INTERDIGITAL INC.

FORM 10-Q
(Quarterly Report)

Filed 05/10/06 for the Period Ending 03/31/06

Address	781 THIRD AVE KING OF PRUSSIA, PA 19406-1409
Telephone	6108787800
CIK	0000354913
SIC Code	6794 - Patent Owners and Lessors
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

http://www.edgar-online.com
© Copyright 2008, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______ to _______

Commission File Number 1-11152

INTERDIGITAL COMMUNICATIONS CORPORATION
(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)

Registrant's telephone number, including area code (610) 878-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer ☒ , an accelerated filer ☐ , or a non-accelerated filer ☐ (as defined by Rule 12b-2 of the Exchange Act).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, par value $.01 per share	**54,455,308**
Class	**Outstanding at May 1, 2006**

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

INDEX

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

InterDigital ® is a trademark of InterDigital Communications Corporation. All other trademarks, service marks and/or trade names appearing in this Form 10-Q are the property of their respective holders.

GLOSSARY OF TERMS

1xEV-DO

"First Evolution Data Optimized." An evolution of cdma2000.

2G

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

2.5G

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

3G

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

3GPP

"3G Partnership Project." A partnership of worldwide accredited standards organizations the purpose of which is to draft specifications for Third Generation mobile telephony.

Bandwidth

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

CDMA

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

cdmaOne

A wireless cellular system application based on 2G narrowband CDMA technologies (e.g., TIA/EIA-95).

cdma2000 ®

A standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne). The CDMA family includes, without limitation, CDMA2000 1x, CDMA 1xEV-DO, CDMA2000 1xEV-DV and CDMA2000 3x. Although CDMA2000 1x is included under the IMT-2000 family of 3G standards, its functionality is similar to 2.5G technologies. CDMA2000 ® and cdma2000 ® are registered trademarks of the Telecommunications Industry Association (TIA – USA).

Chip

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

Circuit

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

Digital

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

Digital Cellular

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

EDGE

"Enhanced Data rates for GSM Evolution." Technology designed to deliver data at rates up to 473.6 Kbps, triple the data rate of GSM wireless services, and built on the existing GSM standard and core network infrastructure. EDGE systems built in Europe are considered a 2.5G technology.

ETSI

"European Telecommunications Standards Institute." The standards organization which drafts standards for Europe.

FDMA

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

Frequency

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

GPRS

"General Packet Radio Systems." A packet-based wireless communications service that enables high-speed wireless Internet and other data communications via GSM networks.

GSM

"Global System for Mobile Communications." A digital cellular standard, based on TDMA technology, specifically developed to provide system compatibility across country boundaries.

Hertz

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

HSDPA

"High Speed Downlink Packet Access." An enhancement to WCDMA/UMTS technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology enhancement.

Internet

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

IPR

Intellectual Property Right.

ITC

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

LAN

"Local Area Network." A private data communications network linking a variety of data devices located in the same geographical area and which share files, programs and various devices.

Table of Contents

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.

Standards

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies in order to allow for interoperability.

TDMA

“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.

TD-SCDMA

“Time Division Synchronous CDMA.” A form of TDD utilizing a low Chip Rate.

TIA/EIA-95

A 2G CDMA standard.

TIA/EIA-136

A United States standard for digital TDMA technology.

TIA

The Telecommunications Industry Association.

UMTS

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

WCDMA

“Wideband Code Division Multiple Access” or “Wideband CDMA.” The next generation of CDMA technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology.

Wideband

A communications channel with a user data rate higher than a voice-grade channel; usually 64Kbps to 2Mbps.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	MARCH 31, 2006	DECEMBER 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,092	$ 27,877
Short-term investments	132,947	77,831
Accounts receivable	113,404	19,534
Deferred tax assets	62,178	42,103
Prepaid and other current assets	13,109	8,370
Total current assets	385,730	175,715
PROPERTY AND EQUIPMENT, NET	12,627	10,660
PATENTS, NET	62,026	59,516
DEFERRED TAX ASSETS	55,831	48,681
OTHER NON-CURRENT ASSETS	14,225	4,965
	144,709	123,822
TOTAL ASSETS	$ 530,439	$ 299,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 357	$ 350
Accounts payable	6,999	7,163
Accrued compensation and related expenses	6,042	17,040
Deferred revenue	73,690	20,055
Foreign and domestic taxes payable	15,803	160
Other accrued expenses	8,385	5,766
Total current liabilities	111,276	50,534
LONG-TERM DEBT	1,481	1,572
LONG-TERM DEFERRED REVENUE	213,178	71,193
OTHER LONG-TERM LIABILITIES	2,667	1,924
TOTAL LIABILITIES	328,602	125,223
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common Stock, $.01 par value, 100,000 shares authorized, 61,670 and 60,537 issued and 55,164 and 54,032 shares outstanding	617	605
Additional paid-in capital	392,186	377,648
Accumulated deficit	(96,900)	(109,839)
Accumulated other comprehensive loss	(158)	(192)
	295,745	268,222
Treasury stock, 6,506 shares of common held at cost	93,908	93,908
Total shareholders' equity	201,837	174,314
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 530,439	$ 299,537

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	2005
REVENUES	$ 51,606	$ 35,497
OPERATING EXPENSES:		
Sales and marketing	1,824	2,280
General and administrative	5,021	6,566
Patents administration and licensing	9,982	11,247
Development	16,010	16,173
	32,837	36,266
Income (loss) from operations	18,769	(769)
OTHER INCOME:		
Interest and investment income, net	1,508	790
Income before income taxes	20,277	21
INCOME TAX PROVISION	(7,338)	(903)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 12,939	$ (882)
NET INCOME (LOSS) PER COMMON SHARE - BASIC	$ 0.24	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	54,785	55,053
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	$ 0.23	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	56,884	55,053

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 12,939	$ (882)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,366	2,669
Deferred revenue recognized	(29,908)	(15,907)
Increase in deferred revenue	225,528	27,906
Deferred income taxes	(27,225)	856
Non-cash compensation	1,305	2,837
(Increase) decrease in deferred charges	(12,765)	881
Other	(26)	25
(Increase) decrease in assets:		
Receivables	(93,870)	1,744
Other current assets	(1,211)	(512)
(Decrease) increase in liabilities:		
Accounts payable	(241)	998
Accrued compensation	(9,473)	(2,467)
Accrued taxes payable	15,643	—
Other accrued expenses	2,484	(1,497)
Net cash provided by operating activities	86,546	16,651
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(88,659)	(44,303)
Sales of short-term investments	33,592	47,622
Purchases of property and equipment	(3,249)	(2,071)
Patent costs	(4,529)	(3,826)
Acquisition of patents	—	(8,050)
Net cash used by investing activities	(62,845)	(10,628)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	9,386	1,287
Payments on long-term debt, including capital lease obligations	(84)	(80)
Repurchase of Common stock	—	(9,028)
Tax benefit from stock options	3,212	—
Net cash provided (used) by financing activities	12,514	(7,821)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,215	(1,798)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	27,877	15,737
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 64,092	$ 13,939

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006
(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 Communications Corporation (collectively with its subsidiaries referred to as “InterDigital,” the “Company,” “we,” “us” and “our”) as of March 31, 2006, and the results of our operations and cash flows for the three months ended March 31, 2006 and 2005. 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 present fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. 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, 2005 (2005 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 14, 2006. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. The Company has 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.

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

There have been no material changes in our existing accounting policies from the disclosures included in our 2005 Form 10-K, except as follows:

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment* . SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The Company adopted the accounting provisions of SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) replaces SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* . As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. We have elected to adopt the new rules using the modified-prospective method. Under the modified prospective method, prior periods are not revised for comparative purposes. The adoption of SFAS No. 123(R) did not have a material impact on our statement of operations. As a result of the adoption, we classified a $3.2 million tax benefit from the exercise of stock options within cash flows from financing activities, prior to the adoption of SFAS No. 123(R) we classified such tax benefits within cash flows from operating activities.

SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be measured based on the fair value of the instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) further requires that share-based compensation expense be based on the awards ultimately expected to vest by reducing the compensation expense for estimated forfeitures. Forfeitures must be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS No. 123(R), we recorded forfeitures in the period in which they occurred.

On November 10, 2005, the FASB issued FASB Staff Position No. SFAS No. 123(R)-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.” Under this pronouncement, we have until December 2006 to elect an alternative transition method provided in this pronouncement for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R). The alternative method provides a simplified computation to establish the beginning balance of the additional paid-in-capital pool (APIC pool) related to the tax effects of employee share-based compensation. Any positive balance in the APIC pool would be available to absorb tax shortfalls (which occur when tax deductions resulting from share-based compensation are less than the related book expense) recognized subsequent to the adoption of SFAS No. 123(R). We did not incur any net tax shortfalls in first quarter 2006.

During first quarter 2006, we issued the following share-based awards (in thousands):

RSUs	169
Restricted Stock	17
Common Stock	24
Total share-based awards	210

The RSUs granted during first quarter 2006 were primarily made as part of a company-wide grant to all non-management personnel. The remaining RSUs were awarded to newly hired or promoted members of management under our Long-Term Compensation Program (LTCP). RSUs vest either incrementally or in-full over three years subject to applicable plan and program terms. The shares of restricted stock were issued to our executive officers and other key management personnel as a part of their 2005 annual bonus. These shares were fully vested at grant but may not be transferred for two years. The Common Stock issued in first quarter 2006 was comprised primarily of shares issued to eligible employees under our Savings and Protections Plan (Savings Plan) as the Company's profit sharing contribution for fiscal year ended 2005. The remaining Common Stock was issued as part of the Company's employer match under the Savings Plan. Shares issued into employee accounts under the Savings Plan vest in accordance with the terms of the Savings Plan, are transferable into other investment electives under the Savings Plan, and cannot be redeemed until employment with the Company terminates. We valued each of the above share-based awards at the fair market value of our Common Stock on the date of grant.

We have estimated forfeiture rates for our RSUs between 0% and 5% depending upon the group receiving the grant and the terms of the awards issued. We recorded a reduction to operating expenses for the cumulative effect of a change in accounting principle of less than $0.2 million in first quarter 2006. This cumulative effect adjustment was recorded to apply an estimated forfeiture rate of 3% to the unvested RSUs which had been issued under the 2005–2007 cycle of our LTCP and remained unvested and outstanding at December 31, 2005.

We recorded share-based compensation expense of $1.3 million and $2.8 million in first quarter 2006 and 2005, respectively. The most significant component of this expense was RSU awards granted to managers under our LTCP.

Share-based compensation prior to January 1, 2006

Prior to the adoption of SFAS No. 123(R), the Company accounted for share-based employee compensation under the recognition and measurement principles of APB Opinion No. 25, and related interpretations. No stock-option-based employee compensation cost was reflected in net income, as all effected options had an exercise price equal to the market value of the underlying Common Stock on the date of grant. However, compensation expense was recognized related to restricted stock and RSU grants. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* , to stock-option-based employee compensation for the three months ended March 31, 2005 (in thousands, except per share data):

	Three Months Ended March 31, 2005
Net loss applicable to common shareholders—as reported	$ (882)
Add: Stock-based employee compensation expense included in reported net loss	2,837
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(3,643)
Tax effect	274
Net loss applicable to common shareholders – pro forma	$ (1,414)
Net loss per share – as reported – basic	(0.02)
Net loss per share – as reported – diluted	(0.02)
Net loss per share – pro forma – basic	(0.03)
Net loss per share – pro forma – diluted	(0.03)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three Months Ended March 31, 2005
Expected option life (in years)	4.80
Risk-free interest rate	3.9%
Volatility	82%
Dividend yield	—
Weighted average fair value	$12.71

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* which replaces APB Opinion No. 20, *Accounting Changes* , and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28* . SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method of accounting for and reporting a change in accounting principle and a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and was adopted by the Company effective January 1, 2006. The adoption of SFAS No. 154 did not have a material impact on our consolidated financial position, results of operations and cash flows.

2. SIGNIFICANT AGREEMENTS AND EVENTS:

Nokia Litigation and Legal Proceedings

On April 27, 2006, InterDigital Communications Corporation (IDCC) and ITC entered into agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in the Arbitration Settlement Agreement, the parties resolved their disputes arising out of the June 2005 International Court of Arbitration of the International Chamber of Commerce (ICC) Arbitration Tribunal Award, which related to the January 1999 Patent License Agreement between the parties (the PLA Proceedings). Pursuant to the UK Settlement Agreement, Nokia dismissed its claims under Claim No. HC04 C01952, a proceeding that Nokia instituted in June 2004 against ITC in the High Court of Justice of England and Wales, Chancery Division, Patents Court, seeking to challenge three of our TDMA-related patents.

Pursuant to the Arbitration Settlement Agreement, on April 28, 2006, Nokia paid InterDigital $253 million. Nokia is deemed to have a fully paid-up license covering worldwide sales of 2G TDMA-based products, consisting primarily of GSM/GPRS/EDGE terminal units and infrastructure. Nokia is also released from infringement liability for worldwide sales of 3G terminal units and infrastructure through April 26, 2006. Under the Arbitration Settlement Agreement, the January 1999 Patent License Agreement was terminated.

Based upon our preliminary review of the accounting treatment for this matter, we expect to recognize the entire $253 million payment in our 2006 income statement. We will provide additional detailed disclosure upon the completion of our analysis.

LG Electronics Inc.

On January 18, 2006, we entered into a worldwide, non-transferable, non-exclusive, patent license agreement with LG Electronics Inc. (LG). The five-year patent license agreement, effective January 1, 2006, covers the sale, both prior to January 1, 2006 and during the five-year term, of terminal units compliant with all TDMA-based Second Generation (2G) standards (including TIA-136, GSM, GPRS, and EDGE) and all Third Generation (3G) standards (including WCDMA, TD-SCDMA and cdma2000 technology and its extensions), and infrastructure products compliant with cdma2000 technology and its extensions up to a limited threshold amount, under all patents owned by us prior to and during the term of the license.

At the end of the five year term, LG will receive a paid-up license to sell single-mode GSM/GPRS/EDGE terminal units under the patents included in the patent license agreement. Under the terms of the patent license agreement, LG paid us the first of three equal installments of $95 million in first quarter 2006. The remaining two installments are due in the first quarters of 2007 and 2008, respectively. We are recognizing the revenue associated with this agreement on a straight-line basis from its inception through December 31, 2010.

Technology Solution Agreements

In August 2005, we entered into an agreement with Philips Semiconductors B.V. (Philips) to deliver our HSDPA technology solution to Philips for integration into Philips' family of Nexperia ™ cellular system solutions. Under the agreement, we will also assist Philips with chip design and development, software modification and system integration and testing to implement our HSDPA technology solution into the Philips chipset. Subsequent to the delivery of portions of our HSDPA technology solution, we agreed to provide Philips with support and maintenance over an aggregate estimated period of approximately 2 years.

In December 2004, we entered into an agreement with General Dynamics C4 Systems (formerly known as, General Dynamics Decision Systems, Inc.) (General Dynamics), to serve as a subcontractor on the Mobile User Objective System (MUOS) program for the U.S. military. MUOS is an advanced tactical terrestrial and satellite communications system utilizing 3G commercial cellular technology to provide significantly improved high data rate and assured communications for U.S. warfighters. The Software License Agreement (SLA) requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. We have also provided product training under the SLA and will provide maintenance for a period of three years, beginning January 1, 2006.

We are accounting for portions of these and other technology solution agreements using the percentage-of-completion method. From the inception of these agreements through March 31, 2006, we recognized related revenue of approximately $20.6 million using the percentage-of-completion method, including $1.8 million in first quarter 2006. Our accounts receivable at March 31, 2006 and December 31, 2005 included unbilled amounts of $5.1 million and $4.1 million, respectively.

Acquisition of Patents

In first quarter 2005, we acquired, for a purchase price of approximately $8.1 million, selected patents, intellectual property blocks and related assets from an unrelated third party. These assets are designed to improve the range, throughput and reliability of wireless LAN and other wireless technology systems. The purchase price was allocated almost entirely to patent assets with a nominal amount being allocated to other assets. Based on our assessment in connection with the asset acquisition, we are amortizing these patents over their expected useful lives of approximately 15 years.

3. INCOME TAXES:

During first quarter 2006, our effective tax rate was approximately 36.2%. This effective tax rate primarily results from the statutory federal tax rate and the amortization of foreign deferred tax assets related to foreign source withholding tax payments made in prior years. During first quarter 2006, we paid $15.6 million and accrued $15.6 million of foreign source withholding taxes and established deferred tax assets of the same amount related to foreign tax credits that we expect to use to offset future U.S. federal income taxes.

Excluding any prospective recognition of additional tax credits, we expect to provide for income taxes over the balance of 2006 at a rate equal to our combined federal and state effective rates, which would approximate 35% to 37% under current tax laws, plus an amount for deferred foreign source withholding tax expense which is dependent, in part, upon licensee royalty reports. 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). However, we cannot predict if, when or to what extent this will affect our tax expense. In the course of future tax planning, should we identify tax saving opportunities that entail amending prior year returns in order to fully avail ourselves 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. Due to the incremental contributions to taxable income from our first quarter 2006 license agreement with LG and our second quarter 2006 dispute resolution with Nokia, we expect that we will utilize the majority of our NOLs and then be obligated to begin paying U.S. federal income taxes in 2006.

Under Internal Revenue Code Section 382, the utilization of a corporation's NOL carryforwards is limited following a change in ownership (as defined by the Internal Revenue Code) of greater than 50% within a three-year period. If it is determined that prior equity transactions limit our NOL carryforwards, the annual limitation will be determined by multiplying the market value on the date of ownership change by the federal long-term tax-exempt rate. Any amount exceeding the annual limitation may be carried forward to future years for the balance of the NOL carryforward period.

Table of Contents

Based on judgments associated with determining the annual limitation applicable to us under Internal Revenue Code Section 382, we did not include all federal NOL carryforwards in the computation of our gross deferred tax assets. We also excluded from this computation a portion of the federal research and experimental credits that may be available to us based upon estimates of the final credit that may be realized. Had we included all federal NOL carryforwards and research and experimental credits in the computation of gross deferred tax assets, our gross deferred tax assets at March 31, 2006 and December 31, 2005 would have been approximately $10 million greater.

A more-than-50% cumulative change in ownership occurred in 1992. As a result of such change, approximately $14 million of our NOL carryforwards were limited as of December 31, 2005. As a result of these limitations, we will not be able to utilize all of our NOL carryforwards to offset our U.S. federal tax liability in 2006. If we experience an additional more-than-50% cumulative ownership change, the full amount of the NOL carryforward may become subject to annual limitation under Section 382. There can be no assurance that we will realize the benefit of any NOL carryforward.

4. INCOME PER SHARE:

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

	(In thousands, except per share data)					
	Three Months Ended March 31, 2006			Three Months Ended March 31, 2005		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Income (loss) per share - basic:						
Income (loss) available to Common Shareholders	$ 12,939	54,785	$ 0.24	$ (882)	55,053	$ (0.02)
Effect of dilutive options, warrants and restricted stock units	—	2,099	(0.01)	—	—	—
Income (loss) per share - diluted:						
Income (loss) available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	$ 12,939	56,884	$ 0.23	$ (882)	55,053	$ (0.02)

For the three months ended March 31, 2006, options and warrants to purchase approximately 1.1 million shares of Common Stock were excluded from the computation of diluted earnings per share because the exercise prices of these options and warrants were greater than the weighted-average market price of our Common Stock during this period and, therefore, their effect would have been anti-dilutive.

For the three months ended March 31, 2005, the effect of all options and warrants to purchase shares of Common Stock were excluded from the computation of diluted earnings per share as a result of a net loss reported in the period.

5. LITIGATION AND LEGAL PROCEEDINGS :

Item 1. LEGAL PROCEEDINGS .

Nokia

On April 27, 2006, InterDigital Communications Corporation (IDCC) and ITC entered into agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in the Arbitration Settlement Agreement, the parties resolved their disputes arising out of the June 2005 International Court of Arbitration of the International Chamber of Commerce (ICC) Arbitration Tribunal Award, which related to the January 1999 Patent License Agreement between the parties (the PLA Proceedings). Pursuant to the UK Settlement Agreement, Nokia dismissed its claims under Claim No. HC04 C01952, a proceeding that Nokia instituted in June 2004 against ITC in the High Court of Justice of England and Wales, Chancery Division, Patents Court (High Court), seeking to challenge three of our TDMA-related patents (UK 2G Proceeding).

Pursuant to the Arbitration Settlement Agreement, on April 28, 2006, Nokia paid InterDigital $253 million. Nokia is deemed to have a fully paid-up license covering worldwide sales of 2G TDMA-based products, consisting primarily of GSM/GPRS/EDGE terminal units and infrastructure. Nokia is also released from infringement liability for worldwide sales of 3G terminal units and infrastructure through April 26, 2006. Under the Arbitration Settlement Agreement, the January 1999 Patent License Agreement was terminated.

Pursuant to the UK Settlement Agreement, Nokia has withdrawn its challenge before the High Court in the UK 2G Proceeding. In consideration for the discontinuance of the UK 2G Proceeding, InterDigital agreed (i) not to assert against Nokia the three patents (and related non-U.K counterparts) involved in that proceeding, and (ii) Nokia will have a paid-up license for single-mode IS-95 products. The paid-up license and the covenant not to assert became effective upon the discontinuance of the UK 2G Action and Nokia’s withdrawal of its opposition to a related UK amendment application in the UK 2G Proceeding.

Nokia UK Proceeding

In July 2005, Nokia filed a claim in the English High Court of Justice, Chancery Division, Patents Court against ITC. Nokia’s claim seeks a declaration that twenty-nine of ITC’s UMTS European Patents registered in the UK are not essential IPR for the 3GPP standard. In April 2006, a hearing was held to contest the jurisdiction of the High Court to hear the case. Subsequently, the High Court denied ITC’s claim. We intend to vigorously defend the claim and are continuing to contest Nokia’s claim of jurisdiction in the High Court.

Nokia Delaware Proceeding

In January 2005, Nokia and Nokia, Inc. filed a complaint in the United States District Court for the District of Delaware against IDCC and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. In December 2005, as a result of our motion to dismiss all of Nokia’s claims, the Delaware District Court entered an order to grant our motion to dismiss all of Nokia’s declaratory judgment claims due to lack of jurisdiction. The Delaware District Court did not dismiss Nokia’s claims relating to violations of the Lanham Act. Under the Lanham Act claim, Nokia alleges that we have used false or misleading descriptions or representations regarding our patents’ scope, validity, and applicability to products built to comply with 3G wireless phone standards, and that such statements have caused Nokia harm. A scheduling order was entered by the Delaware District Court which contemplates trial in 2008, but no specific trial date has been set.

Samsung

In 2002, Samsung Electronics Co. Ltd. (Samsung) elected, pursuant to the Most Favored Licensee (“MFL”) clause in its 1996 patent license agreement with ITC (Samsung Agreement), to have its royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the January 1999 Nokia Patent License Agreement, including its most favored licensee (MFL) provision. In March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of the Ericsson Agreement (for infrastructure products) and the Sony Ericsson Agreement (for terminal unit products) as a result of the MFL provision in the Nokia License Agreement.

In November 2003, Samsung filed a Request for Arbitration with the International Chamber of Commerce against IDCC and ITC regarding Samsung’s royalty obligations to ITC for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration). In this arbitration proceeding, IDCC and ITC claim that the Ericsson Agreement and the Sony Ericsson Agreement define the financial terms under which Samsung is required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002 through December 31, 2006. IDCC and ITC also seek a declaration that the parties’ rights and obligations are governed by the Samsung Agreement, and that the Nokia License Agreement dictates only Samsung’s royalty obligations and most favored licensee rights for those TDMA products licensed under the Samsung Agreement. In the arbitration, Samsung has claimed that its obligations are not defined by the Ericsson Agreement, the Sony Ericsson Agreement, or the Final Award in the Nokia arbitration. Samsung seeks a determination of the amounts owed to InterDigital by Samsung, which Samsung claims to be substantially less than the amount that IDCC and ITC believe is owed. Samsung also claims that there was a novation of the Samsung Agreement such that Samsung is now licensed to IDCC’s CDMA patents, including its 3G patents. If the arbitration panel were to agree with Samsung’s position on Samsung’s alleged CDMA rights, Samsung would be licensed to sell 3G products on the terms set forth in the 1999 Patent License Agreement between Nokia and InterDigital.

In January 2006, the final evidentiary hearing was held. Post-hearing briefings have been completed and we are awaiting a decision from the ICC Arbitral Tribunal.

Federal

In October 2003, Federal Insurance Company (Federal), the insurance carrier which provided partial reimbursement to the Company of certain legal fees and expenses for the now-settled litigation involving the Company and Ericsson Inc., delivered to us a demand for arbitration under the Pennsylvania Uniform Arbitration Act. Federal claims, based on its determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement (Agreement) requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. Additionally, under certain circumstances, Federal may seek to recover interest on its claim. In November 2003, the Company filed an action in United States District Court for the Eastern District of Pennsylvania (the Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement was found to be valid and enforceable, the Company sought a declaratory judgment that Federal is entitled to reimbursement based only on certain portions of amounts received by the Company from Ericsson Inc. pursuant to the settlement of the litigation involving Ericsson Inc. Federal requested the Court dismiss the action and/or have the matter referred to arbitration.

In October 2005, the Court filed an order granting in part and denying in part Federal's motion to dismiss the Company's complaint. As part of its decision, the Court determined that the Agreement between Federal and the Company (which Agreement served as a basis for Federal's demand to recover any legal fees and expenses) is enforceable, but did not address whether Federal is entitled to recover any legal fees and expenses. Also, the Court reserved to a later time consideration of whether any arbitration award would be binding on the parties. Additionally, in October 2005, the Company filed a motion to reconsider the Court's order which subsequently was denied. An arbitrator has been selected and the parties are currently in the process of preparing for arbitration. A hearing date has not been scheduled.

Prior to Federal's demand for arbitration, we had accrued a contingent liability of $3.4 million related to the Agreement. We continue to evaluate this contingent liability and have maintained this accrual at December 31, 2005. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

We have filed patent applications in the United States and in numerous foreign countries. In the ordinary course of business, we currently are, and expect from time-to-time to be, subject to challenges with respect to the validity of our patents and with respect to our patent applications. We intend to continue to vigorously defend the validity of our patents and defend against any such challenges. However, if certain key patents are revoked or patent applications are denied, our patent licensing opportunities could be materially and adversely affected.

We and our licensees, in the normal course of business, have disagreements as to the rights and obligations of the parties under the applicable patent license agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales of covered products and royalties owed. Our patent license agreements typically provide for arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by an arbitration panel or through private settlement between the parties.

In addition to disputes associated with enforcement and licensing activities regarding our intellectual property, including the litigation and other proceedings described above, we are a party to other disputes and legal actions not related to our intellectual property, but also arising in the ordinary course of our business. Based upon information presently available to us, we believe that the ultimate outcome of these other disputes and legal actions will not have a material adverse affect on us.

Table of Contents

6. STOCK REPURCHASE :

In March 2006, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock through open market purchases, pre-arranged trading plans or privately negotiated purchases. On May 1, 2006, our Board of Directors authorized the expansion of our current share repurchase program by $100 million to $200 million. The amount and timing of purchases will be based on a variety of factors, including potential share repurchase price, cash requirements, acquisition opportunities, strategic investments and other market and economic factors. Repurchases under the original March 2006 plan commenced in April 2006. To date, we have repurchased 856,000 shares for $20 million under the original $100 million share repurchase program.

7. COMMON STOCK COMPENSATION PLANS

Stock Compensation Plans

We have stock-based compensation plans under which, depending on the plan, directors, employees, consultants and advisors can receive stock options, stock appreciation rights, restricted stock awards and other stock unit awards.

Common Stock Option Plans

We have granted options under two incentive stock option plans, three non-qualified stock option plans and two plans which provide for grants of both incentive and non-qualified stock options (Pre-existing Plans) to non-employee directors, officers and employees of the Company and other specified groups, depending on the plan. No further grants are allowed under the Pre-existing Plans. In 2000, our shareholders approved the 2000 Stock Award and Incentive Plan (2000 Plan) that allows for the granting of incentive and non-qualified options, as well as other securities. The 2000 Plan authorizes the offer and sale of up to approximately 7.4 million shares of common stock. The Board of Directors or the Compensation and Stock Option Committee of the Board determine the number of options to be granted. Under the terms of the 2000 Plan, the option price cannot be less than 100% of fair market value of the Common Stock at the date of grant.

In 2002, the Board of Directors approved the 2002 Stock Award and Incentive Plan (2002 Plan) that allows for the granting of incentive and non-qualified options, as well as other securities to Company employees who are not subject to the reporting requirements of Section 16 of the Securities Act of 1934 or an “affiliate” for purposes of Rule 144 of the Securities Act of 1933. The 2002 Plan authorizes the offer and sale of up to 1.5 million shares of common stock. The Board of Directors or the Compensation and Stock Option Committee of the Board determine the number of options to be granted. Under the terms of the 2002 Plan, the option price cannot be less than 100% of fair market value of the Common Stock at the date of grant. In addition, unless otherwise modified, no awards may be granted under the 2002 Plan after the close of business on March 31, 2012.

Under all of these plans, options are generally exercisable for a period of 10 years from the date of grant and may vest on the grant date, another specified date or over a period of time. However, under plans that provide for both incentive and non-qualified stock options, grants most commonly vest in six semi-annual installments.

Information with respect to stock options under the above plans is summarized as follows (in thousands, except per share amounts):

		Outstanding Options		Weighted
	Available For Grant	Number	Price Range	Average Exercise Price
Balance at December 31, 2005	913	7,926	$ 0.01-39.00	$ 13.93
Granted	—	—	$ 0.00 - 0.00	$ —
Canceled	3	(3)	$19.29-26.29	$ 23.40
Exercised	—	(763)	$ 4.38-25.73	$ 12.29
Balance at March 31, 2006	916	7,160	$ 0.01-39.00	$ 14.09

The following table summarizes information regarding the stock options outstanding at March 31, 2006 (in thousands, except for per share amounts):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life*	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01 - 5.25	402	3.97	$ 4.73	402	$ 4.73
$ 5.38 - 5.44	785	1.50	5.44	785	5.44
$ 5.50 - 8.25	734	6.89	6.84	734	6.84
$ 8.33 - 9.00	96	6.27	8.68	96	8.68
$ 9.03 - 9.60	890	5.73	9.59	890	9.59
$ 9.69 - 11.63	848	10.36	10.75	848	10.75
$ 11.64 - 13.19	847	5.29	12.46	847	12.46
$ 13.25 - 17.13	806	5.83	15.72	806	15.72
$ 17.23 - 23.97	733	7.19	19.88	733	19.88
$ 24.00 - 39.00	1,019	4.69	32.88	1,019	32.88
$ 0.01 - 39.00	7,160	5.80	$ 14.09	7,160	$ 14.09

* We currently have approximately 238,000 options outstanding that have an indefinite contractual life. These options were granted between 1983 and 1986 under a pre-existing plan. For purposes of this table, these options were assigned an original life in excess of 50 years. The majority of these options have an exercise price of between, $5.75 and $11.63.

We had 6.2 million and 6.3 million options outstanding at March 31, 2006 and December 31, 2005, respectively, that had exercise prices less than the fair market value of the Company's stock at each balance sheet date. These options would generate cash proceeds for the Company of $68.9 million and $63.5 million, respectively, had they been fully exercised at these dates.

Common Stock Warrants

As of March 31, 2006 and December 31, 2005, we had warrants outstanding to purchase 80,000 of Common Stock at an exercise price and weighted average exercise price of $7.63 per share. These warrants are exercisable and will expire in 2006. The exercise price and number of shares of Common Stock to be obtained upon exercise of these warrants are subject to adjustment under conditions specified in the warrant certificate.

Restricted Stock

Under our 1999 Restricted Stock Plan, as amended (1999 Plan), we may issue up to 3.5 million shares of restricted common stock and restricted stock units to directors, employees, consultants and advisors. The restrictions on issued shares lapse over periods generally ranging from 1 to 5 years from the date of the grant. As of March 31, 2006 and December 31, 2005 we had issued 2.1 million and 2.0 million shares, respectively, of restricted stock and restricted stock units under the 1999 Plan. The related compensation expense has been, and will continue to be, amortized over vesting periods that are generally from 1 to 5 years. At March 31, 2006 and December 31, 2005, we had unrecognized compensation cost related to share-based awards of $7.6 million and $5.8 million, respectively. We expect to amortize the unrecognized compensation cost at March 31, 2006 over a weighted average period of 0.8 years.

We grant restricted stock units as an element of compensation to our employees. These awards vest over three years, depending upon job level, according to the following schedules:

	Year 1	Year 2	Year 3
Below managers	33%	33%	34%
Managers and technical equivalents	25%	25%	50%
Senior Officers	0%	0%	100%

Information with respect to unvested restricted stock units under the above plan is summarized as follows (in thousands, except per share amounts):

	Number of Unvested RSUs	Weighted Average Grant Date Fair Value
Balance at December 31, 2005	814	$ 21.67
Granted	169	18.58
Forfeited	(13)	(20.33)

Vested	(335)	(19.42)
Balance at March 31, 2006	635	$ 22.22

Table of Contents

8. COMPREHENSIVE INCOME :

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

	For the Three Months Ended March 31, 2006	2005
Net income (loss)	$ 12,939	$ (882)
Unrealized gain (loss) on investments	34	(133)
Total comprehensive income (loss)	$ 12,973	$ (1,015)

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 elsewhere in this document, in addition to InterDigital Communications Corporation's (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (2005 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 14, 2006, other reports filed with the SEC, and the "Statement Pursuant to the Private Securities Litigation Reform Act of 1995" below. Please refer to the Glossary of Terms located after the Table of Contents for a list and detailed description of the various technical, industry and other defined terms that are used in this Form 10-Q for the quarter ended March 31, 2006.

Nokia Litigation and Legal Proceedings

On April 27, 2006, InterDigital Communications Corporation (IDCC) and ITC entered into agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in the Arbitration Settlement Agreement, the parties resolved their disputes arising out of the June 2005 International Court of Arbitration of the International Chamber of Commerce (ICC) Arbitration Tribunal Award, which related to the January 1999 Patent License Agreement between the parties (the PLA Proceedings). Pursuant to the UK Settlement Agreement, Nokia dismissed its claims under Claim No. HC04 C01952, a proceeding that Nokia instituted in June 2004 against ITC in the High Court of Justice of England and Wales, Chancery Division, Patents Court, seeking to challenge three of our TDMA-related patents.

Pursuant to the Arbitration Settlement Agreement, on April 28, 2006, Nokia paid InterDigital $253 million. Nokia is deemed to have a fully paid-up license covering worldwide sales of 2G TDMA-based products, consisting primarily of GSM/GPRS/EDGE terminal units and infrastructure. Nokia is also released from infringement liability for worldwide sales of 3G terminal units and infrastructure through April 26, 2006. Under the Arbitration Settlement Agreement, the January 1999 Patent License Agreement was terminated.

Based upon our preliminary review of the accounting treatment for this matter, we expect to recognize the entire $253 million payment in our 2006 income statement. We will provide additional detailed disclosure upon the completion of our analysis.

New Material Patent License Agreement

On January 18, 2006, we entered into a worldwide, non-transferable, non-exclusive, patent license agreement with LG Electronics Inc. (LG). The five-year patent license agreement, effective January 1, 2006, covers the sale, both prior to January 1, 2006 and during the five-year term, of terminal units compliant with all TDMA-based Second Generation

(2G) standards (including TIA-136, GSM, GPRS, and EDGE) and all Third Generation (3G) standards (including WCDMA, TD-SCDMA and cdma2000 technology and its extensions), and infrastructure products compliant with cdma2000 technology and its extensions, up to a limited threshold amount, under all patents owned by us prior to and during the term of the license. At the end of the five year term, LG will receive a paid-up license to sell single-mode GSM/GPRS/EDGE terminal units under the patents included in the patent license agreement. Under the terms of the patent license agreement, LG paid us the first of three equal installments of $95 million in first quarter 2006. The remaining two installments are due in the first quarters of 2007 and 2008, respectively. We are recognizing the revenue associated with this agreement on a straight-line basis from its inception through December 31, 2010.

Repurchase of Common Stock

In March, 2006, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock through open market purchases, pre-arranged trading plans or privately negotiated purchases. On May 1, 2006, our Board of Directors authorized the expansion of our current share repurchase program by $100 million to $200 million. The amount and timing of purchases will be based on a variety of factors, including potential share repurchase price, cash requirements, acquisition opportunities, strategic investments and other market and economic factors. Repurchases under the original March 2006 plan commenced in April 2006. To date, we have repurchased 856,000 shares for $20 million under the original $100 million share repurchase program.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2005 Form 10-K. A discussion of our critical accounting policies, and the related estimates, are included in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2005 Form 10-K. There have been no material changes in our existing accounting policies from the disclosures included in our 2005 Form 10-K.

New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections,* which replaces Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes* , and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28* . SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method of accounting for and reporting a change in accounting principle and a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and was adopted by the Company effective January 1, 2006. The adoption of SFAS No. 154 did not have a material impact on our consolidated financial position, results of operations and cash flows.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

In first quarter 2006 and 2005, we generated net cash from operating activities of $86.5 million and $16.7 million, respectively. The positive operating cash flow in first quarter 2006 arose principally from receipts of approximately $152.1 million related to 2G and 3G patent licensing agreements. These receipts included $95 million from LG Electronics (LG), $12.0 million from Sharp Corporation of Japan (Sharp), $9.4 million from NEC Corporation of Japan (NEC), and $35.7 million from other licensees. 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 $28.2 million, cash payments for foreign source withholding taxes of $15.7 million and changes in working capital during first quarter 2006. The positive operating cash flow in first quarter 2005 arose principally from receipts of approximately $48.0 million related to 2G and 3G patent licensing agreements. These receipts included $27.9 million from Sony Ericsson, $9.5 million from Sharp, $8.1 million from NEC and $2.5 million from other licensees. 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 $30.8 million and changes in working capital during first quarter 2005.

We receive cash payments relating to current per-unit royalties. We also receive up-front cash payments for prepaid royalties or to fulfill a patent licensee's obligations to us under a patent license agreement for either a specified time period or for the term of the agreement. When we record the receipt or expected receipt of up-front payments, we defer recognition of the revenue associated with such payments pursuant to our revenue recognition policy as discussed in our Critical Accounting Policies. We have no material obligations associated with such deferred revenue.

Our combined short-term and long-term deferred revenue balance at March 31, 2006 was approximately $286.9 million, an increase of $195.6 million from December 31, 2005. In first quarter 2006, we recorded gross increases in deferred revenue of approximately $226 million, $190 million of which relates to payments either received or due from LG, and approximately $31 million which relates to new prepayments from two other existing licensees. In first quarter 2006, we collected the first $95 million payment from LG and recorded $95 million in accounts receivable relating to LG's second payment due in first quarter 2007. In accordance with our policy for recording long-term receivables from patent license agreements, we will defer recognition in accounts receivable of LG's third $95 million payment, which is due in first quarter 2008, until twelve months prior to its due date. The gross increases in deferred revenue were offset, in part, by current quarter deferred revenue recognition of approximately $19.5 million related to the amortization of fixed-fee royalty payments and approximately $10.4 million from current year per-unit exhaustion of prepaid royalties based upon royalty reports provided by our licensees.

Based on current license agreements, we expect the amortization of fixed fee royalty payments over the remaining three quarters of 2006 to reduce the March 31, 2006 deferred revenue balance of $286.9 million by $56.3 million. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances.

In first quarter 2006, we used $62.8 million in investing activities. In first quarter 2005, we used $10.6 million for these same activities. This change between quarters resulted from higher cash receipts and a lower use of cash in financing activities. We purchased $55.1 million of short-term marketable securities, net of sales, in first quarter 2006. We sold $3.3 million of short-term marketable securities, net of purchases, in first quarter 2005. Purchases of property and equipment increased to $3.2 million in first quarter 2006 from $2.1 million in first quarter 2005 due to investments in development tools and the expansion of our engineering information system network. Investment costs associated with patents increased from $3.8 million in first quarter 2005 to $4.5 million in first quarter 2006. This increase reflects higher patenting activity over the past several years, combined with the lag effect between filing an initial patent application and the incurrence of costs to issue the patent in both the U.S. and foreign jurisdictions. In first quarter 2005, we also invested approximately $8.0 million to acquire patents and intellectual property.

Net cash generated by financing activities in first quarter 2006 was $12.5 million. In first quarter 2005, net cash used in financing activities was $7.8 million. We received proceeds from option and warrant exercises of $9.4 million and $1.3 million in 2006 and 2005, respectively. In first quarter 2006, we recorded a tax benefit related to the exercise of options of $3.2 million. This benefit reduces our federal income tax liability. In first quarter 2005, we repurchased 0.5 million shares of our common stock for $9.0 million.

We had 6.2 million and 6.3 million stock options outstanding at March 31, 2006 and December 31, 2005, respectively, with exercise prices less than the fair market value of our common stock at each balance sheet date. These options would have generated cash proceeds for the Company of $68.9 million and $63.5 million, respectively, had they been fully exercised at these dates.

As of March 31, 2006, we had $197.0 million of cash, cash equivalents and short-term investments, compared to $105.7 million at December 31, 2005. Our working capital (adjusted to exclude cash, cash equivalents, short-term investments, current maturities of debt and current deferred revenue) increased to $151.5 million at March 31, 2006 from $39.9 million at December 31, 2005. This $111.6 million increase is primarily due to a $93.9 million increase in accounts receivable, a $20.1 million increase in our short-term deferred tax assets and an $11.0 million decrease in accrued compensation and related expenses, partly offset by a $15.6 million increase in foreign and domestic taxes payable. Accounts receivable increased due to our recognition of LG’s second $95 million payment due first quarter 2007 under our January 2006 license agreement. Short-term deferred tax assets increased primarily as a result of our recognition of foreign tax credits associated with LG. Accrued compensation and related expenses decreased due to our payment of the 2005 year-end bonus and the 2004–2005 performance-based cash incentive under our long-term compensation program. Foreign and domestic taxes payable increased due to our accruals of both foreign source withholding taxes, related to LG’s second $95 million payment, and U.S. income taxes payable.

In December 2005, we entered into a two-year $60 million unsecured revolving credit facility (Credit Agreement). Borrowings under the Credit Agreement can be used for general corporate purposes including capital expenditures, working capital, letters of credit, certain permitted acquisitions and investments, cash dividends and stock repurchases. As of March 31, 2006, we did not have any amounts outstanding under the Credit Agreement. We are in compliance with our covenants under the Credit Agreement at March 31, 2006.

Consistent with our strategy to focus our resources on the development and commercialization of advanced wireless technology products, we expect to see modest growth in operating cash needs related to planned staffing levels and continued investments in enabling capital assets in the remainder of 2006. Based upon updated assessments, we now expect that purchases of property and equipment in support of technology and product development opportunities will be $12 million to $15 million. We are capable of supporting these and other operating cash requirements, including our $200 million share repurchase program, for the near future through cash and short-term investments on hand, other operating funds such as patent license royalty payments or funds from the above-noted credit facility. An adverse resolution of the litigation involving Federal Insurance Company (See, *Litigation and Legal Proceedings, Federal*) should not prevent us from supporting our operating requirements for the near future. At present, we do not anticipate the need to seek additional financing through additional bank facilities or the sale of debt or equity securities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined by regulation S-K 303(a)(4) promulgated under the Securities Act of 1934.

RESULTS OF OPERATIONS

First Quarter 2006 Compared to First Quarter 2005

Revenues

	First Quarter 2006	First Quarter 2005
Per-unit royalty revenue	$ 30.1	$ 23.3
Fixed-fee and amortized royalty revenue	19.5	7.5
Recurring patent licensing royalties	49.6	30.8
Total patent licensing royalties	49.6	30.8
Technology solution revenue	2.0	4.7
Total Revenue	$ 51.6	$ 35.5

In first quarter 2006, revenues increased 45%, to $51.6 million from $35.5 million in first quarter 2005. This increase was driven by higher recurring royalties, related to both new agreements signed since last year's first quarter with LG and Kyocera Corporation and increased contributions from other existing licensees at March 2005.

Technology solution revenue decreased in first quarter 2006 to $2.0 million from $4.7 million in first quarter 2005 as contributions from HSDPA technology programs with Philips Semiconductor B.V. and Infineon partially offset a decrease associated with the completion of deliverables under a program for the U.S. military under an agreement with General Dynamics.

In first quarter 2006 and 2005, 62% and 84%, respectively, of our revenues were from companies that individually accounted for 10% or more of total revenues. In first quarter 2006, those companies were LG (22%), NEC (22%) and Sharp (18%). In first quarter 2005, the comparable list included NEC (32%), Sharp (27%), General Dynamics (13%) and Sony Ericsson (12%).

Operating Expenses

Operating expenses decreased 9% to $32.8 million in first quarter 2006 from $36.3 million in first quarter 2005. The $3.5 million decrease was due to net changes in the following items (in millions):

	(Decrease)/Increase
Patent litigation and arbitration	$ (2.5)
Long-term compensation program (LTCP)	(2.2)
Other personnel related costs	0.6
Commissions	0.6
Patent amortization	0.5
Other	(0.5)
Total Decrease in Operating Expense	$ (3.5)

The decrease in patent litigation and arbitration costs resulted from lower activity levels in first quarter 2006. In first quarter 2005, these costs included amounts related to litigation with Lucent which was settled in fourth quarter 2005. Our LTCP costs in first quarter 2005 included the effect of overlapping cycles (i.e., Cycle 1 that concluded on January 1, 2006 and Cycle 2 which includes elements that commenced in 2005 and end on either January 1, 2008 or January 1, 2009). First quarter 2006 LTCP expenses include costs for Cycle 2 only. Other personnel costs increased primarily due to employment taxes related to Cycle 1 payouts and options exercised during the quarter. Higher patent licensing royalties resulted in increased commission expense in first quarter 2006. The increase in patent amortization resulted from the acquisition of a patent portfolio in 2005 and higher levels of internal inventive activity in recent years.

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

	First Quarter 2006	First Quarter 2005	(Decrease)	
Sales and marketing	$ 1.8	$ 2.3	$(0.5)	(20)%
General and administrative	5.0	6.6	(1.6)	(24)
Patents administration and licensing	10.0	11.2	(1.2)	(11)
Development	16.0	16.2	(0.2)	(1)
Total Operating Expense	$ 32.8	$ 36.3	$(3.5)	(9)%

Sales and Marketing Expense: Approximately 75% of the decrease resulted from lower LTCP costs. The balance of the decrease was mainly due to lower travel costs in first quarter 2006.

General and Administrative Expense: The key contributors to the decrease were lower LTCP costs (37%), legal fees (27%) and directors and officers insurance premiums (10%).

Patents Administration and Licensing Expense: The decrease reflects the net effect of the above-noted items related to patent arbitration and litigation costs, commissions and patent amortization expenses.

Development Expense: A decrease in LTCP costs of approximately $1.1 million was offset, in part, by various increases, none of which exceeded $0.4 million, that included employment taxes related to Cycle 1 payouts and options exercised during the quarter, annual wage inflation, depreciation, travel and other expenses related to work on our technology solutions development.

Interest and Investment Income, Net

Net interest and investment income of $1.5 million in first quarter 2006 increased $0.7 million or 91% from $0.8 million in first quarter 2005. The increase resulted from higher rates of return on our investments and higher investment balances in first quarter 2006.

Income Taxes

Our income tax provision in first quarter 2006 reflected a 36.2% effective tax rate. This effective tax rate primarily results from the statutory federal tax rate and the amortization of foreign deferred tax assets related to foreign withholding tax payments made in prior years. In first quarter 2005, our income tax provision consisted primarily of foreign source withholding taxes associated with patent licensing royalties from Japan.

Expected Trends

We will provide guidance on second quarter 2006 revenue after we receive and review applicable royalty reports, conclude our analysis related to the final accounting associated with the $253 million payment from Nokia and update our forecasts on anticipated revenue from work associated with technology solution agreements. We anticipate that second quarter 2006 operating expenses, excluding current patent arbitration or litigation costs, will grow by 8% to 12% over first quarter 2006, reflecting a gradually increasing level of investment in our dual mode terminal unit ASIC offering. Patent arbitration and litigation expense will depend on the level of activity through the remainder of the quarter. Lastly, we expect that our book tax rate for second quarter 2006 will approximate 35% to 37%.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q), including “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements. Words such as “expect,” “will,” “believe,” “could,” “would,” “dependent upon,” “should not,” “anticipate,” “future” or similar expressions contained herein are intended to identify such forward-looking statements. Although forward-looking statements in this Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. These statements reflect, among other things, our current beliefs, plans and expectations as to:

(i) our accounting treatment of the $253 million received from Nokia as part of the resolution of that dispute; (ii) that the amortization of fixed-fee royalty payments over the remaining three quarters of 2006 will reduce our March 31, 2006 deferred revenue balance; (iii) additional reductions to deferred revenue; (iv) the impact of any adverse resolution in our dispute with Federal on our ability to meet our near-term operating requirements; (v) our needs and plans with respect to additional financing or the sale of debt or equity securities; (vi) our second quarter 2006 operating expenses (excluding current patent and arbitration expenses); and (vii) our second quarter 2006 book tax rate.

Forward-looking statements concerning our business, results of operations and financial condition are inherently subject to risks and uncertainties. We caution readers that actual results and outcomes could differ materially from those expressed in or anticipated by such forward-looking statements. You should carefully consider the risks and uncertainties outlined in greater detail in this Form 10-Q, including “Item 1A - Risk Factors.”, and in our Form-K for the year ended December 31, 2005, before making any investment decision with respect to our common stock. You should not place undue reliance on these forward-looking statements, which are only as of the date of this Form 10-Q. Factors affecting one forward-looking statement may affect other forward-looking statements. We undertake no obligation to revise or publicly update 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 2005 Form 10-K.

Item 4. CONTROLS AND PROCEDURES .

The Company's Chief Executive Officer and its Chief 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 of the end of the period covered by this report. Based on that evaluation, the Chief Executive Office 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 under the Securities Exchange Act of 1934 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 under the Securities and Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and financial officers, 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 March 31, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS .

Nokia

On April 27, 2006, InterDigital Communications Corporation (IDCC) and ITC entered into agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in the Arbitration Settlement Agreement, the parties resolved their disputes arising out of the June 2005 International Court of Arbitration of the International Chamber of Commerce (ICC) Arbitration Tribunal Award, which related to the January 1999 Patent License Agreement between the parties (the PLA Proceedings). Pursuant to the UK Settlement Agreement, Nokia dismissed its claims under Claim No. HC04 C01952, a proceeding that Nokia instituted in June 2004 against ITC in the High Court of Justice of England and Wales, Chancery Division, Patents Court (High Court), seeking to challenge three of our TDMA-related patents (UK 2G Proceeding).

Pursuant to the Arbitration Settlement Agreement, on April 28, 2006, Nokia paid InterDigital $253 million. Nokia is deemed to have a fully paid-up license covering worldwide sales of 2G TDMA-based products, consisting primarily of GSM/GPRS/EDGE terminal units and infrastructure. Nokia is also released from infringement liability for worldwide sales of 3G terminal units and infrastructure through April 26, 2006. Under the Arbitration Settlement Agreement, the January 1999 Patent License Agreement was terminated.

Pursuant to the UK Settlement Agreement, Nokia has withdrawn its challenge before the High Court in the UK 2G Proceeding. In consideration for the discontinuance of the UK 2G Proceeding, InterDigital agreed (i) not to assert against Nokia the three patents (and related non-U.K counterparts) involved in that proceeding, and (ii) Nokia will have a paid-up license for single-mode IS-95 products. The paid-up license and the covenant not to assert became effective upon the discontinuance of the UK 2G Action and Nokia's withdrawal of its opposition to a related UK amendment application in the UK 2G Proceeding.

Nokia UK Proceeding

In July 2005, Nokia filed a claim in the English High Court of Justice, Chancery Division, Patents Court against ITC. Nokia's claim seeks a declaration that twenty-nine of ITC's UMTS European Patents registered in the UK are not essential IPR for the 3GPP standard. In April 2006, a hearing was held to contest the jurisdiction of the High Court to hear the case. Subsequently, the High Court denied ITC's claim. We intend to vigorously defend the claim and are continuing to contest Nokia's claim of jurisdiction in the High Court.

Nokia Delaware Proceeding

In January 2005, Nokia and Nokia, Inc. filed a complaint in the United States District Court for the District of Delaware against IDCC and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. In December 2005, as a result of our motion to dismiss all of Nokia's claims, the Delaware District Court entered an order to grant our motion to dismiss all of Nokia's declaratory judgment claims due to lack of jurisdiction. The Delaware District Court did not dismiss Nokia's claims relating to violations of the Lanham Act. Under the Lanham Act claim, Nokia alleges that we have used false or misleading descriptions or representations regarding our patents' scope, validity, and applicability to products built to comply with 3G wireless phone standards, and that such statements have caused Nokia harm. A scheduling order was entered by the Delaware District Court which contemplates trial in 2008, but no specific trial date has been set.

Samsung

In 2002, Samsung Electronics Co. Ltd. (Samsung) elected, pursuant to the Most Favored Licensee ("MFL") clause in its 1996 patent license agreement with ITC (Samsung Agreement), to have its royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the January 1999 Nokia Patent License Agreement, including its most favored licensee (MFL) provision. In March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of the Ericsson Agreement (for infrastructure products) and the Sony Ericsson Agreement (for terminal unit products) as a result of the MFL provision in the Nokia License Agreement.

In November 2003, Samsung filed a Request for Arbitration with the International Chamber of Commerce against IDCC and ITC regarding Samsung's royalty obligations to ITC for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration). In this arbitration proceeding, IDCC and ITC claim that the Ericsson Agreement and the Sony Ericsson Agreement define the financial terms under which Samsung is required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002 through December 31, 2006. IDCC and ITC also seek a declaration that the parties' rights and obligations are governed by the Samsung Agreement, and that the Nokia License Agreement dictates only Samsung's royalty obligations and most favored licensee rights for those TDMA products licensed under the Samsung Agreement. In the arbitration, Samsung has claimed that its obligations are not defined by the Ericsson Agreement, the Sony Ericsson Agreement, or the Final Award in the Nokia arbitration. Samsung seeks a determination of the amounts owed to InterDigital by Samsung, which Samsung claims to be substantially less than the amount that IDCC and ITC believe is owed. Samsung also claims that there was a novation of the Samsung Agreement such that Samsung is now licensed to IDCC's CDMA patents, including its 3G patents. If the arbitration panel were to agree with Samsung's position on Samsung's alleged CDMA rights, Samsung would be licensed to sell 3G products on the terms set forth in the 1999 Patent License Agreement between Nokia and InterDigital.

In January 2006, the final evidentiary hearing was held. Post-hearing briefings have been completed and we are awaiting a decision from the ICC Arbitral Tribunal.

Federal

In October 2003, Federal Insurance Company (Federal), the insurance carrier which provided partial reimbursement to the Company of certain legal fees and expenses for the now-settled litigation involving the Company and Ericsson Inc., delivered to us a demand for arbitration under the Pennsylvania Uniform Arbitration Act. Federal claims, based on its determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement (Agreement) requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. Additionally, under certain circumstances, Federal may seek to recover interest on its claim. In November 2003, the Company filed an action in United States District Court for the Eastern District of Pennsylvania (the Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement was found to be valid and enforceable, the Company sought a declaratory judgment that Federal is entitled to reimbursement based only on certain portions of amounts received by the Company from Ericsson Inc. pursuant to the settlement of the litigation involving Ericsson Inc. Federal requested the Court dismiss the action and/or have the matter referred to arbitration.

In October 2005, the Court filed an order granting in part and denying in part Federal's motion to dismiss the Company's complaint. As part of its decision, the Court determined that the Agreement between Federal and the Company (which Agreement served as a basis for Federal's demand to recover any legal fees and expenses) is enforceable, but did not address whether Federal is entitled to recover any legal fees and expenses. Also, the Court reserved to a later time consideration of whether any arbitration award would be binding on the parties. Additionally, in October 2005, the Company filed a motion to reconsider the Court's order which subsequently was denied. An arbitrator has been selected and the parties are currently in the process of preparing for arbitration. A hearing date has not been scheduled.

Prior to Federal's demand for arbitration, we had accrued a contingent liability of $3.4 million related to the Agreement. We continue to evaluate this contingent liability and have maintained this accrual at December 31, 2005. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

We have filed patent applications in the United States and in numerous foreign countries. In the ordinary course of business, we currently are, and expect from time-to-time to be, subject to challenges with respect to the validity of our patents and with respect to our patent applications. We intend to continue to vigorously defend the validity of our patents and defend against any such challenges. However, if certain key patents are revoked or patent applications are denied, our patent licensing opportunities could be materially and adversely affected.

We and our licensees, in the normal course of business, have disagreements as to the rights and obligations of the parties under the applicable patent license agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales of covered products and royalties owed. Our patent license agreements typically provide for arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by an arbitration panel or through private settlement between the parties.

In addition to disputes associated with enforcement and licensing activities regarding our intellectual property, including the litigation and other proceedings described above, we are a party to other disputes and legal actions not related to our intellectual property, but also arising in the ordinary course of our business. Based upon information presently available to us, we believe that the ultimate outcome of these other disputes and legal actions will not have a material adverse affect on us.

Item 1A. RISK FACTORS .

There have been no material changes in our risk factors as previously described in our 2005 Form 10-K with the exception of the following change. The Company's resolution of its patent royalty dispute with Nokia eliminates, as an important risk factor, our inability to collect royalties on sales of Nokia's 2G products.

Table of Contents

Item 6. EXHIBITS .

The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Exhibit Description
10.82*	License Agreement by and between InterDigital Group and LG Electronics, Inc. dated January 1, 2006.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William J. Merritt.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Richard J. Fagan.

* An application has been submitted to the Securities and Exchange Commission for confidential treatment, pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, of portions of this exhibit. These portions have been omitted from this exhibit.

Table of Contents

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 COMMUNICATIONS CORPORATION

Date: May 10, 2006	/s/ WILLIAM J. MERRITT **William J. Merritt** **President and Chief Executive Officer**
Date: May 10, 2006	/s/ R.J. FAGAN **Richard J. Fagan** **Chief Financial Officer**

CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION

Wireless Patent License Agreement

Between

InterDigital Group

And

LG Electronics Inc.

Dated and Effective as of January 1, 2006 ("Effective Date")

PATENT LICENSE AGREEMENT

THIS IS A PATENT LICENSE AGREEMENT (the "Agreement"), dated as of January 1, 2006 (the "Effective Date"), between InterDigital Technology Corporation, a Delaware corporation having a mailing address of 3411 Silverside Road, Concord Plaza, Wilmington, Delaware 19810, Tantivy Communications, Inc., a Delaware corporation having a mailing address of 3411 Silverside Road, Concord Plaza, Wilmington, Delaware 19810, and IPR Licensing, Inc., a Delaware corporation having a mailing address of 3411 Silverside Road, Concord Plaza, Wilmington, Delaware 19810 (individually and together, the "InterDigital Group"), and LG Electronics Inc. ("Licensee"), a Korean corporation, having a mailing address of LG Twin Towers, 20, Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea 150-721.

PREAMBLE

InterDigital Group represents that it owns and has the right to license the Licensed Patents and is willing to grant a worldwide, non-exclusive license under the Licensed Patents on the terms set forth below. Licensee desires to obtain such a license.

NOW, THEREFORE , in consideration of the mutual promises contained herein the parties agree as follows:

ARTICLE I - DEFINITIONS

1.1 "AAA" means the American Arbitration Association.

1.2 "AAA International Rules" means the AAA's then current ICDR International Arbitration Rules.

1.3 "Additional Sales" represents the number of Licensed Terminal Units to be Sold on or after the Acquisition Date and during the remainder of the Term of this Agreement (on a quarter by quarter basis) that would be attributable to a Terminal Unit Business that was Acquired by Licensee or a Licensee Affiliate on or after the Effective Date, as opposed to ordinary, organic Sales growth by Licensee and its Affiliates (other than Acquired Terminal Unit Businesses). Additional Sales, with respect to an Acquired Terminal Unit Business, shall be calculated as the [***].

1.4 "Action" means any legal or administrative action anywhere in the world seeking to invalidate, render unenforceable, or limit or construe the scope of any Licensed Patent that take place between January 1, 2006 and December 31, 2010.

1.5 "Affiliate" means a legal entity that is controlled by a party to this Agreement or is more than fifty percent (50%) owned, directly or indirectly, by a party. Such legal entity shall constitute an Affiliate of the party only so long as the ownership or control exists. IDCC shall not constitute an Affiliate of InterDigital Group.

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

1.6 "Acquire" or "Acquisition" means the acquisition (direct or indirect) of the control of an entity or the acquisition (direct or indirect) of more than fifty percent (50%) of the ownership of the business, stock, or assets of an entity.

1.7 "Acquisition Date" means the date on which Licensee or any of its Affiliates Acquires a Terminal Unit Business.

1.8 "Arbitration Panel" means a panel of three (3) arbitrators, all of whom shall be admitted to practice law in at least one jurisdiction in the United States, and at least two of whom shall have substantial experience in the field of intellectual property litigation or intellectual property licensing.

1.9 "IDCC" means InterDigital Communications Corporation, having an office at 781 Third Avenue, King of Prussia, PA 19406.

1.10 "GSM Licensed Terminal Unit" means a Terminal Unit designed to operate substantially in accordance with GSM, GPRS, or EDGE, each as amended from time to time, and no other standard or specification for CDMA- and TDMA -based communications systems.

1.11 "Infrastructure Equipment" means mobile switching centers, radio network controllers, service nodes, Node B's, base stations, radio resource management devices and software, base station controllers, digital transceivers, digital channel cards, and software necessary to operate the aforementioned devices (including software maintenance agreements) whether sold as individual items or bundled as an integrated product, which are used to interconnect a Terminal Unit to a public or private data or voice network (whether wired or unwired), including the Internet.

1.12 "Knock-Down Unit" means a substantially complete Licensed Terminal Unit sold to a third party in a partially assembled or disassembled form for final manufacturing, packaging, sale and distribution.

1.13 "Licensed cdma2000 Infrastructure" means Infrastructure Equipment designed to operate substantially in accordance with CDMA2000 [including 1x, EV-DV, EV-DO], as amended from time to time, and no other standard or specification for CDMA- and TDMA -based communications systems.

1.14 "Licensed Patents" mean all currently issued patents, and patents that issue from applications filed prior to or during the Term of this Agreement, including patents issuing from divisionals, continuations, and continuations-in-part of such applications, and reissue and reexamination patents thereof, which InterDigital Group or any of their Affiliates at any time during the Term owns (including ownership as a result of acquisition).

1.15 "Licensed Standards" mean the following PHS, PDC, iDen, GSM, GPRS, EDGE, IS-54/136, DECT, TETRA, W-CDMA (FDD and TDD), TDSCDMA, CDMA2000 [including 1x, EV-DV, EV-DO], and similar standards adopted on a regional basis (e.g. ARIB FDD), each as amended from time to time. TIA/EIA 95 shall not constitute a Licensed Standard.

1.16 "Licensed Business" means an entity other than Licensee or its then current Affiliates which is involved in the design, development, manufacture, distribution or sale of Licensed Terminal Units, which is licensed to Sell Licensed Terminal Units by InterDigital Group as a whole.

1.17 "Licensed Terminal Units" means Terminal Units designed to operate substantially in accordance with at least one of Licensed Standards.

1.18 "Licensee" means LG Electronics Inc.

1.19 "Licensee Patents" mean all currently issued patents, and patents that issue from applications filed prior to or during the Term of the license, including patents issuing from divisionals, continuations, and continuations-in-part of such applications, and reissue and reexamination patents thereof, for which Licensee or any of its Affiliates at any time during the Term owns (including ownership as a result of acquisition).

1.20 "Market Factor" means an [***].

1.21 "Market Share" means the world-wide market share for an entity Selling Licensed Terminal Units, as reported in the then most recent *Strategy Analytics* (or other agreed to) report.

1.22 "Net Selling Price" means the amount actually invoiced to the customer for a Licensed Terminal Unit (including battery and charger), excluding the amount shown on the invoice for the actual cost of packing, insurance, shipping and handling, applicable import, export and excise duties and sales tax (including VAT added by Licensee to the completed Licensed Terminal Unit), and reduced by, returns, price protection credits, and trade discounts given to the customer in the normal course of business. To the extent the Net Selling Price relating to any Sale is subsidized by additional consideration, the fact that the customer is a related party, or otherwise, the Net Selling Price shall be adjusted upwards to an amount that would have been charged in the absence of such factors.

1.23 "Related Companies" means Affiliates of, parent companies of, and companies under common control with InterDigital Group.

1.24 "Sale" means the first sale made on an arms-length basis to an entity other than an Affiliate. A warranty replacement shall not constitute a Sale.

1.25 "Sell" means the act of making a Sale.

1.26 "Term" means the term of this Agreement, as set forth in Section 4.1.

1.27 "Terminal Unit" means an end-user terminal device, whether fixed, mobile, vehicular, portable, or hand-held, having RF transmit and/or RF receive capabilities, which device is designed for wireless voice and/or data communications. An end-user terminal device includes without limitation handsets, Wireless Modules, wireless-enabled PDAs and computers, communication cards (e.g., PCMCIA card), and Knock-Down Units.

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

1.28 "Terminal Unit Business" means an entity other than Licensee or its then current Affiliates which is involved in the design, development, manufacture, distribution or sale of Licensed Terminal Units, which Terminal Unit Business has a [***] at the time of its Acquisition by Licensee or an Affiliate of Licensee.

1.29 "Unlicensed Sale" means a Sale of a Licensed Terminal Unit without (or outside of the scope of) a license granted by InterDigital Group.

1.30 "Unlicensed Terminal Unit Business" means a Terminal Unit Business that is not licensed to Sell Licensed Terminal Units by InterDigital Technology Corporation or InterDigital Group as a whole.

1.31 "Wireless Module" means a device that is a fully integrated wireless communications product, including all required ASICs, which is sold to a third party for physical integration into other devices such as handsets, vending machines, computers, laptop computers, sensing/telemetry applications, motor vehicles and fixed wireless telephone systems.

ARTICLE II - LICENSE GRANT & NON-ASSERTS

2.1 Grant . To the extent Licensee has paid each installment of the License Fee as set forth in Section 3.1 herein and all royalties as set forth in Sections 3.3 and 3.4 herein (to the extent applicable) and provided Licensee is otherwise not in default under this Agreement, InterDigital Group hereby grants to Licensee and its Affiliates a non-exclusive, non-transferable, worldwide, royalty-bearing license under the Licensed Patents to develop, design, make, have made (to the extent substantially designed by Licensee or its Affiliates), use, import, sell, and otherwise distribute Licensed Terminal Units, alone but not in combination with other third party equipment, including the right to procure components therefore. In addition, provided Licensee is not in default under this Agreement at the end of the Term, Licensee shall be fully paid-up under and for the life of the Licensed Patents as to GSM Licensed Terminal Units only at the end of the Term.

2.2 Limitations on License Grant . The license granted under Section 2.1 above excludes Sales of Terminal Units by an Acquired Unlicensed Terminal Unit Business prior to its Acquisition Date and Additional Sales, in each case, where Licensee elects to treat any of such Sales as Unlicensed Sales. This license grant also excludes the right to grant sublicenses. In addition, notwithstanding anything to the contrary, the Section 2.1 license grant shall not include any license, express or implied, to develop, design, make, have made, use, import, sell, and otherwise distribute components covered by the Licensed Patents, except to the extent that such components are used solely to manufacture Licensed Terminal Units licensed hereunder and which are Sold by Licensee and its Affiliates.

2.3 Licensee Non-Assert . Licensee hereby covenants not to sue InterDigital Group, their Related Companies, and/or each of their customers for infringement under the Licensee Patents but only with

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

respect to products developed, designed, manufactured, have manufactured (to the extent substantially designed by InterDigital Group and/or its Related companies), used, imported, sold, or otherwise distributed by InterDigital Group and their Related Companies. In the event a customer of either InterDigital Group or any of the Related Companies sues Licensee or its Affiliates for patent infringement, this covenant not to sue shall cease to apply as to such customer. This covenant not to sue shall survive any sale or transfer of the Licensee Patents to another entity. In addition, this covenant shall (i) not apply to any Related Company which is not a Related Company as of the Effective Date if such new Related Company has a [***] as of the date that such entity becomes a Related Company, or (ii) cease as to any Related Company who sues Licensee or its Affiliates and/or any of their customers for patent infringement.

2.4 InterDigital Group Non-Assert. Provided Licensee is not in default under this Agreement, InterDigital Group hereby covenants not to sue Licensee and/or its Affiliates for infringement of the Licensed Patents for the development, design, manufacture, having manufactured (to the extent substantially designed by Licensee and/or its Affiliates), use, importation, Sale, or other distribution of up to (but not exceeding) an aggregate of [***] of Licensed cdma2000 Infrastructure (inclusive of Sales prior to the Effective Date), but only if all of such activities occur in [***]. For the avoidance of doubt, this non-assert does not extend to the [***] or its activities regardless of whether such joint venture qualifies as an Affiliate hereunder.

ARTICLE III – LICENSE FEE AND ADDITIONAL ROYALTY

3.1 License Fee . In consideration for the license, non-assert, and release granted herein, Licensee shall pay to InterDigital Group a non-refundable license fee of Two Hundred and Eighty Five Million Dollars (US$285,000,000.00), as set forth below:

Installment	Payment Due Date
US$95 Million	Within 30 days of execution of this Agreement
US$95 Million	[***], 2007
US$95 Million	[***], 2008

3.2 Release. In further consideration of the irrevocable and non-refundable, upfront payments of the License Fee set forth in Section 3.1 above, effective upon payment of the first installment of such License Fee, and contingent upon actual and timely payment of the second and third installments of such License Fee, InterDigital Group fully, finally, and irrevocably releases Licensee, its Affiliates and their customers from any and all claims from infringement of the Licensed Patents, which claims have been made, or which might be made at any time, with respect to any Licensed Terminal Units manufactured, used, leased, Sold or otherwise transferred by or for Licensee before the Effective Date of this Agreement. Notwithstanding the foregoing, this release shall be irrevocable and the payment contingency will not be effective if InterDigital Group terminates this Agreement prior to all Licensee Fee payment due dates, unless the termination is for non-payment of any License Fee installment.

3.3 Acquisition of Unlicensed Terminal Unit Businesses.

A. In the event Licensee or any of Licensee’s Affiliates Acquires an Unlicensed Terminal Unit

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

Business, Licensee shall, within sixty (60) days of the Acquisition Date, notify InterDigital Group: (i) that the Acquisition has occurred and identify the Unlicensed Terminal Unit Business and the general nature of the Acquisition, (ii) of the [***], providing supporting documentation together with such notification and such other information that InterDigital Group may subsequently reasonably request, (iii) of Licensee's calculation of the [***], providing supporting documentation with such notification and such other information that InterDigital Group may subsequently reasonably request, (iv) whether or not Licensee elects to treat the Sales of Licensed Terminal Units by the Unlicensed Terminal Unit Business prior to the Acquisition Date as Unlicensed Sales, and (v) whether or not Licensee elects to treat Additional Sales with respect to the Unlicensed Terminal Unit Business as Unlicensed Sales.

B. If Licensee elects to treat the Sales of Licensed Terminal Units by the Unlicensed Terminal Unit Business prior to the Acquisition Date as Unlicensed Sales or fails to make the election set forth in Section 3.3A(iv) above, then such Unlicensed Sales shall remain Unlicensed Sales and be treated as unreleased.

C. If Licensee elects to treat the Additional Sales as Unlicensed Sales or fails to make the election set forth in Section 3.3A(v) above, then such Unlicensed Sales shall continue to be treated as Unlicensed Sales. To determine which of the Licensed Terminal Units Sold after the Acquisition Date constitute Unlicensed Sales, the Additional Sales shall be [***]. For example, if Additional Sales are calculated to be [***], then the Additional Sales shall be [***].

D. If Licensee elects not to treat the Sales of Licensed Terminal Units by the Unlicensed Terminal Unit Business prior to the Acquisition Date as Unlicensed Sales, as set forth in Section 3.3A above, then Licensee shall, within ninety (90) days of the Acquisition Date, pay to InterDigital Group a non-refundable royalty of [***] of each such Licensed Terminal Unit Sold, anywhere in the world, prior to the Acquisition Date. Thereafter, such Licensed Terminal Units shall be subject to the Section 2.1 license grant.

E. If Licensee elects not to treat the Additional Sales as Unlicensed Sales, as set forth in Section 3.3A above, then Licensee shall pay to InterDigital Group a non-refundable royalty of [***] of the Licensee's Licensed Terminal Units Sold, anywhere in the world, [***]. Average Net Selling Price shall be calculated [***]. (For example, with respect to a particular calendar quarter, if the average Net Selling Price for all of Licensee's and its Affiliates' sales of [***], Licensee shall pay a quarterly royalty of [***].)

3.4 Acquisition of Licensed Businesses

A. If, and to the extent, Licensee or a Licensee Affiliate Acquires a Licensed Business, (i) the Licensed Business' then-existing patent license agreement shall continue to apply to the extent that such agreement provides for the continuation of that agreement following such an Acquisition, and (ii) the terms of this Agreement, including without limitation Sections 3.3 and 3.4B, shall apply as to Licensed Terminal Units not covered under the entity's then-existing agreement.

B. In the event the Licensed Business Sold Licensed Terminal Units not covered under its then-existing agreement, such Licensed Terminal Units shall be treated in the same manner as Sales of Licensed Terminal Units by an Unlicensed Terminal Unit Business prior to the Acquisition Date are to be treated. In particular, Licensee will follow the terms and procedures set forth in Section 3.4 above, including the notifications and election as to whether or not to treat such Licensed Terminal Units as Unlicensed Terminal Units and, to the extent required above, to pay the additional [***] royalty to InterDigital Group.

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

3.5 Payments. All payments owed and/or made under this Article III shall be unconditional, irrevocable and non-refundable.

ARTICLE IV - TERM/TERMINATION

4.1 Term . The term of this Agreement shall commence on the Effective Date and terminate on December 31, 2010, unless sooner terminated as provided herein.

4.2 Termination for Default . This Agreement may be terminated by either party, upon thirty (30) days prior written notice, if the other party is in breach of any of its material obligations hereunder and the breach is not remedied within sixty (60) days of being notified of the breach in writing. Material obligations of Licensee shall include, but shall not be limited to, its royalty reporting obligations (but only to the extent any such report is more than fifteen (15) days late), audit obligations, and payment obligations (with respect to royalty payments only, only to the extent any such payment is more than fifteen (15) days late). In the event of a termination of this Agreement by either party under this Section Licensee shall pay Licensor all amounts accruing hereunder up until the termination date (including, without limitation, License Fee installments and/or royalties on Sales up until the termination date).

4.3 Adverse Actions. During the Term of this Agreement, in the event Licensee or any of its Affiliates desires to actively participate as an adverse party in, or otherwise provides material support to, any Action, it will so notify InterDigital Group in writing. Within sixty (60) days of InterDigital Group receiving such written notice, senior level executives of the parties will meet in Wilmington, Delaware or other mutually agreed upon location and periodically thereafter for a period of not less than one (1) year from the date of the initial senior level meeting to discuss how and why Licensee or its Affiliate intends to participate, in such Action. During these meetings, Licensee agrees to provide its arguments and documentation in support thereof as to why Licensee or its Affiliate believes that the Licensed Patents may be invalid and/or unenforceable, and/or how and why the scope of the Patents should be limited or construed. The parties may agree to another location for their meeting. In the event Licensee or any of its Affiliates actively participates as an adverse party in, or otherwise provides material support to, any Action, unless all claims of all Licensed Patents involved in the Action have been declared invalid, Licensee must pay all of Licensor’s costs associated with the Action, including without limitation travel and attorney’s fees. In addition, if Licensee or one or more of its Affiliates institutes or actively participates as an adverse party in, or otherwise provides material support to, any Action, all License Fee payments shall become immediately due and payable and InterDigital Group shall have the right to immediately terminate this Agreement, in whole or in part.

ARTICLE V - DISPUTE RESOLUTION

5.1 Negotiation of Disputes . In the event of a dispute arising under this Agreement, senior level executives of the parties will meet in Wilmington, Delaware as soon as reasonably possible (but not later than sixty (60) days after written notice of a dispute) and will enter into good faith negotiations aimed at resolving

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

the dispute. The parties may agree to another location for their meeting. If the parties are unable to resolve the dispute in a mutually satisfactory manner within an additional sixty (60) days from the date of the senior level meeting, the matter may be submitted to arbitration by either party as provided for in Section 5.2 hereof. A dispute concerning the validity, scope, enforceability, or infringement of a patent or a patent claim shall not constitute a part of the arbitration.

5.2 Arbitration of Disputes . If a dispute arising under this Agreement has not been resolved by the non-binding procedures set forth in Section 5.1 within the time periods provided, either party may submit the dispute to arbitration administered by the AAA under its AAA International Rules and as set forth in this Section. The arbitration proceeding shall take place in Washington, D.C., in English, before the Arbitration Panel. The arbitration shall be commenced and conducted as follows:

a) The parties shall request that the arbitrators conduct the arbitration proceeding in an expedited fashion in order to complete the proceeding and render a written decision as soon as reasonably possible in light of the nature of the claims, but in no event later than one (1) year of the date upon which the Arbitration Panel was formed under the AAA International Rules. The parties shall use their best efforts to cooperate with the arbitrators to complete the proceeding and render a decision within such one (1) year period. Permitted discovery under sub-part e) hereof and times set in any scheduling order shall be limited to achieve a decision within the one year period.

b) The Arbitration Panel shall not under any circumstance consolidate, join or otherwise combine the arbitration proceeding with any other proceeding or party.

c) The arbitration proceedings shall be governed by this Agreement, by the AAA International Rules, by the procedural arbitration law of the site of the arbitration, and by the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The Arbitration Panel shall determine the matters at issue in the dispute in accordance with the substantive law of the State of New York without regard to conflicts of law principles. The Arbitration Panel shall decide the issues submitted as arbitrators at law only and shall base its award, and any interim awards, upon the terms of this Agreement and the laws of the State of New York. The Arbitration Panel has no power to reform this Agreement except as provided under Section 6.13 herein.

d) The Arbitration Panel shall take into account applicable principles of legal privilege and related protections, including the confidentiality of attorney-client communications and attorney-work product. No party or witness shall be required to waive any privilege recognized at law. The Arbitration Panel shall issue orders as reasonably necessary to protect the confidentiality of proprietary information, trade secrets, and other sensitive information disclosed.

e) The Arbitration Panel shall have the exclusive authority to permit requests for the production of relevant documents, including confidential discovery to the extent required by a party in order to establish its case. The Arbitration Panel may order the conduct of the deposition of, or the propounding of interrogatories to, such persons who may possess information relevant to the determination of the claims. The Arbitration Panel shall decide any dispute regarding such requests for discovery or the adequacy of a discovery response by any party. The parties will be entitled to present direct, cross, and re-direct examination at the hearing.

f) The award of the Arbitration Panel shall be final and binding and a party may seek enforcement of the award in any court of competent jurisdiction. The award of the Arbitration Panel shall clearly set forth the specific dollar amount(s), if any, payable by Licensee under the award. Any monetary award shall be payable in U.S. dollars, free of any tax, offset or other deduction. The award and any determination of the arbitration shall be confidential to the parties and shall be binding solely on the parties.

g) While dispute resolution proceedings are pending, Licensee shall continue to timely pay InterDigital Group the Licensee Fee set forth in Section 3.1 irrespective of whether payment of such fee is in dispute. In addition, Licensee shall continue to timely pay InterDigital Group any other undisputed amounts accruing hereunder, including undisputed royalties due under Section 3.3 or 3.4. In the event of an underpayment of or failure to pay amounts due under this Agreement, Licensee shall promptly pay any underpayment together with interest at the compounded annual rate of [***] from the dates the payments were due under the terms of this Agreement. If an underpayment in excess of the [***] is awarded by an Arbitration Panel, Licensee shall also pay the cost of the arbitration. In the event the Arbitration Panel awards InterDigital Group a monetary amount, Licensee shall pay such amount to InterDigital Group within the time period set forth in the award (or if no time period is set, within thirty (30) days of the date of the award), regardless of any appeals. Furthermore, in the event the Arbitration Panel awards InterDigital Group a monetary amount and Licensee fails to pay such amount to InterDigital Group within the time period set forth in the award (or if no time period is set, within thirty (30) days of the date of the award), regardless of any appeals, InterDigital Group may immediately terminate this Agreement, in whole or in part, without resorting to an additional arbitration proceeding to effect the termination.

ARTICLE VI - MISCELLANEOUS

6.1 Payments . Payments made pursuant to Sections 3.1, 3.3D (directly and indirectly through Section 3.4B), and 5.2 shall be made by wire transfer in U.S. dollars on or before the dates specified in such Sections. Payments made pursuant to Article 3.3E and 3.4A (directly and indirectly through Section 3.4B) shall be made by wire transfer in U.S. dollars on a quarterly basis within forty-five (45) days of the end of the preceding quarterly period. InterDigital Group shall provide wire transfer instructions in writing as amended from time to time.

6.2 Currency Conversion . United States Dollar ($US) denominated Sales shall be reported as transacted. Other currency denominated Sales shall be reported based on the mathematical average foreign currency to $U.S. conversion rate applicable during the period over which Sales are being reported, using the currency exchange rates given in the Wall Street Journal – Currency Trading, Exchange Rates section (or other agreed to source).

6.3 Royalty Reports. Licensee shall be required to provide InterDigital Group with reports in the event royalties are required to be paid under Sections 3.3 and/or 3.4. Within forty-five (45) days after the end of each calendar quarter, Licensee shall submit a final written report certified by the Chief Financial Officer (or other responsible officer) of Licensee, setting forth the quantity of each type of Licensed Terminal Unit(s) Sold and additional information sufficient to determine the royalties due for such Licensed Terminal Unit. Such reports shall be submitted regardless of whether any payment is due. All such reports shall be held in confidence by InterDigital Group. A sample royalty report setting forth categories of information required to be provided will be provided by InterDigital Group prior to the due date for filing of such reports.

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

6.4 Taxes . All payments paid under this Agreement shall be net of taxes, except that, in the event that any payments under this Agreement are subject to [***], provided that Licensee promptly obtains and transmits to InterDigital Group the proper tax certificate evidencing the payments of such tax. In no event shall LGE be responsible for any of InterDigital Group's United States income taxes. Licensee will cooperate with InterDigital Group in the event InterDigital Group applies for relief (e.g., exemption) from such source withholding tax with the Korean tax authorities.

6.5 Confidentiality . Unless otherwise required by law or court or arbitral order, the parties shall maintain as strictly confidential this License Agreement and any proprietary information disclosed under, or as a result of the negotiation of, this License Agreement. Notwithstanding the foregoing, IDCC and Licensee shall each have the right to publish and distribute a press release announcing the execution of this License Agreement. Such press release shall contain the names of the parties, the scope and fields of the license, the license duration, and any other information necessary to satisfy SEC, NASDAQ or other requirements. Each party shall have the opportunity for advance review and comment of the other party's press release, which comments shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the parties agree that InterDigital Group or its Related Companies may (a) provide this Agreement or the contents thereof in confidence, to other licensees to the extent required by most favored licensee clauses, (b) issue a public statement regarding the fact of the execution of this License Agreement for the Licensed Standards or (c) provide any other information necessary to satisfy SEC, NASDAQ or other requirements, which other information shall be subject to advance review and comment by Licensee, which comments shall not be unreasonably withheld or delayed.

6.6 Acknowledgment . The license fee and royalties specified in this Agreement are being adopted as a matter of mutual convenience to the parties, regardless of which of the Licensed Patents may be involved, and are freely accepted by the parties to this Agreement as a reasonable license fee and/or royalty for Licensed Terminal Units and for the privilege provided Licensee to operate under any or all of the Licensed Patents, as provided herein.

6.7 Licensee Identification on Licensed Terminal Units . Upon the request of InterDigital Group, Licensee shall affix and shall cause its Affiliates to affix on all product packaging or instructions (or if practicable, the product itself) a label indicating that the products are manufactured or sold under license from InterDigital Group. InterDigital Group may designate certain Licensed Patents for inclusion on such label.

6.8 Audit . Licensee shall (and shall cause its Affiliates to) keep books and records (including, without limitation, electronic files) adequate to accurately determine any royalties due under Sections 3.3 and/or 3.4 of this Agreement. The books and records must be retained for at least five (5) years after the delivery of the royalty report to which they relate. InterDigital Group shall have the right, no more often than once per calendar year, to inspect during regular business hours all relevant books and records of Licensee and its Affiliates on seven (7) business days prior notice. InterDigital Group shall conduct the audit using an independent certified public accountant that has signed an appropriate and reasonable nondisclosure agreement with Licensee. The auditor shall determine on behalf of InterDigital Group the accuracy of the reports and payments required under this Agreement. In the event of an underpayment of royalties, Licensee shall promptly pay any underpayment together with interest at the compounded annual rate of [***]. If an underpayment in excess of [***] is discovered, Licensee shall also pay the cost of the audit. All information obtained through such audit shall be held in confidence by InterDigital Group except as necessary to enforce this agreement.

*** Confidential material which has been omitted and filed separately with the Securities and Exchange Commission.

6.9 Governing Law/Venue . The validity and interpretation of this Agreement shall be governed by New York law, without regard to conflict of laws principles. The parties irrevocably consent to exclusive jurisdiction of the state and federal courts in the State of New York. Process shall be deemed sufficient if served on either party by courier service or recognized mail delivery service (e.g. U.S. Mail), postage prepaid, certified or registered, return receipt requested, and addressed as indicated on page 1 of this Agreement. The parties hereby waive any objection as to the sufficiency of the method of service, if service is made as set forth herein.

6.10 Limited Warranty . InterDigital Group represents and warrants that it has the right to license the Licensed Patents. InterDigital Group makes no other representation or warranty with regard to the validity of the Licensed Patents or the ability of Licensee to use, manufacture, have manufactured or sell Licensed Terminal Units free of infringement of third party intellectual property rights. InterDigital Group shall have no obligation to maintain or prosecute Licensed Patents.

6.11 Affiliate Performance . Licensee shall be responsible for all actions required of its Affiliates hereunder and shall be liable to InterDigital Group for any adverse action or failure to perform by Affiliates of Licensee hereunder.

6.12 Waivers . The failure of any party to insist upon the performance of any of the terms or conditions of this Agreement or to exercise any right hereunder, shall not be construed as a waiver or relinquishment of the future performance of any such term or condition.

6.13 Severability . The provisions of this Agreement shall be severable, and if any of them are held invalid or unenforceable, then that provision shall be construed to the maximum extent permitted by law. The invalidity or unenforceability of one provision shall not necessarily affect any other.

6.14 No Set-off . Licensee agrees and acknowledges that it has no right to, and shall not attempt to, set off amounts claimed to be owed based on any claim that it has or may have in the future against InterDigital Group or any of its Related Companies against amounts owed hereunder.

6.15 Notices . All notices or other communications required or permitted under this Agreement shall be in writing and shall be delivered by personal delivery, or a qualified international delivery service addressed as indicated on page 1 of this Agreement, with copy by facsimile. Facsimiles shall be sent to Licensee at +82 2 3777 5151, marked Attn. Executive Vice President of Intellectual Property Center and to InterDigital Group at (302) 478-7352 with copy to InterDigital Communications Corporation, Attn. General Patent Counsel at (610) 878-7843. All such notices shall be deemed delivered at the time of delivery, except a facsimile shall be deemed delivered at the time of acknowledgment of delivery.

6.16 Limitation . Nothing in this Agreement shall be construed as: (a) an agreement to bring or prosecute actions against third-party infringers of the Licensed Patents; (b) conferring any license or right under any patent other than the Licensed Patents; or (c) conferring any right to use the Licensed Patents outside the field of use defined by the license grant of this Agreement.

6.17 Personal Agreement . This Agreement is personal to Licensee and may not be assigned or transferred, nor may any license granted hereunder be assigned or transferred, whether by operation of law or otherwise, and any attempt to make any such assignment or transfer shall be null and void; provided, however, this Agreement may be transferred in connection with the sale of all or substantially all of the business or assets of Licensee to which this Agreement relates. If Licensee remains a separate entity after such acquisition, then the acquiring entity shall continue to pay the license fee installments, at the sole discretion of InterDigital Group, either (a) under the terms of this Agreement or (b) under the terms of any license agreement between InterDigital Group and the acquiring entity that may apply to such acquired company. If Licensee does not remain a separate corporate entity, or if production facilities of

Licensee are merged into the acquiring company or one of its subsidiaries, then the acquiring entity shall continue to pay the license fee installments under the terms of this Agreement but only the Sales attributable to Licensee's business prior to such merger shall be deemed licensed hereunder. The licenses granted hereunder to Licensee shall survive any transfer by operation of law or otherwise of the Licensed Patents or this Agreement by InterDigital Group.

6.18 Entire Agreement/Amendment . To the extent Licensee is licensed under a prior patent license agreement with InterDigital Group for products other than the Licensed Terminal Units in this Agreement, the prior patent license agreement shall remain in full force and effect as to those differing standards and/or products. To the extent Licensee was licensed to sell Licensed Terminal Units under a prior licensing agreement, the terms of the prior agreement shall continue to apply up to the Effective Date. In all other respects this Agreement contains the complete and final agreement between the parties, and supersedes all previous understandings, relating to the subject matter hereof whether oral or written. This Agreement may only be modified by a written agreement signed by duly authorized representatives of the parties.

6.19 Surviva l. The following provisions of this Agreement shall survive expiration or termination of this Agreement: Section 2.1 (the last sentence as to GSM paid-up license grant only), Section 2.3 (non-assert limited only to activities occurring prior to the termination), Article III (license fee and additional royalties), Section 4.3 (the last two sentences only), Article V (dispute resolution), and Sections 6.1, 6.2, 6.4, 6.5, 6.6, 6.8, 6.9, 6.11, 6.12, 6.13, 6.14, 6.16, 6.17, 6.18 (miscellaneous).

IN WITNESS WHEREOF , the parties have executed this Agreement by their duly authorized representatives.

InterDigital Technology Corporation

By: /s/ William J. Merritt

Name: William J. Merritt

Title: President

Dated: January 18, 2006

LG Electronics Inc.

By: /s/ Jeong Hwan Lee

Name: Jeong Hwan Lee

Title: EVP

Dated: 1/18/06

Tantivy Communications, Inc.

By /s/ William J. Merritt

Title: President

Dated: January 18, 2006

IPR Licensing, Inc.

By /s/ William J. Merritt

Title: President

Dated: January 18, 2006

EXHIBIT 31.1

CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
OF
INTERDIGITAL COMMUNICATIONS CORPORATION

I, William J. Merritt, President and Chief Executive Officer, InterDigital Communications Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of InterDigital Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

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

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF
INTERDIGITAL COMMUNICATIONS CORPORATION

I, Richard J. Fagan, Chief Financial Officer, InterDigital Communications Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of InterDigital Communications Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

/s/ R.J. FAGAN
Richard J. Fagan
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the “Company”) for the quarter ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William J. Merritt, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2006

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

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2006

/s/ R.J. FAGAN
Richard J. Fagan
Chief Financial Officer