InterDigital, Inc.
Form 10-Q
May 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 March 31, 2009

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 1-11152
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o 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 $.01 per share	**43,710,373**
Title of Class	Outstanding at May 1, 2009

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GLOSSARY OF TERMS

2G

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

2.5G

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

3G

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

Bandwidth

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

CDMA

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

Chip

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

Circuit

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

Digital

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

Digital Cellular

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

FDMA

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

Frequency

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

Hertz

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

Kbps

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

Mbps

Megabits per Second. A measure of information-carrying capacity of a circuit, in millions of bits.

Modem

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

Multiple Access

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

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TDMA
Time Division Multiple Access. A method of digital wireless transmission that allows a multiplicity of users to share access (in a time-ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.
Wideband
A communications channel with a user data rate higher than a voice-grade channel; usually 64Kbps to 2Mbps.
Wireless
Radio-based systems that allow transmission of information without a physical connection such as copper wire or optical fiber.

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INTERDIGITAL, INC. AND SUBSIDIARIES
PART I FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	MARCH 31, 2009	DECEMBER 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 105,401	$ 100,144
Short-term investments	80,499	41,516
Accounts receivable, less allowances of $3,000	224,713	33,892
Deferred tax assets	70,355	49,002
Prepaid and other current assets	15,370	16,467
Total current assets	496,338	241,021
PROPERTY AND EQUIPMENT, NET	11,524	20,974
PATENTS, NET	106,121	102,808
INTANGIBLE ASSETS, NET		22,731
DEFERRED TAX ASSETS	40,293	7,724
OTHER NON-CURRENT ASSETS	9,327	10,510
	167,265	164,747
TOTAL ASSETS	$ 663,603	$ 405,768
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 1,628	$ 1,608
Accounts payable	10,583	9,127
Accrued compensation and related expenses	7,290	33,038
Deferred revenue	177,748	78,646
Taxes payable	33,000	
Other accrued expenses	10,787	4,118
Total current liabilities	241,036	126,537
LONG-TERM DEBT	963	1,321
LONG-TERM DEFERRED REVENUE	329,135	181,056
OTHER LONG-TERM LIABILITIES	10,315	9,194

TOTAL LIABILITIES		581,449		318,108
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS EQUITY:				
Preferred Stock, $.10 par value, 14,399 shares authorized 0 shares issued and outstanding				
Common Stock, $.01 par value, 100,000 shares authorized, 66,148 and 65,883 shares issued and 43,589 and 43,324 shares outstanding		661		659
Additional paid-in capital		474,660		471,468
Retained Earnings		150,829		159,515
Accumulated other comprehensive income		231		245
		626,381		631,887
Treasury stock, 22,559 shares of common held at cost		544,227		544,227
Total shareholders equity		82,154		87,660
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	663,603	$	405,768

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2009	FOR THE THREE MONTHS ENDED MARCH 31, 2008
REVENUES	$ 70,561	$ 56,027
OPERATING EXPENSES:		
Sales and marketing	2,310	2,388
General and administrative	6,553	5,675
Patents administration and licensing	10,844	15,051
Development	27,554	23,202
Repositioning	37,063	
Arbitration and litigation contingencies		(1,200)
	84,324	45,116
(Loss) income from operations	(13,763)	10,911
OTHER INCOME:		
Interest and investment income, net	829	438
(Loss) income before income taxes	(12,934)	11,349
INCOME TAX BENEFIT (PROVISION)	4,248	(4,032)
NET (LOSS) INCOME	$ (8,686)	$ 7,317
NET (LOSS) INCOME PER COMMON SHARE BASIC	$ (0.20)	$ 0.16
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	43,501	46,426
NET (LOSS) INCOME PER COMMON SHARE DILUTED	$ (0.20)	$ 0.15
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	43,501	47,201

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 THREE MONTHS ENDED MARCH 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (8,686)	$ 7,317
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	8,217	6,876
Deferred revenue recognized	(52,819)	(30,284)
Increase in deferred revenue	300,000	30,465
Deferred income taxes	(53,922)	(208)
Share-based compensation	2,919	1,491
Non-cash repositioning charges	30,568	
Impairment of long-term investment		745
Other	(74)	(211)
(Increase) decrease in assets:		
Receivables	(190,821)	92,914
Deferred charges	106	1,025
Other current assets	895	(3,172)
Increase (decrease) in liabilities:		
Accounts payable	856	(2,894)
Accrued compensation	(25,877)	(5,496)
Accrued taxes payable	33,000	(11,858)
Other accrued expenses	6,669	(366)
Net cash provided by operating activities	51,031	86,344
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(52,771)	(50,203)
Sales of short-term investments	13,716	26,213
Purchases of property and equipment	(1,462)	(729)
Capitalized patent costs	(6,318)	(7,415)
Capitalized technology license costs	(126)	(500)
Net cash used by investing activities	(46,961)	(32,634)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	873	748
Payments on long-term debt, including capital lease obligations	(338)	(365)

Repurchase of Common stock		(16,105)
Tax benefit from share-based compensation	652	370
Net cash provided (used) by financing activities	1,187	(15,352)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,257	38,358
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	100,144	92,018
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 105,401	$ 130,376

The accompanying notes are an integral part of these statements.

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INTERDIGITAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009
(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. (collectively with its subsidiaries referred to as InterDigital, the Company, we, us or as of March 31, 2009, and the results of our operations and cash flows for the three months ended March 31, 2009 and 2008. 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. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s latest Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (2008 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 2, 2009. 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 generally accepted accounting principles 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.

There have been no material changes in our existing accounting policies from the disclosures included in our 2008 Form 10-K, except as discussed below.

New Accounting Pronouncements

SFAS No. 141-R

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141-R, *Business Combinations,* which revised SFAS No. 141, *Business Combinations.* SFAS No. 141-R is effective for us beginning January 1, 2009. Under SFAS No. 141, organizations utilized the announcement date as the measurement date for the purchase price of the acquired entity. SFAS No. 141-R requires measurement at the date the acquirer obtains control of the acquiree, generally referred to as the acquisition date. SFAS No. 141-R will have a significant impact on the accounting for transaction costs and restructuring costs, as well as the initial recognition of contingent assets and liabilities assumed during a business combination. Under SFAS No. 141-R, adjustments to the acquired entity s deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of the income tax expense, rather than goodwill. We adopted this statement on January 1, 2009. SFAS No. 141-R s impact on accounting for business combinations is dependent upon acquisitions, if any, made on or after that time.

FSP No. EITF 03-6-1

In June 2008, the FASB issued Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities,* which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings Per Share.* Under the guidance in FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two class method. We adopted FSP EITF 03-6-1 on January 1, 2009 and, in accordance with the FSP, have retrospectively adjusted prior-period earnings per share data. See Note 4.

SFAS No. 157

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. For financial assets and liabilities, SFAS No. 157 was effective for us beginning January 1, 2008. In February 2008, the FASB issued FASB Staff Position FSP No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FSP No. FAS 157-2, Effective Date of FASB Statement No. 157.* FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) and was adopted by the Company beginning first quarter 2009. In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,* to clarify the application of SFAS 157 in inactive markets for financial assets. FSP 157-3 became effective upon issuance and SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 for both financial and non-financial assets and liabilities did not have an effect on the Company s financial condition or results of operations.

2. REPOSITIONING:

On March 30, 2009, we announced a repositioning plan that includes the expansion of the technology development and licensing business, the cessation of further product development of the SlimChip modem technology, and efforts to monetize the technology investment through IP licensing and technology sales. In connection with the repositioning, the company incurred a charge of $37.1 million during first quarter 2009. Of this amount, approximately $30.6 million represents non-cash asset impairments that relate to 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 $6.5 million of the repositioning charge represents cash obligations associated with severance and contract termination costs.

We currently estimate that we will incur additional repositioning costs of approximately $1.0 million to $2.0 million in second quarter 2009, but the timing and amount of the additional charge will be dependent upon our process to wind-down activities related to our SlimChip product development.

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The following table provides information related to our first quarter 2009 repositioning charge and the related accrued liability for repositioning costs (in thousands):

	Asset Impairments	Severance and Related Costs	Contract Termination Costs	Total
Total expected repositioning charge	**$ 30,568**	**$ 4,840**	**$ 3,631**	**$ 39,039**
Repositioning charge recognized during first quarter 2009	**$ 30,568**	**$ 3,863**	**$ 2,631**	**$ 37,062**
Accrued Liability for Repositioning Costs:				
January 1, 2009	$	$	$	$
Amounts accrued during first quarter 2009		3,863	2,631	6,494
Payments		(68)		(68)
March 31, 2009	**$**	**$ 3,795**	**$ 2,631**	**$ 6,426**

We expect that the repositioning will reduce our development expense for second quarter 2009 by approximately $13.0 million from first quarter 2009.

3. INCOME TAXES:

In first quarter 2009, our effective tax rate was approximately 33% based on the statutory federal tax rate net of discrete state and local taxes. During first quarter 2008, our effective tax rate was 35% based on the statutory federal tax rate net of permanent differences.

During first quarter 2009, we paid approximately $16.5 million of foreign withholding tax. We established a corresponding deferred tax asset related to foreign tax credits 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 SFAS No. 123(R), *Share-Based Payment*. 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.

4. NET (LOSS) INCOME PER SHARE:

The following table sets forth a reconciliation of the shares used in the basic and diluted net (loss) income per share computations (in thousands):

	For the Three Months Ended, March 31, 2009		2008	
	Basic	Diluted	Basic	Diluted
Numerator:				
Net (Loss) Income	$ (8,686)	$ (8,686)	$ 7,317	$ 7,317
Less: Income applicable to participating securities			(64)	(63)
Net (Loss) Income applicable to common shareholders	$ (8,686)	$ (8,686)	$ 7,253	$ 7,254

Denominator:				
Weighted Average Shares Outstanding: Basic	43,501	43,501	46,426	46,426
Dilutive effect of options and warrants				775
Weighted Average Shares Outstanding: Diluted		43,501		47,201
Earnings Per Share:				
Net (Loss) Income: Basic	$ (0.20)	$ (0.20)	$ 0.16	$ 0.16
Dilutive effect of options and warrants				(0.01)
Net (Loss) Income: Diluted		$ (0.20)		$ 0.15

For the three months ended March 31, 2009, the effects of all participating securities were excluded from the computation of basic earnings per share, and the effects of all participating securities and options were excluded from the computation of diluted earnings per share as a result of a net loss reported in the period.

For the three months ended March 31, 2008, options to purchase approximately 1.0 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 this period and, therefore, their effect would have been anti-dilutive.

5. LITIGATION AND LEGAL PROCEEDINGS:

Nokia Litigation

Nokia USITC 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 until the USITC s determination in this matter becomes final. The Delaware District Court permitted InterDigital to add to the staid 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 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

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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. Briefing on InterDigital s motion has been completed, but the Court has not yet ruled on this motion.

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 Adm