INTERDIGITAL COMMUNICATIONS CORP
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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)

(610) 878-7800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer x, 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 x

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	**52,605,944**
Class	Outstanding at November 1, 2006

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INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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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

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.

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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.

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.

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.

Hertz

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

Internet

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

IPR

Intellectual Property Right.

ITC

InterDigital Technology Corporation, a wholly-owned Delaware subsidiary of InterDigital Communications Corporation.

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.

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TIA/EIA-95

A 2G CDMA standard.

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.

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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)

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 221,591	$ 27,877
Short-term investments	82,585	77,831
Accounts receivable	110,579	19,534
Deferred tax assets	26,690	42,103
Prepaid and other current assets	22,742	8,370
Total current assets	464,187	175,715
PROPERTY AND EQUIPMENT, NET	14,844	10,660
PATENTS, NET	67,109	59,516
DEFERRED TAX ASSETS	26,082	48,681
OTHER NON-CURRENT ASSETS	16,175	4,965
	124,210	123,822
TOTAL ASSETS	$ 588,397	$ 299,537
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 370	$ 350
Accounts payable	15,962	7,163
Accrued compensation and related expenses	9,085	17,040
Deferred revenue	88,059	20,055
Taxes payable	15,806	160
Other accrued expenses	7,581	5,766
Total current liabilities	136,863	50,534
LONG-TERM DEBT	1,293	1,572
LONG-TERM DEFERRED REVENUE	156,097	71,193
OTHER LONG-TERM LIABILITIES	4,515	1,924
TOTAL LIABILITIES	298,768	125,223

COMMITMENTS AND CONTINGENCIES				
SHAREHOLDER S EQUITY:				
Preferred Stock, $0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding				
Common Stock, $0.01 par value, 100,000 shares authorized, 63,994 and 60,537 shares issued and 52,253 and 54,031 shares outstanding		640		605
Additional paid-in capital		437,927		377,648
Retained Earnings (Accumulated Deficit)		95,120		(109,839)
Accumulated other comprehensive loss		(46)		(192)
		533,641		268,222
Treasury stock, 11,741 and 6,506 shares of common held at cost		244,012		93,908
Total shareholders equity		289,629		174,314
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	588,397	$	299,537

The accompanying notes are an integral part of these statements.

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INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
REVENUES	$ 67,175	$ 48,538	$ 415,398	$ 122,636
OPERATING EXPENSES:				
Sales and marketing	1,671	1,798	5,056	5,615
General and administrative	5,045	5,420	15,761	17,898
Patents administration and licensing	13,299	14,695	36,085	36,022
Development	16,805	15,610	48,702	46,704
Repositioning		849		849
	36,820	38,372	105,604	107,088
Income from operations	30,355	10,166	309,794	15,548
OTHER INCOME:				
Interest and investment income, net	4,082	779	9,504	2,246
Income before income taxes	34,437	10,945	319,298	17,794
INCOME TAX PROVISION	(12,780)	(4,419)	(114,339)	(8,139)
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 21,657	$ 6,526	$ 204,959	$ 9,655
NET INCOME PER COMMON SHARE - BASIC	$ 0.41	$ 0.12	$ 3.81	$ 0.18
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	52,209	53,611	53,788	54,097
NET INCOME PER COMMON SHARE - DILUTED	$ 0.40	$ 0.11	$ 3.65	$ 0.17
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	54,543	57,089	56,189	57,663

The accompanying notes are an integral part of these statements.

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INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 204,959	$ 9,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,162	8,426
Deferred revenue recognized	(148,116)	(43,647)
Increase in deferred revenue	301,024	46,105
Deferred income taxes	38,012	8,038
Non-cash compensation	5,812	7,657
Non-cash repositioning charges		156
(Increase) decrease in deferred charges	(11,461)	838
Other	245	25
(Increase) decrease in assets:		
Receivables	(91,045)	(3,193)
Other current assets	(11,603)	1,554
Increase (decrease) in liabilities:		
Accounts payable	5,530	(508)
Accrued compensation	(5,004)	106
Accrued taxes payable	15,756	
Other accrued expenses	1,571	2,421
Net cash provided by operating activities	315,842	37,633
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(127,836)	(95,676)
Sales of short-term investments	123,176	138,538
Purchases of property and equipment	(7,329)	(4,006)
Capitalized patent costs	(14,053)	(12,543)
Acquisition of patents		(8,050)
Net cash (used) provided by investing activities	(26,042)	18,263
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants	35,856	3,752
Payments on long-term debt, including capital lease obligations	(259)	(243)
Repurchase of Common Stock	(150,104)	(34,085)
Tax benefit from stock options	18,421	
Net cash used by financing activities	(96,086)	(30,576)
NET INCREASE IN CASH AND CASH EQUIVALENTS	193,714	25,320
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	27,877	15,737
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 221,591	$ 41,057

The accompanying notes are an integral part of these statements.

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INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 September 30, 2006, and the results of our operations and cash flows for the three and nine months ended September 30, 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. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s latest Annual Report on Form 10-K for the fiscal year ended December 31, 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. We have one reportable segment.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The classification of certain prior period amounts has 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, *Accounting for Stock - Based Compensation*, 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 APB 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 application of this standard, in our consolidated statement of cash flows for the nine months ended September 30, 2006, we classified a $18.4 million tax benefit associated with 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, if any, 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. This is accomplished 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), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. Under this pronouncement, we have until December 2006 to elect, as provided in this pronouncement, an alternative transition method 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

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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 the nine months ended September 30, 2006.

During the three and nine months ended September 30, 2006, we issued the following share-based awards (units/shares in thousands):

	Three months	Nine months
Restricted Stock Units (RSUs)*	13	207
Restricted Stock		17
Common Stock		24
Total share-based awards	13	248

* The number of RSUs presented in this table does not reflect the impact of the third quarter exchange of 56,000 time-based RSUs for an equal number of performance-based RSUs.

During first nine months 2006, we granted RSUs to all non-management personnel and, under our Long-Term Compensation Program (LTCP), we also granted RSUs to newly hired or promoted members of management. RSUs vest either incrementally or in-full over three years subject to applicable plan and program terms. During first nine months 2006, we also issued shares of restricted stock to our executive officers and other key management personnel as part of their 2005 annual bonus. These shares were fully vested when granted but may not be transferred for two years. We issued common stock in 2006 to satisfy our accrued obligation of $0.4 million related to our 2005 profit sharing contribution to eligible employees under our Savings and Protection Plan (Savings Plan). We valued this share-based award at the fair market value of our common stock on the date of grant.

In third quarter 2006, eighteen members of our senior management voluntarily exchanged approximately 56,000 time-based RSUs for an equal number of performance-based RSUs. The Company may ultimately satisfy these RSUs through the issuance of between zero and 168,000 shares depending upon senior management s performance against specified goals. If the performance exceeds current expectations, the Company would issue up to 112,000 additional shares to satisfy the outstanding performance-based RSUs and recognize related incremental compensation expense of up to $3.3 million.

We have estimated forfeiture rates for RSUs currently granted at between 0% and 5%, depending upon the group receiving the grant and the specific terms of the award issued. We recorded a reduction in operating expenses for the cumulative effect of a change in accounting principle of less than $0.2 million upon adoption. 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 which remained unvested and outstanding at December 31, 2005.

In third quarter 2006 and 2005, we recorded share-based compensation expense of $2.9 million and $2.4 million, respectively. In first nine months 2006 and 2005, we recorded share-based compensation expense of $5.8 million and $7.7 million, respectively. The majority of this expense, for both years, related to RSU awards granted to managers under our LTCP. Share-based compensation expense for the three and nine months ended September 30, 2006 also included a non-recurring charge of $1.0 million to correct our accounting related to share-based grants in 1998 to two non-employee, non-director consultants. We previously accounted for these grants similarly to share-based employee grants, using the intrinsic value method. The charge reflects the incremental cost that would have been recognized by correctly treating these grants as non-employee grants using the fair value method.

Share-based compensation prior to January 1, 2006

Prior to the adoption of SFAS No. 123(R), we 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, to stock-option-based employee compensation for the three and nine months ended September 30, 2005 (in thousands, except per share data):

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	2005	
	Three months	Nine Months
Net income applicable to Common Shareholders as reported	$ 6,526	$ 9,655
Add: Stock-based employee compensation expense included in reported net income	2,424	7,657
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,945)	(10,305)
Net Tax Effect	177	901
Net income applicable to Common Shareholders pro forma	$ 6,182	$ 7,908
Net income per share as reported basic	$ 0.12	$ 0.18
Net income per share as reported diluted	$ 0.11	$ 0.17
Net income per share pro forma basic	$ 0.12	$ 0.15
Net income per share pro forma diluted	$ 0.11	$ 0.14

The fair value of each option grant in 2005 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2005	
	Three months	Nine months
Expected option life (in years)	4.9	4.9
Risk-free interest rate	4.1%	4.0%
Volatility	78%	78%
Dividend yield		
Weighted-average fair value	$ 13.02	$ 12.63

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 or the 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 or cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, by prescribing the minimum recognition threshold and measurement attribute a tax position taken or expected to be taken on a tax return is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are currently evaluating the impact of FIN 48, which must be implemented effective January 1, 2007.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007. The statement was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. The Company is currently assessing the effect, if any, this statement will have on its financial statements or its results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 *Quantifying Financial Misstatements* which expresses the Staff s views regarding the process of quantifying financial statement misstatements. Registrants are required to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The techniques most commonly used in practice to accumulate and quantify misstatements are generally referred to as the rollover (current year income statement perspective) and iron curtain (year-end balance sheet perspective) approaches. The financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. This bulletin is effective for financial statements for the first fiscal year ending after November 15, 2006. We do not expect this guidance to have a material impact on our financial condition or results of operations.

2. SIGNIFICANT AGREEMENTS AND EVENTS:

Nokia Litigation and Legal Proceedings

In April 2006, InterDigital Communications Corporation (IDCC) and InterDigital Technology Corporation (ITC) entered into two principle agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in an Arbitration Settlement Agreement (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 (the Nokia License Agreement) between the parties. Pursuant to a second agreement (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 Nokia License Agreement was terminated.

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We recognized $228 million of revenue related to the Arbitration Settlement Agreement in second quarter 2006, $12.5 million in third quarter 2006, and will recognize $12.5 million in fourth quarter 2006.

LG Electronics Inc.

In January 2006, IDCC s patent holding subsidiaries 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 2G standards (including TIA-136, GSM, GPRS, and EDGE) and all 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 under 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 first quarter 2007 and 2008, respectively. We have recorded the second installment of $95 million in both accounts receivable and deferred revenue at September 30, 2006, in accordance with our policy to recognize receivables that are due within twelve months. 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, as amended as of October 2006 (SLA) required 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 limited engineering support through September 2007.

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 September 30, 2006, we recognized related revenue of approximately $22.7 million using the percentage-of-completion method, including $0.8 million and $3.8 million in the three and nine months ended September 30, 2006, respectively. Our accounts receivable at September 30, 2006 and December 31, 2005 included unbilled amounts of $4.4 million and $4.1 million, respectively. We expect to bill and collect such amounts within twelve months of each respective balance sheet date.

Acquisition of Patents

In first nine months 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 nine months 2006 our tax expense consisted of a 35 percent provision for federal income taxes plus $2.2 million of non-U.S. withholding taxes. First nine months 2005 tax expense of $8.1 million included non-cash charges for both federal income taxes and non-U.S. withholding taxes of $6.4 million and $1.7 million, respectively.

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During first nine months 2006, we paid $28.5 million and accrued $15.8 million of foreign source withholding taxes and established corresponding deferred tax assets related to foreign tax credits that we expect to utilize to offset future U.S. federal income taxes.

Our future book tax expense may also be affected by charges associated with any share-based tax shortfalls that may occur under SFAS No. 123(R). However, we cannot predict if, when, or to what extent this will affect our future tax expense. If, in the course of future tax planning, we identify tax saving opportunities that entail amending prior year returns in order to 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 a first quarter 2006 license agreement with LG and second quarter 2006 dispute resolution with Nokia, we expect to utilize the majority of our NOLs and make cash tax payments associated with our projected 2006 taxable income. As a result, in second quarter 2006, we made an estimated payment of $23.0 million toward our 2006 federal income taxes. Subsequent to making this estimated payment, we elected to modify tax methods related to tax recognition of revenue that will defer taxable income to later periods. This will result in a partial refund of this estimated payment in 2007. At September 30, 2006 our prepaid and other current assets includes approximately $9.3 million related to this expected refund.

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.

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 IRC Section 382.

Based on judgments associated with determining the annual limitation applicable to us under Internal Revenue Code Section 382, we did not include all 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 September 30, 2006 and December 31, 2005 would have been approximately $10 million greater.

4. INCOME PER SHARE:

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

	(In thousands, except per share data)					
	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share - basic:						
Income available to Common Shareholders	$ 21,657	52,209	$ 0.41	$ 6,526	53,611	$ 0.12
Effect of dilutive options, warrants and RSUs		2,334	(0.01)		3,478	(0.01)
Income per share - diluted:						
Income available to Common Shareholders + dilutive effects of options, warrants and RSUs	$ 21,657	54,543	$ 0.40	$ 6,526	57,089	$ 0.11

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	Nine Months Ended September 30, 2006 Income (Numerator)	Shares (Denominator)	Per-Share Amount	Nine Months Ended September 30, 2005 Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share - basic:						
Income available to Common Shareholders	$ 204,959	53,788	$ 3.81	$ 9,655	54,097	$ 0.18
Effect of dilutive options, warrants and RSUs		2,401	(0.16)		3,566	(0.01)
Income per share - diluted:						
Income available to Common Shareholders + dilutive effects of options, warrants and RSUs	$ 204,959	56,189	$ 3.65	$ 9,655	57,663	$ 0.17

For the three and nine months ended September 30, 2006, options to purchase approximately 0.6 million shares of common stock were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the weighted-average market price of our common stock during this period and, therefore, their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2005, options to purchase approximately 1.7 million and 1.8 million shares of common stock were excluded from the computation of diluted earnings per share because the exercise prices of these options were greater than the weighted-average market price of our common stock during this period and, therefore, their effect would have been anti-dilutive.

5. LITIGATION AND LEGAL PROCEEDINGS:

Samsung

In 2002, Samsung Electronics Co. Ltd. (Samsung) elected, pursuant to the Most Favored Licensee (MFL) clause in its 1996 patent license agreement (Samsung Agreement) with InterDigital Technology Corporation (ITC) and the Company (together InterDigital), to have its royalty obligations for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the 1999 patent license agreement between Nokia Corporation (Nokia) and InterDigital (Nokia License Agreement), including its MFL provision, commencing January 1, 2002. In March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant terms of a patent license agreement between ITC and Telefonakiebolaget LM Ericsson and Ericsson, Inc. for infrastructure products (Ericsson Agreement) and a patent license agreement between ITC and Sony Ericsson Mobile Communications AB for terminal units (Sony Ericsson Agreement) 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 Court of Arbitration (ICC) against InterDigital regarding Samsung s royalty obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration).

On August 28, 2006, the ICC Arbitral Tribunal issued its final award in the Samsung Arbitration (Final Award). Among its findings, the Tribunal awarded InterDigital approximately $134 million in past royalties plus interest on Samsung s sale of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units through 2005. The ICC Arbitral Tribunal also established the royalty rates to be applied to Samsung s sales of covered products in 2006. Based on available market data, InterDigital estimates that Samsung s royalty obligation for the first half of 2006 will be in the range of $17 million to $21 million.

The Final Award requires Samsung promptly to pay amounts due, net of an approximately $6 million prepayment credit, within ten days following the Final Award, which Samsung has failed to do. In addition, InterDigital estimates Samsung s interest obligation (which continues to accrue) to be in the range of $13 million to $15 million to date. As a result of the Final Award, Samsung s royalty obligations under the Samsung Agreement, as it relates to sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units sold after 2006, will be fully paid-up after Samsung pays royalties for sales of covered products through 2006.

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Separate from the royalty issues on 2G and 2.5G products, the ICC Arbitral Tribunal also determined that Samsung has not obtained the broader CDMA and 3G patent license rights in the Nokia License Agreement, notwithstanding Samsung s MFL election in 2002 of the Nokia License Agreement.

On September 5, 2006, InterDigital filed an action seeking to enforce the Final Award in the U.S. District Court for the Southern District of New York. On September 13, 2006, Samsung filed an opposition to the enforcement action, including a cross-petition to vacate or modify the Final Award and to stay the Final Award.

On October 26, 2006 Samsung filed a request for a new arbitration in the ICC relating to the ongoing patent royalty dispute between Samsung and InterDigital. By its latest arbitration request, Samsung seeks to have a new arbitration panel establish new royalty rates for Samsung s 2G/2.5G GSM/GPRS/EDGE product sales based on the April 2006 Nokia Arbitration Settlement Agreement (Nokia Settlement), which implemented the June 2005 Arbitration Award rendered against Nokia by the ICC. Samsung has attempted, via the MFL clause in the Samsung Agreement, to conditionally elect the Nokia Settlement as providing the substitute royalty rate in lieu of the royalty rates required under the Nokia License Agreement and the Final Award. Samsung further requests that such new rates be applied retroactively to the period 2002 through April 2006 and prospectively for the remainder of 2006.

We disagree with Samsung s position that it can retroactively elect the Nokia Settlement and avoid paying royalties pursuant to the terms of the Nokia License Agreement and the Final Award. We will vigorously oppose Samsung s newly-filed ICC arbitration and its attempts to vacate the Final Award, and we are vigorously pursuing our action to enforce the Final Award in federal court.

We will not book any revenue related to this matter until all criteria for revenue recognition have been met.

Nokia

In April 2006, InterDigital Communications Corporation (IDCC) and ITC entered into two principle agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in an Arbitration Settlement Agreement (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 Nokia License Agreement). Pursuant to a second agreement (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 Nokia 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-UK 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 Proceeding and Nokia s withdrawal of its opposition to a related UK amendment application in the UK 2G Proceeding, both of which have occurred.

Nokia UK 3G Proceeding

In July 2005, Nokia filed a claim in the High Court against ITC. Nokia s claim seeks a declaration that 29 of ITC s UMTS European patents registered in the UK are not essential IPR for the 3GPP standard using a definition of essentiality asserted by Nokia. ITC contends that 24 of these patents are essential under a definition of essentiality asserted by ITC. 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 as to jurisdiction. A hearing on ITC s appeal of the decision as to jurisdiction to the English Court of Appeal was held in November 2006. We continue to defend the claim as to essentiality and are continuing to contest Nokia s claim for declarations in the High Court. A trial date for the action has been set for a date not before October 15, 2007, at which time the High Court will rule on the definition of essentiality .

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 a trial in 2008, but no specific trial date has been set.

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 September 30, 2006. 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.

6. REPURCHASE OF COMMON STOCK:

In April 2006, our Board of Directors (Board) authorized the repurchase of up to $200 million of our outstanding common stock through open market purchases, pre-arranged trading plans or privately negotiated purchases. The amount and timing of purchases are based on a variety of factors, including potential share repurchase price, cash requirements, acquisition opportunities, strategic investments and other market and economic factors. Pursuant to the authorization, we repurchased 1.8 million shares at a cost of $50 million in third quarter 2006 and 5.2 million shares at a cost of $150.1 million in first nine months 2006.

In first nine months 2005, we repurchased 2 million shares of our outstanding common stock at a cost of $34.1 million under repurchase programs authorized by our Board in October 2004 and March 2005.

7. SHARE BASED 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 options outstanding under five non-qualified stock option plans and two plans which provide for grants of both incentive and non-qualified stock options to non-employee directors, officers and employees of the Company and other specified groups, depending on the plan. Five of these plans were terminated in 2000 when our shareholders approved the 2000 Stock Award and Incentive Plan (2000 Plan). The 2000 plan allows for the granting of incentive and non-qualified options, as well as other securities. The 2000 Plan authorized the offer and issuance of up to approximately 6.9 million shares of common stock. Under the terms of the 2000 Plan, the Board or the Compensation Committee of the Board determine the number of options to be granted and have the discretion to set the option price.

In 2002, the Board approved the 2002 Stock Award and Incentive Plan that allows for the granting of 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 authorized the offer and issuance of up to 1.5 million shares of common stock. Under the terms of the 2002 Plan, the Board or the Compensation Committee of the Board determine the number of options to be granted and have the discretion to set the option price. 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 Average Exercise Price
	Available For Grant	Number	Price Range	
BALANCE AT DECEMBER 31, 2005	913	7,926	$ 0.01-39.00	$ 13.93
Granted			$	$
Canceled	15	(15)	$ 15.72-39.00	$ 32.95
Exercised		(2,980)	$ 4.38-31.81	$ 11.82
BALANCE AT SEPTEMBER 30, 2006	928	4,931	$ 0.01-39.00	$ 15.15

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The following table summarizes information regarding the stock options outstanding at September 30, 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 - 5.44	746	2.31	$ 5.07	746	$ 5.07
$ 5.50 - 9.00	544	8.45	7.28	544	7.28
$ 9.03 - 9.60	568	5.24	9.59	568	9.59
$ 9.76 - 11.63	568	11.99	10.81	568	10.81
$ 11.64 - 13.19	667	4.80	12.49	667	12.49
$ 13.25 - 17.81	547	5.28	16.00	547	16.00
$ 17.92 - 25.25	622	5.83	22.05	622	22.05
$ 25.34 - 31.81	124	6.21	27.21	124	27.21
$ 34.13 - 34.13	12	3.43	34.13	12	34.13
$ 39.00 - 39.00	533	3.29	39.00	533	39.00
$ 0.01 - 39.00	4,931	5.76	$ 15.15	4,931	$ 15.15

* We currently have approximately 228,000 options outstanding that have an indefinite contractual life. These options were granted between 1983 and 1986 under Pre-existing Plans. 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.

At September 30, 2006, we had 4.4 million options outstanding which had exercise prices less than the fair market value of the Company s common stock at that date. These options had an aggregate intrinsic value of approximately $96 million based on the Company s September 30, 2006 closing stock price and would have generated $53.5 million of cash proceeds to the Company if they had been fully exercised.

Common Stock Warrants

A warrant to purchase 80,000 shares of our common stock at an exercise price of $7.63 per share was exercised in third quarter 2006.

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 3 years from the date of the grant. As of September 30, 2006 and December 31, 2005 we had issued 2.2 million and 2.0 million shares, respectively, of restricted stock and RSUs under the 1999 Plan. The related compensation expense is amortized over vesting periods that are generally from 1 to 5 years. At September 30, 2006 and December 31, 2005, we had unrecognized compensation cost related to share-based awards of $5.0 million and $5.8 million, respectively. We expect to amortize the unrecognized compensation cost at September 30, 2006 over a weighted average period of less than one year using an accelerated method.

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

	Year 1	Year 2	Year 3
Employees below manager level	33%	33%	34%
Managers and technical equivalents	25%	25%	50%
Senior officers	0%	0%	100%

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Information with respect to unvested RSUs 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