | |
|--------------------------------|--|-------------|
| | 2010 | 2009 |
| Net income | \$ 83,790 | \$ 17,759 |
| Unrealized gain on investments | 40 | 120 |
| Total comprehensive income | \$ 83,830 | \$ 17,879 |

9. CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:***Concentration of Credit Risk and Fair Value of Financial Instruments***

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. We place our cash equivalents and short-term investments only in highly rated financial instruments and in United States government instruments.

Our accounts receivable are derived principally from patent license and technology solutions agreements. At June 30, 2010, three customers comprised 91% of our net accounts receivable balance. At December 31, 2009, one customer represented 94% of our net accounts receivable balance. We perform ongoing credit evaluations of our customers, who generally include large, multinational, wireless telecommunications equipment manufacturers. We believe that the carrying value of our financial instruments approximate their fair values.

Fair Value Measurements

Effective January 1, 2008, we adopted the provisions of the FASB fair value measurement guidance that relate to our financial assets and financial liabilities. We adopted the guidance related to non-financial assets and liabilities as of January 1, 2009. We use various valuation techniques and assumptions when measuring fair value of our assets and liabilities. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. This guidance established a hierarchy that prioritizes fair value measurements based on the types of input used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

Level 1 Inputs Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets.

Level 2 Inputs Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

Level 3 Inputs Level 3 includes financial instruments for which fair value is derived from valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including the Company's own assumptions. The pricing models incorporate transaction details such as contractual terms, maturity and, in certain instances, timing and amount of future cash flows, as well as assumptions related to liquidity and credit valuation adjustments of marketplace participants.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. We use quoted market prices for similar assets to estimate the fair value of our Level 2 investments. Our financial assets that are accounted for at fair value on a recurring basis are presented in the tables below (in thousands):

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| | Fair Value as of June 30, 2010 | | | Total |
|--------------------------------------|---------------------------------------|------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Money market and demand accounts (a) | \$ 167,466 | \$ | \$ | \$ 167,466 |
| Commercial paper (b) | 17,478 | 129,858 | | 147,336 |
| U.S. government agencies | 25,972 | 127,833 | | 153,805 |
| Corporate bonds | 3,504 | 13,684 | | 17,188 |
| | \$ 214,420 | \$ 271,375 | \$ | \$ 485,795 |

(a) Included within cash and cash equivalents

(b) Includes \$50.0 million of commercial paper that is included within cash and cash equivalents.

| | Fair Value as of December 31, 2009 | | | Total |
|--------------------------------------|---|------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Money market and demand accounts (a) | \$ 132,968 | \$ | \$ | \$ 132,968 |
| Commercial paper (b) | 11,065 | 127,823 | | 138,888 |
| U.S. government agencies | 27,095 | 90,960 | | 118,055 |
| Corporate bonds | 7,026 | 12,869 | | 19,895 |
| | \$ 178,154 | \$ 231,652 | \$ | \$ 409,806 |

(a) Included within cash and cash equivalents

(b) Includes \$77.9 million of commercial paper that is included within cash and cash

equivalents.

Table of Contents**Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****OVERVIEW**

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, in addition to our 2009 Form 10-K, other reports filed with the SEC and the *Statement Pursuant to the Private Securities Litigation Reform Act of 1995 - Forward-Looking Statements* below. Please refer to the *Glossary of Terms* in our 2009 Form 10-K for a list and detailed descriptions of the various technical, industry and other defined terms that are used in this Quarterly Report on Form 10-Q.

Patent Licensing

Patent licensing royalties of \$85.1 million in second quarter 2010 led to a 17% increase over \$72.7 million in second quarter 2009, primarily due to the second quarter 2010 renewal of a patent license agreement, which contributed to increases in both per-unit revenue and past sales. Additionally, the patent license agreement with Pantech Co., Ltd. and Pantech & Curitel Communications, Inc. (collectively, Pantech) entered into in third quarter 2009, contributed to a 4% increase in fixed fee amortized royalty revenue.

Technology Solutions

Technology solutions revenue in second quarter 2010 of \$6.1 million more than doubled from \$2.2 million in second quarter 2009 due to total contributions of \$3.1 million from customers added during first half 2010, Beceem Communications Inc. (Beceem) and Capital Semiconductor Limited (CapiSemi). Additionally, royalties from our customers sales of products containing our SlimChip modem core platform further contributed to the increase.

Litigation and Arbitration

Please see Note 6, Litigation and Legal Proceedings, in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full discussion of the following matter and other matters:

On October 16, 2009, it was announced that in the U.S. International Trade Commission (USITC) investigation initiated by us against Nokia, the USITC issued a notice that it reviewed in part the Initial Determination (ID) by the Chief Administrative Law Judge (ALJ) and found no violation of Section 337 and has terminated the investigation. In the ID, the ALJ found InterDigital s patents valid and enforceable, but also determined that the patents were not infringed by Nokia s 3G products. The USITC action originated in August 2007, when we filed a complaint with the USITC alleging that Nokia engaged in unfair trade practices by selling for importation into the United States, importing, and selling after importation, certain 3G handsets and components that infringe four of our U.S. patents.

On November 30, 2009, we filed an appeal of the USITC s decision to the United States Court of Appeals for the Federal Circuit. On December 17, 2009, Nokia filed a motion to intervene in the appeal, which was granted by the Court on January 4, 2010. InterDigital s opening brief was filed on April 12, 2010. In its appeal, InterDigital seeks reversal of the USITC s claim constructions and non-infringement findings with respect to certain claim terms in U.S. Patent Nos. 7,190,966 and 7,286,847, vacatur of the USITC s determination of no Section 337 violation, and a remand for further proceedings before the USITC. InterDigital is not appealing the USITC s determination of non-infringement with respect to U.S. Patent Nos. 6,973,579 and 7,117,004. Nokia and the USITC filed their briefs on July 13, 2010. In their briefs, Nokia and the USITC argue that the USITC correctly construed the claim terms asserted by InterDigital in its appeal and that the USITC properly determined that Nokia did not infringe the patents on appeal. Nokia also argues that the USITC s finding of noninfringement should be affirmed based on an additional claim term. Nokia further argues that the USITC erred in finding that InterDigital could satisfy the domestic industry requirement based solely on its patent licensing activities and without proving that an article in the United States practices the claimed inventions, and that the USITC s finding of no Section 337 violation should be affirmed on that additional basis. InterDigital s reply brief is due to be filed by August 30, 2010, absent any extension. The Court has not yet entered a schedule for oral argument.

Comparability of Financial Results

When comparing second quarter 2010 financial results against other periods, the following items should be taken into consideration:

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Our second quarter 2010 revenue includes \$4.9 million of past sales revenue related to the renewal of a patent license agreement.

Our second quarter 2010 expenses include a \$0.9 million charge associated with the increase of the accrual rate under our long-term cash incentive program.

Our second quarter 2010 expenses are net of the reversal of \$0.5 million of bad debt expense. The reversal related to the collection of \$0.5 million accounts receivable for which we had established a full reserve in prior periods.

When comparing second quarter 2009 financial results against other periods, the following items should be taken into consideration:

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Our second quarter 2009 revenue included \$2.3 million of past sales revenue related to the resolution of an audit of one of our licensees.

Our second quarter 2009 expenses are net of the reversal of \$1.0 million of bad debt expense. The reversal related to the collection of \$1.0 million accounts receivable for which we had established a full reserve in prior periods.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the *Notes to Consolidated Financial Statements* included in our 2009 Form 10-K. A discussion of our critical accounting policies, and the estimates related to them, are included in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2009 Form 10-K. There have been no material changes in our existing critical accounting policies from the disclosures included in our 2009 Form 10-K. Refer to Note 1, *Basis of Presentation*, in the *Notes to Condensed Consolidated Financial Statements* included in Part I, Item 1 of this Quarterly Report on Form 10-Q for updates related to new accounting pronouncements.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

Our primary sources of liquidity are cash, cash equivalents and short-term investments, as well as cash generated from operations. We have the ability to obtain additional liquidity through debt and equity financings, but have not had a significant debt or equity financing in over 10 years and do not anticipate a need for such financings in the next twelve months. Based on our past performance and current expectations, we believe our available sources of funds, including cash, cash equivalents and short-term investments and cash generated from our operations, will be sufficient to finance our operations, capital requirements, our existing stock repurchase program and any stock repurchase program that we may initiate in the next twelve months.

Cash, cash equivalents and short-term investments

At June 30, 2010 and December 31, 2009, we had the following amounts of cash, cash equivalents and short-term investments (in thousands):

| | June 30, 2010 | December 31, 2009 | Increase/ (Decrease) |
|--|--------------------------|----------------------------------|---------------------------------|
| Cash and cash equivalents | \$ 217,431 | \$ 210,863 | \$ 6,568 |
| Short-term investments | 268,364 | 198,943 | 69,421 |
| Total Cash and cash equivalents and short-term investments | \$ 485,795 | \$ 409,806 | \$ 75,989 |

Our cash, cash equivalents and short-term investments increased \$76.0 million in first half 2010. The increase was primarily due to our receipt of the third of four \$100.0 million installments from Samsung Electronics Co., Ltd. (Samsung) under our patent license agreement signed in January 2009. After using that and other receipts to fund our operations and working capital requirements in first half 2010, we invested the excess in short-term investments.

Cash flows from operations

We generated the following cash flows from our operating activities in first half 2010 and 2009 (in thousands):

| | For the Six Months Ended June 30, | | |
|--------------------------------------|--|-------------|---------------------------------|
| | 2010 | 2009 | Increase/ (Decrease) |
| Cash flows from operating activities | \$81,548 | \$103,290 | \$(21,742) |

The positive operating cash flow in first half 2010 arose principally from receipts of approximately \$180.8 million related to patent license and technology solutions agreements. These receipts included the third of four \$100.0 million installments from Samsung under our January 2009 license agreement. We also received \$0.7 million of fixed fee payments and \$70.1 million of per-unit royalty payments, including past sales and prepayments, from other existing

and new licensees. Cash receipts from our technology solutions agreements totaled \$10.0 million, primarily related to royalties associated with our SlimChip modem IP and new technology solutions agreements signed in first half 2010. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets, and non-cash compensation) of \$66.1 million, cash payments for foreign source withholding taxes of \$16.5 million related to the Samsung installment, an estimated federal tax payment of \$16.0 million and \$0.7 million in other working capital changes.

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The positive operating cash flow in first half 2009 arose principally from receipts of approximately \$201.5 million related to 2G and 3G patent license agreements. These receipts included the first of four \$100.0 million installments from Samsung under our January 2009 license agreement and \$41.2 million under a new \$77.0 million prepayment commitment from an existing licensee, with the remainder received early in third quarter 2009. We also received fixed royalty payments of \$21.4 million and per-unit royalty payments of \$38.9 million from other existing licensees and cash receipts from our technology solutions agreements totaling \$8.8 million, primarily related to royalties associated with our SlimChip modem IP. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets, non-cash repositioning charges and non-cash compensation) of \$70.4 million, cash payments for foreign source withholding taxes of \$16.5 million, an estimated federal tax payment of \$4.0 million and changes in working capital.

Working capital

We believe that working capital, adjusted to exclude cash, cash equivalents, short-term investments, current maturities of debt, and current deferred revenue provides additional information about non-cash assets and liabilities that might affect our near-term liquidity. Our adjusted working capital, a non-GAAP financial measure, reconciles to working capital, the most directly comparable GAAP financial measure, at June 30, 2010 and December 31, 2009 (in thousands) as follows:

| | June 30, | December | Increase/ |
|-----------------------------------|-------------------|-------------------|--------------------|
| | 2010 | 31, | (Decrease) |
| | | 2009 | |
| Current assets | \$ 723,170 | \$ 702,322 | \$ 20,848 |
| Current liabilities | (252,492) | (252,560) | 68 |
| Working capital | 470,678 | 449,762 | 20,916 |
| (Subtract) Add | | | |
| Cash and cash equivalents | (217,431) | (210,863) | (6,568) |
| Short-term investments | (268,364) | (198,943) | (69,421) |
| Current portion of long-term debt | 291 | 584 | (293) |
| Current deferred revenue | 169,855 | 193,409 | (23,554) |
| Adjusted working capital | \$ 155,029 | \$ 233,949 | \$ (78,920) |

The \$78.9 million decrease in adjusted working capital is primarily attributable to the decrease in accounts receivable associated with the third of four \$100.0 million installments from Samsung, which we received during first half 2010. Additionally, the decrease in short-term deferred tax assets and increase in taxes payable contributed to the decrease in adjusted working capital, due to estimated federal tax obligations. Increases in accrued compensation and accounts payable further contributed to the decrease in adjusted working capital. The increase in accrued compensation is primarily attributed to our long-term performance-based cash incentive program, which is scheduled to be paid in first quarter 2011. The increase in accounts payable is primarily associated with sublicense obligations incurred in conjunction with our new technology solutions agreements signed in first half 2010.

Cash Used in or Provided by Investing and Financing Activities

We used net cash in investing activities of \$84.4 million and \$72.0 million in first half 2010 and 2009, respectively. We purchased \$69.4 million and \$55.2 million of short-term marketable securities, net of sales, in first half 2010 and 2009, respectively. This increase in purchases was driven by excess cash from financing activities. Purchases of property and equipment and technology licenses decreased to \$1.1 million in first half 2010 from \$3.0 million in first half 2009 due to the lower levels of development tools and engineering equipment needed in first half 2010 as a result of our cessation of further SlimChip product development. Investment costs associated with patents for first half 2010 were approximately \$13.9 million, level with first half 2009.

Net cash provided (used) by financing activities increased by \$20.9 million primarily due to our first half 2009 share repurchase activity, which did not recur in first half 2010, and higher levels of proceeds from stock option exercises and tax benefits from share-based compensation as compared to the prior year period.

Other

Our combined short-term and long-term deferred revenue balance at June 30, 2010 was approximately \$587.1 million, a decrease of \$81.1 million from December 31, 2009. We have no material obligations associated with such deferred revenue. In first half 2010, deferred revenue decreased \$133.6 million due to the deferred revenue recognition of \$96.7 million related to the amortization of fixed fee royalty payments and \$36.9 million related to per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees) and

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technology solutions. These decreases in deferred revenue were partially offset by gross increases in deferred revenue of \$52.5 million, primarily related to patent license agreements signed in first half 2010.

Based on current license agreements, we expect the amortization of fixed fee royalty payments to reduce the June 30, 2010 deferred revenue balance of \$587.1 million by \$169.9 million over the next twelve months. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances and work performed in conjunction with our technology solutions agreements.

At June 30, 2010 and December 31, 2009, we had approximately 1.6 million and 2.1 million options outstanding, respectively, that had exercise prices less than the fair market value of our stock at each balance sheet date. These options would generate \$20.2 million and \$30.4 million of cash proceeds to the Company if they are fully exercised.

RESULTS OF OPERATIONS**Second Quarter 2010 Compared to Second Quarter 2009****Revenues**

The following table compares second quarter 2010 revenues to revenues in the comparable prior year period (in millions):

| | For the Three Months Ended June 30, | | | Increase/ (Decrease) | |
|---|--|----------------|----------------|---------------------------------|--|
| | 2010 | 2009 | | | |
| Fixed fee amortized royalty revenue | \$ 48.6 | \$ 46.7 | \$ 1.9 | 4% | |
| Per-unit royalty revenue | 31.6 | 23.7 | 7.9 | 33% | |
| Past sales | 4.9 | 2.3 | 2.6 | 113% | |
| Total patent licensing royalties | \$ 85.1 | 72.7 | 12.4 | 17% | |
| Technology solutions revenue | 6.1 | 2.2 | 3.9 | 177% | |
| Total revenue | \$ 91.2 | \$ 74.9 | \$ 16.3 | 22% | |

The \$16.3 million increase in total revenue in second quarter 2010 was primarily attributable to a \$12.4 million increase in patent licensing royalties. Of this increase in patent licensing royalties, \$7.9 million was attributable to an increase in per-unit royalty revenue primarily resulting from (i) the second quarter 2010 renewal of a patent license agreement, (ii) the recognition of the remaining \$2.1 million of revenue associated with the first quarter 2010 patent license agreement with Casio Hitachi Mobile Communications Co., Ltd. (CHMC), (iii) new agreements signed subsequent to second quarter 2009, and (iv) an aggregate increase in royalties from our remaining existing per-unit licensees. The remaining \$4.5 million increase in patent licensing royalties was driven by increases in past sales revenue and fixed fee amortized royalty revenue.

The increase in past sales revenue was attributable to the renewal of a patent license agreement. The past sales period covered the six months between the expiration of the previous patent license agreement and the beginning of the licensee's first quarter 2010 reporting period.

The increase in fixed fee amortized royalty revenue was driven by the September 2009 patent license agreement with Pantech. This increase was partially offset by the expiration of a fixed fee license agreement in second half 2009, which, as noted above, was renewed in second quarter 2010 as a per-unit agreement.

The increase in technology solutions revenue was attributable to the first half 2010 signings of technology solutions agreements with Beceem and CapiSemi, which collectively contributed \$3.1 million of revenue in second quarter 2010. Additionally, royalties from our customers' sales of products containing our SlimChip modem core platform further contributed to the increase.

In second quarter 2010 and second quarter 2009, 44% and 53% of our total revenues for the respective periods were attributable to companies that individually accounted for 10% or more of these amounts. During second quarter 2010 and second quarter 2009, the following customers accounted for 10% or more of our total revenues:

| | For the Three Months Ended June 30, | |
|-------------------------------|--|-------------|
| | 2010 | 2009 |
| Samsung Electronics Co., Ltd. | 28% | 34% |
| LG Electronics, Inc. | 16% | 19% |

Table of Contents**Operating Expenses**

The following table summarizes the change in operating expenses by category (in millions):

| | For the Three Months Ended June 30, | | Increase/(Decrease) | |
|-------------------------------------|--|-------------|----------------------------|--------|
| | 2010 | 2009 | | |
| Selling, general and administrative | \$ 7.0 | \$ 6.0 | \$ 1.0 | 17% |
| Patent administration and licensing | 14.7 | 15.6 | (0.9) | (6%) |
| Development | 16.4 | 13.2 | 3.2 | 24% |
| Repositioning | | (0.1) | 0.1 | (100%) |
| Total operating expenses | \$ 38.1 | \$ 34.7 | \$ 3.4 | 10% |

Operating expenses increased 10% to \$38.1 million in second quarter 2010 from \$34.7 million in second quarter 2009. Not including the second quarter 2009 reversal of \$0.1 million of the repositioning charge originally recorded in first quarter 2009, operating expenses would have increased 9%. The \$3.4 million increase was primarily due to net changes in the following items (in millions):

| | Increase/ (Decrease) |
|---|---------------------------------|
| Long-term cash incentives | \$ 2.0 |
| Consulting services | 1.7 |
| Patent maintenance and patent evaluation | 1.5 |
| Sublicense fees | 0.9 |
| Depreciation and amortization | 0.7 |
| Reserve for uncollectable accounts | 0.5 |
| Other | 0.4 |
| Share-based compensation | (1.2) |
| Patent litigation and arbitration | (3.2) |
| Total increase in operating expenses not including repositioning charge | 3.3 |
| Repositioning charge | 0.1 |
| Total increase in operating expenses | \$ 3.4 |

The increase in long-term cash incentives included a \$0.9 million charge to increase our accrual rate for the performance-based cash incentive covering the period January 1, 2008 through December 31, 2010 under our long-term compensation program (LTCP) from 60% to 70% in connection with revenue-producing agreements signed in second quarter 2010. The balance of the increase in long-term cash incentives and the decrease in share-based compensation were due to the structure of our LTCP, which includes overlapping long-term cash incentive cycles and overlapping restricted stock unit cycles, each with different timing and different methods of expense recognition. The increase in consulting services is attributable to increased activity in research and development projects initiated within the last twelve months and increased support for our technology solutions agreements signed in first half 2010. The increase in patent maintenance and patent evaluation costs were related to increased activity in management of our patent portfolio and due diligence associated with patent acquisition opportunities. The increase in sublicense fees related to our technology solutions agreements. The increase in depreciation and amortization is related to the increase over time in our capitalized patent costs. In second quarter 2010 and second quarter 2009, we had reductions of \$0.5 million and \$1.0 million, respectively, in our reserve for uncollectable accounts. These reductions resulted in a period over period increase in operating expense of \$0.5 million. These increases were partially offset by a decrease in

patent litigation and arbitration primarily due to a decrease in activity associated with our Nokia USITC case.

Selling, General and Administrative Expense: The increase in selling, general and administrative expense was primarily attributable to the above-noted increase in long-term cash incentives and the reserve for uncollectible accounts.

Patent Administration and Licensing Expense: The decrease in patent administration and licensing expense primarily resulted from the above-noted decrease in patent litigation and arbitration. This decrease was partially offset by increases in long-term cash incentives, patent maintenance and patent evaluation costs, and patent amortization.

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Development Expense: The increase in development expense was primarily attributable to the above-noted increases in long-term incentives, consulting services and sublicense fees.

Repositioning Expense: On March 30, 2009, we announced a repositioning plan under which we (i) expanded our technology development and licensing business and (ii) ceased further product development of our SlimChip HSPA technology. In connection with the repositioning plan, we incurred certain costs associated with exit or disposal activities. The repositioning resulted in a reduction in force of approximately 100 employees across our three locations. We incurred a repositioning charge of \$37.1 million in first quarter 2009 and additional costs of \$1.5 million during the balance of 2009. We did not incur any additional charges under this plan in second quarter 2010, nor do we expect to incur any related charges in the future.

Interest and Investment Income, Net

Net interest and investment income for second quarter 2010 totaled \$0.9 million, an increase of \$0.3 million from second quarter 2009. The increase was primarily due to higher investment balances in second quarter 2010 as compared to second quarter 2009.

First Half 2010 Compared to First Half 2009**Revenues**

The following table compares first half 2010 revenues to revenues in the prior year comparable period (in millions):

| | For the Six Months Ended June 30, | | Increase/ (Decrease) | |
|--------------------------------------|--------------------------------------|----------|----------------------|-------|
| | 2010 | 2009 | | |
| Fixed fee amortized royalty revenue | \$ 96.7 | \$ 88.9 | \$ 7.8 | 9% |
| Per-unit royalty revenue | 61.5 | 50.9 | 10.6 | 21% |
| Past sales and other royalty revenue | 40.7 | 2.3 | 38.4 | 1670% |
| Total patent licensing royalties | 198.9 | 142.1 | 56.8 | 40% |
| Technology solutions revenue | 8.4 | 3.4 | 5.0 | 147% |
| Total revenue | \$ 207.3 | \$ 145.5 | \$ 61.8 | 42% |

The \$61.8 million increase in total revenue in first half 2010 was primarily attributable to a \$56.8 million increase in patent licensing royalties. Of this increase in patent licensing royalties, \$38.4 million was attributable to past sales resulting from (i) the first quarter 2010 patent license agreement signed with CMHC, (ii) the first quarter 2010 resolution of a routine audit with an existing licensee, and (iii) the renewal of a patent license agreement in second quarter 2010. The remaining \$18.4 million increase was driven by increases in per-unit royalty revenue (\$10.6 million) and fixed fee amortized royalty revenue (\$7.8 million).

Per-unit royalty revenues increased \$10.6 million due to the first quarter 2010 entry into the patent license agreement with CMHC, the second quarter 2010 renewal of a patent license agreement, and an aggregate increase in royalties from our remaining existing per-unit licensees.

The increase in fixed fee amortized royalty revenue was driven by a full six months of revenue from the patent license agreement with Samsung signed during first quarter 2009 and the September 2009 patent license agreement with Pantech. These increases were partially offset by the expiration of a fixed fee license agreement in second half 2009, which, as noted above, was renewed in second quarter 2010 as a per-unit agreement.

The increase in technology solutions revenue was attributable to the first half 2010 technology solutions agreements with Beceem and CapiSemi, which collectively contributed revenue of \$3.1 million in first half 2010, as well as increased royalties earned on our SlimChip modem IP relating to our licensees' product sales.

In first half 2010 and first half 2009, 55% and 52% of our total revenues for the respective periods were attributable to companies that individually accounted for 10% or more of these amounts. During first half 2010 and first half 2009, the following customers accounted for 10% or more of our total revenues:

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| | For the Six Months Ended June 30, | |
|---|--|-------------|
| | 2010 | 2009 |
| Samsung Electronics Co., Ltd. | 25% | 32% |
| Casio Hitachi Mobile Communications Co., Ltd. | 16% | |
| LG Electronics, Inc. | 14% | 20% |

Operating Expenses

The following table summarizes the change in operating expenses by category (in millions):

| | For the Six Months Ended June 30, | | (Decrease)/Increase | |
|-------------------------------------|--|-------------|----------------------------|--------|
| | 2010 | 2009 | | |
| Selling, general and administrative | \$ 14.5 | \$ 14.2 | \$ 0.3 | 2% |
| Patent administration and licensing | 32.5 | 27.7 | 4.8 | 17% |
| Development | 32.6 | 40.1 | (7.5) | (19%) |
| Repositioning | | 37.0 | (37.0) | (100%) |
| Total operating expenses | \$ 79.6 | \$ 119.0 | \$ (39.4) | (33%) |

Operating expenses decreased 33% to \$79.6 million in first half 2010 from \$119.0 million in first half 2009. Not including a \$37.0 million repositioning charge in first half 2009, operating expenses would have decreased 3%. The \$39.4 million decrease was primarily due to the following net changes in expenses (in millions):

| | Increase/ (Decrease) |
|---|---------------------------------|
| Long-term cash incentives | \$ 3.8 |
| Patent maintenance and patent evaluation | 1.9 |
| Sublicense fees | 0.9 |
| Patent litigation and arbitration | 0.7 |
| Reserve for uncollectable accounts | 0.5 |
| Other | 0.1 |
| Engineering software and equipment maintenance | (1.3) |
| Personnel-related costs | (1.4) |
| Depreciation and amortization | (2.0) |
| Share-based compensation | (2.6) |
| Consulting services | (3.0) |
| Total decrease in operating expenses not including repositioning charge | (2.4) |
| Repositioning charge | (37.0) |
| Total decrease in operating expenses | \$ (39.4) |

In connection with our decision announced on March 30, 2009 to cease further development of our SlimChip modem technology, we wrote off approximately 73% of the net carrying value of our fixed and intangible assets and decreased our headcount by approximately 25%. As a result of these actions, consulting services, personnel-related costs, depreciation and amortization, and engineering software and equipment maintenance decreased approximately \$7.7 million from first half 2009. These decreases were offset by an increase in long-term cash incentives, which

includes a \$1.8 million charge to increase our accrual rate for the performance-based cash incentive covering the period January 1, 2008 through December 31, 2010 under our LTCP from 50% to 70% in connection with revenue-producing agreements signed in first half 2010. The balance of the increase in long-term cash incentives and the decrease in share-based compensation was due to the structure of our LTCP, which includes overlapping long-term cash incentive cycles and overlapping restricted stock unit cycles, each with different timing and different methods of expense recognition. The increase in patent litigation and arbitration was primarily due to our continued efforts to characterize the patent portfolio. The increase in patent maintenance and patent evaluation costs were related to increased activity

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in management of our patent portfolio and due diligence associated with patent acquisition opportunities. The increase in sublicense fees related to our first half 2010 technology solutions agreements. In second quarter 2010 and second quarter 2009, we had reductions of \$0.5 million and \$1.0 million, respectively, in our reserve for uncollectable accounts. These reductions resulted in a period over period increase in operating expense of \$0.5 million.

Selling, General and Administrative Expense: The increase in selling, general and administrative expense was primarily attributable to the above-noted increase in long-term cash incentives and the reserve for uncollectable accounts.

Patent Administration and Licensing Expense: The increase in patent administration and licensing expense was primarily attributable to the above-noted increase in long-term cash incentives, patent maintenance and evaluation costs, and patent litigation and arbitration, as well as an increase in patent amortization costs due to an increase over time in our capitalized patent costs.

Development Expense: The decrease in development expense was primarily attributable to the reduction of consulting services, depreciation and amortization, personnel-related costs, and engineering software and equipment maintenance resulting from the repositioning announced on March 30, 2009. These decreases were offset, in part, by the above-noted increase in long-term cash incentives.

Repositioning Expense: On March 30, 2009, we announced a repositioning plan under which we (i) expanded our technology development and licensing business and (ii) ceased further product development of our SlimChip HSPA technology. In connection with the repositioning plan, we incurred certain costs associated with exit or disposal activities. The repositioning resulted in a reduction in force of approximately 100 employees across our three locations. We incurred a repositioning charge of \$37.1 million in first quarter 2009 and additional costs of \$1.5 million during the balance of 2009. We did not incur any additional charges under this plan in first half 2010, nor do we expect to incur any related charges in the future.

Interest and Investment Income, Net

Net interest and investment income for each of first half 2010 and first half 2009 totaled \$1.5 million.

Expected Trends

We will provide our expectations for our third quarter 2010 revenue after we receive and review the applicable patent licensing and product sales royalty reports.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include certain information under the heading

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and other information regarding our current beliefs, plans and expectations, including without limitation the matters set forth below. Words such as anticipate, estimate, expect, project, intend, plan, forecast, variations of any such words or similar expressions are intended to identify such forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

The potential effects of new accounting standards on our financial statements or results of operations;

Our amortization of fixed fee royalty payments and recognition of deferred technology solutions revenue over the next twelve months to reduce our June 30, 2010 deferred revenue balance;

Our future tax expense and changes to our reserves for uncertain tax positions;

The timing, outcome and impact of our various litigation and administrative matters;

Our need for debt and equity financings in the next twelve months; and

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Our belief that our available sources of funds will be sufficient to finance our operations, capital requirements, our existing stock repurchase program and any stock repurchase program that we may initiate in the next twelve months.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and uncertainties outlined in greater detail in Part I, Item 1A. Risk Factors of our 2009 Form 10-K. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2009 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in their design to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The information required by this Item is incorporated by reference to Note 6, *Litigation and Legal Proceedings*, to the *Condensed Consolidated Financial Statements* included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. RISK FACTORS.

In addition to factors set forth in the *Statement Pursuant to the Private Securities Litigation Reform Act of 1995 Forward-Looking Statements* in Part I, Item 2 of this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors of our 2009 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q and in our 2009 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

There were no sales of unregistered shares of our common stock or repurchases of our common stock during second quarter 2010 or from July 1, 2010 through July 30, 2010.

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Item 6. EXHIBITS.

The following is a list of exhibits filed with this Quarterly Report on Form 10-Q:

Exhibit

| Number | Exhibit Description |
|---------------|--|
| *Exhibit 3.1 | Amended and Restated Articles of Incorporation of InterDigital, Inc. (Exhibit 3.1 to InterDigital's Current Report on Form 8-K dated June 7, 2010). |
| *Exhibit 3.2 | Amended and Restated Bylaws of InterDigital, Inc. (Exhibit 3.2 to InterDigital's Current Report on Form 8-K dated June 7, 2010). |
| Exhibit 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| Exhibit 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| Exhibit 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. |
| Exhibit 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. |
| Exhibit 101 | The following financial information from InterDigital, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the Securities and Exchange Commission on July 30, 2010, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 and (iv) Notes to Condensed Consolidated Financial Statements (tagged as blocks of text). |

* Incorporated by reference to the previous filing indicated.

This exhibit will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such

exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that InterDigital, Inc. specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERDIGITAL, INC.

Date: July 30, 2010

/s/ WILLIAM J. MERRITT
William J. Merritt
President and Chief Executive Officer

Date: July 30, 2010

/s/ SCOTT A. MCQUILKIN
Scott A. McQuilkin
Chief Financial Officer

Date: July 30, 2010

/s/ RICHARD J. BREZSKI
Richard J. Brezski
Chief Accounting Officer
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incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that InterDigital, Inc. specifically incorporates it by reference.