MANAGEMENT DISCUSSION SECTION

Operator: Good morning. [Operator Instructions] My name is Maryanne [ph] and I will be your conference operator today.

At this time I would like to welcome everyone to InterDigital's First Quarter Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. [Operator Instructions] Thank you.

Miss Point, you may begin your conference.

Janet M. Point, Senior Communications and Investor Relations Officer

Okay, thank you very much. Good morning, everyone. This is Janet Point. With me this morning are Bill Merritt, our CEO and Rick Fagan, our Chief Financial Officer. Consistent with last quarter's call we are going to keep the prepared remarks limited to just a few highlights about the quarter and the company and then open up the call for questions.

Before we begin our remarks I need to remind you that in this call we will make forward-looking statements regarding our current beliefs, plans, and expectations as to modest sequential growth and expenses, investment in our ASIC offering, future fluctuations and costs associated with enforcing our patent price, the range of our second quarter 2006 booked tax rates and use of NOL carryforwards, our ability to support investments and business opportunities, and in our stock, our future revenue, earnings and cash flow potential, our continued investment discipline and our ability and plans for executing on our strategic plan.

Actual outcomes could differ materially from those expressed in any such forward-looking statements due to a variety of factors including those mentioned in this call as well as those set forth in the company's most recent Form 10-K filing and Form 8-K filings as of April 11, 2006, and this morning.

And so with that I will now turn the call over to Rich.

Richard J. Fagan, Chief Financial Officer, Principal Accounting Officer and Executive VP

Thank you, Janet, and good morning to everyone. I am pleased to be here to provide you with brief financial highlights on our first quarter 2006 results, and some comments on some other relevant financial issues before turning the call over to our CEO, Bill Merritt.

The first quarter of 2006 was a very good quarter for InterDigital. We had record revenues of $51.6 million, strong earnings of $12.9 million, or 23 cents per diluted share, and we generated free cash flow of $79 million. While this performance was driven in large part by the addition of LG as a new patent licensee, it also reflects both growth of our base of licensees and expanding royalties from existing licensees over the last couple of years. In fact 9 licensees delivered revenue in excess of $1 million in fourth quarter of 2006 as compared to 5 in first quarter 2005.

Our first quarter 2006 core operating expenses were in line with guidance, and while we continue to exhibit a strict investment discipline across the organization we do expect some modest sequential growth in expenses as we make timely investments related to advancing our dual-mode ASIC offering.

First quarter 2006 costs associated with enforcing our patent rights were just about half of what we spent in the most recent quarter, that being the fourth quarter of 2005. As a practical matter, these costs will vary from quarter to quarter depending upon the level of activity. As I've stated before, we view these costs as a necessary and important part of enforcing our patent rights and we will make whatever investment is needed to do so in an effective manner.

Our first quarter 2006 booked tax rate was in line with expectations and should be in the 35 to 37% range in second quarter 2006 as well. Further with the proceeds from the Nokia resolution in hand, we'll use up the vast majority of our prior year's NOL carry forwards and become a tax paying entity.

Let me close by commenting on our share repurchase program. Today we announced that our board authorized the expansion of our current share repurchase program by $100 million to $200 million. So the total is now $200 million. At recent share prices that represents about 15% of our issued and outstanding common stock. The repurchase program got underway in April and to date we've repurchased $20 million worth of stock against this program. The additional authorization reflects our continued business success and strong belief that we can support investments in both business opportunities whether they be organic or through acquisition and in our own stock in order to create the most value for our shareholders. I'll now turn the call over to Bill Merritt. Bill?

William J. Merritt, CEO and President

Thanks, Rich, and good morning to everyone. Given the close proximity of our year-end conference call and the Nokia call last week, I won't be making extensive comments today; however, since it’s been a year since I took over as CEO, I'd like to take the opportunity today to revisit the messages I delivered a year ago and see how we're doing.

My view of the company a year ago was as follows. We had the tools we needed to be successful, but we needed to create far better alignment between our programs, be more financially focused and driven, and be better able to articulate our vision for the company to the market. If we did those things then I believed the company's future would be very bright. Well we did. Within a few months of taking the CEO position, we quickly identified the major financial driver for this company is the value we received on the sale of 3G terminal unit whether through patent licensing, technology sales or some combination thereof. So we realigned all of our efforts to focus on that activity and at the same time seized investments and technologies not aligned with that vision. Further we articulated the corporate goal of deriving revenue on every 3G terminal unit sold and have been using that mantra as a way to articulate our strategy both internally and to the financial market.

So what you see today at InterDigital is a company with both its products and patent operations aligned principally towards the terminal unit market. You see a company that exercises strict financial discipline and as a result has created substantial distance between the revenue and the expense line. For example, in the first quarter last year we had revenue of just over 35 million, but we lost nearly $1 million. In the first quarter this year, we generated nearly 52 million in revenue and made close to $13 million. So over the past year we have largely held our expenses in check while substantially growing the revenue line.

Now with that accomplished we understand the need to make investments to grow the business. So as Rich discussed, going forward we will be making appropriate investments in technology and people to drive the completion of our dual mode RCX terminal unit ASIC. We're in a great position to do so today because of the expense discipline we demonstrated last year and the substantial cash flow we have created. Indeed the agreements with Kyocera, LG and Nokia are worth nearly

$600 million and provide ample fuel for both stock repurchases and technology investments. Further we have also shown the financial community in very plain terms the potential of this company. In our Investor presentation, we'll lay out a very simple table that shows the revenue potential for us based on our success in penetrating the 3G terminal unit market. Using that example, if by 2010, we can derive revenue from 75% of the 3G terminal units sold, at average royalty rates that based on our experience are achievable, our annual revenue could approach $700 million. Achieving this level of revenue combined with the significant inherent operating leverage in our business model could generate substantial earnings and cash flow.

That is not a pipe dream. It is one we truly believe we can achieve. We have a clear vision. We have a company aligned to that vision. We have the cash to drive it and we have the will to do it. Indeed as you heard today, our confidence in the company is so strong that we have in place a buyback program for nearly 15% of the company's stock. In sum, during the last year, we have thrown a few strikes and knocked down a good number of pins. Nonetheless, we have more to do and more value to create. We intend to do so by continuing to do what we've done very successfully over the past year, drive hard but be patient for the right deal, exercise financial discipline but spare no expense where an investment demonstrates the right return and continue to create the future of wireless. We will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes form Amit Kapur with Piper Jaffrey.

<Q>: Yes, this is Precash Munchee [ph] for Amit Kapur. I was just wondering if you guys can – how do you view the WCDMA market and Telecom mentioned this morning in their Analysts' Day that they're very bullish about it. Can you make some comments on the WCDMA market, your role in it and how do you view it going forward?

<A>: Well, I think that we would share our thoughts on it. It is a very – it's a very good market. You're seeing very good pickup in that market as one, more manufacturers are participating and the phones that they're producing are smaller, cheaper and do all the other things that consumers want them to do. So I think you're starting to see the big upswing in the sales of WCDMA devices. I think it's a great opportunity for us. You see already our revenues increasing because of the contributions from 3G terminal unit providers that we have licensed. It also is a technology that is on the move. You're moving from where it is today, which is release 4 with some HSDPA in the market to more HSDPA and HSUPA to come. And folks like us that can provide those technology solutions to people I think are very well positioned to profit from that sort of technology advance. So it's actually doing everything we wanted it to do now. And I think we will- we're in a position to actually generate some great value off that market.

<Q>: Great. Well, thanks. And just – and I now it's been only a week, but do you have any update on the Samsung situation, given Nokia and LG around the 2G?

<A>: No. It's just no further update on that.

<Q>: Okay. And just one actually housekeeping question, the numbers that you reported, does that include the stock-based compensation? Are you going to break that out for us? Or how is that going to work?

<A>: It does include it and we have broken it out in our disclosures. We haven't issued any options. We have a long-term comp program that has helped our program that has elements that are cash based and performance based and some aspects that are RSUs for which they're amortized that are time based, so those are broken out in our disclosures.

<Q>: Okay. Great. Okay. Thanks a lot.

<A>: Thank you.

Operator: [Operator Instructions] Your next question comes from Tom Carpenter with Hilliard Lyons.

<Q – Tom Carpenter>: Hey, good morning, everyone.

<A>: Morning, Tom.

<A – Janet Point>: Morning, Tom.

<Q – Tom Carpenter>: Bill, now that Nokia is settled and you had some success earlier this year signing LG to a 2G and 3G agreement. Have you noticed any change in the negotiations or pace of negotiations in the past week on 3G licensees with other unlicensed manufacturers at this time?

<A – William Merritt>: Yes. The, what we've seen historically on these things, Tom, is that these types of events actually do drive people to want to get deals done. We saw it with a ten acceleration following the, you go back a number of years ago we had Ericsson and Sony Ericsson take us [ph] on. We saw it with LG, we saw some acceleration with a couple, a number of folks and I'm certain that Nokia will create the same sort of environment for us because the number, it demonstrates a couple of things, it obviously, it demonstrates a very strong position for the Company from an ability to kind of just stay with these issues. And also these people, they say, well you know I don't want to get caught in that same situation and have a very substantial liability. So it's obviously a little early coming off the Nokia deal but I expect that it will have the same sort of – give us the same sort of amended as past deals have.

<Q – Tom Carpenter>: Okay. Great. And an area you guys are, it looks like you're investing quite a bit of talent and resources and money in, is this something you've been talking about for a while is, you're trying to create some complementary revenue streams via product and also the assistant tax provide and licensing so other manufacturers view you more as a partner and just not a toll collector. Can you update us some more on your product efforts? What some realistic revenue streams over the next year for this? And I think you're working with Philips, Infineon and maybe another company on some products, but can you go over again? I think you might have done it on a past call or two calls ago, just about the different types of products you're going to have out there? Or resources, whether it's software technology transfers, whether it's co-processors or the types of ASICs or chips? If you can just maybe delve into that a little further, that'd be great?

<A – William Merritt>: Sure. Our target product right now is a dual mode R6 ASIC solution and where we can go, a couple, three different places at least in the market with that solution. The first place we can do is we can take components of that solution and license them to people and that would be consistent with the deals we've done, for example, with Philips. Philips is getting our Layer 1 solution for HSDPA, or similarly Infineon has a Layer 2 3 license from us, so that's one leg of the stool here. The second is you actually license the whole design to somebody. That delivers, we believe, a lot higher value because you've hitched it all together for the purchaser and that saves them a lot of time. Our, with General Dynamics we actually did that with respect to an R4 solution. We delivered to them a complete R4 solution Layer 1 2 and 3. That will be the step in the big leg of the school here as we move forward. And the target market for those, for the complete ASIC design would either be a semiconductor company, and there are many out there who are still struggling with the technology and we think there's very good opportunity for us to license that design, but there's also opportunity at the handset level with folks who actually do produce their own ASICs for their own consumption, and that's where you start to see some of the bundling that we can do between the patents and the technology.

And then the third leg of the stool would be where we actually take the design and have these things fabricated for us, which we then sell into the market using the – under a fabless model. And there we would look for the appropriate spots in the market which may be underserved by the other providers, and where we can pick up some meaningful product revenue and I think a combination of those three we think can be, as you said, a very good value driver for two reasons. One, it will be incremental revenue for us. Second, it gives us a whole different sort of look to the company, which I think is very important for us going forward. And third, it gives you even closer connection with the customers and therefore while we've done a very good job of creating standard space technology and essential patents, you actually start to create even another set of technology that – which is what a product specific with very important product implementation technology.

So that's where we're heading. As you noted, we are pushing very hard on this program right now. We've licenses in the layer of Q3 technology for GSM. We're well down the path on getting a layer one technology. We're working on all the way up to R6. We demonstrated R6 at Barcelona. So we think we're in a very, very good position to bring value. And where we would sort of see the value begin to kick in is while certainly there are deals we can do in the next year or so on the piece parts, it's really 2007 and beyond where we think the real value begins to kick in.

<Q – Tom Carpenter>: Okay. And product I guess is an area you guys have sort of dipped your feet in the water in the past at BCDMA in the late '90s. Your with Infineon and I guess the second quarter of '01. Maybe a year or two ago you guys had done some stuff with Smart Antenna. Guys, like I said, you were just getting your feet wet, maybe didn't quite get the traction you wanted. What's going to be different about this time that we just believe you're going to have more success on the product front?

<A>: I think it's a couple things. One, I don't know if you go back to the BCDMA market. That was a market, that was a very small market. It's that outside the mainstream, so the issue there was while we had very, very capable products and technology, there really wasn't a market to sell it into. So I think the first big difference was we are right in the middle of the market now, so I think positioning is a big differentiator from before.

And second, there is nothing that is closer to our knitting than this project. This is what this company has done its entire life, is create this technology. So I think from a technology standpoint we are leveraging off of many, many years of experience. We've got great strength here. And I think the third thing that we have very good connections, customer relationships with Infineon and Philips, which we can – which are very helpful to us because we can – we are providing them with technology but they can also provide us with sort of some market perspective and assistance. So we're not sort of at this alone, because it is, you're right, it is a new thing for us to actually sell at WCDMA ASIC to a terminal unit provider. That wouldn't work, but I think we've got everything in place now so even though that particular thing is brand-new, we have got a lot of things coming together to make that very achievable. So I – I actually have a tremendous level of confidence in the organization that we can do this.

<Q – Tom Carpenter>: Okay. With some of your existing partners, do you have boundary access? Or is this something we might see you guys expand with existing or other potential partners over the next year?

<A – William Merritt>: We have boundary access, if we need it, but obviously we would be looking at both the access we have today as well as other options to see at the end of the day what is the cheapest path.

<Q – Tom Carpenter>: Right. Okay. Fantastic. And I just wanted to say well congratulations, you have had a great first year and if the next 12 months are anything like it, we will be looking at a much higher share price.

<A – William Merritt>: I appreciate that. Thanks.

<Q – Tom Carpenter>: Thank you.

Operator: Your next question comes from Frank Marcella with First Albany.

<Q – Frank Marcella>: Yes. Good morning, everyone. Bill, again, let me say the same thing that Tom just said, congratulations on a very solid performance. I think you and your team deserve congratulations. This is definitely the best quarter I have seen since I have been associated with your company so congratulations to you. Then just a couple of modeling questions for you guys, which for you, we are not sure yet for the second quarter – or for the June quarter, I should say, what the split of revenues in other income would be with respect to Nokia, as I can see that, but are we sure that it will all be reported in the June quarter? Or will this be – will this fall out perhaps out of the June quarter?

<A – William Merritt>: No, as we said before or in the prior release, we are pretty confident that it will all be recognized in 2006. What we are working through is what elements get recognized in what quarter and then on what lines of the P&L that they fall on.

<Q – Frank Marcella>: Okay. So it is possible that it will not be all reported in the June quarter? Okay. When this gets reported in the way that you are recording now, it would be recorded – it would be reported in the same quarter that you have recorded, correct? It would not be on a one-quarter-type lag?

<A – William Merritt>: Correct.

<Q – Frank Marcella>: Okay. And then just with respect to your revenue guidance, directionally, can you tell yet whether revenues are going to be sequentially higher or lower? Is that something you can tell us?

<A – William Merritt>: No, we are seeing a lot of the reports starting to come in this week, Frank, so we will have a better feel for that. A lot of them are coming in – a lot of them are not due until the 15th so they have 45 days but if you look at just things sequentially to think about, as I mentioned before, LG goes from about a little over 11 million to up over 14 million.

<Q – Frank Marcella>: Yes.

<A – William Merritt>: So you get an increase there and you would expect some contribution from Nokia when we resolve that with respect to that and then if everything I am reading about some of our key licensees are performing well, I mean I just read something that Sharp is now number one in Japan.

<Q – Frank Marcella>: Yes.

<A>: So that is – that is positive for us and some of the other players that are not necessarily 10% are performing well, HDC [ph] has been performing very well and has been a good addition to our licensee base.

<Q – Frank Marcella>: Yes.

<A>: So I can say we are optimistic about the quarter but I just don't have it in hand as yet.

<Q – Frank Marcella>: Yes. I would agree with your comments, the only thing I was thinking was, it was a March quarter following – this is really the March quarter activity following the December quarter activity, you could have some seasonal – some seasonal weakness. But that is fine. I fully understand. And then just on the increasing investment in the ASIC, you were talking about doing this in the June quarter. Should development then, as we look forward, say around those levels for the balance of '06? Is this kind of a one-quarter advance of stuff? Can you give me any thoughts on that?

<A>: Yes. It probably – it jumps up in the second quarter and we are evaluating what the investments are going forward to that, but again, we don't see huge step changes in our cost base at this stage.

<Q – Frank Marcella>: Okay.

<A>: Continuing to invest when appropriate and you can see an increase in the expenses. But I don't see step changes, unless there's key events that we would communicate.

<Q – Frank Marcella>: Yes. And then just the last question, you expanded on the buy-back. Are you able to say if you're willing to or are you buying back at these levels? I know you said you did already, but at these levels, you talked about 10% today, is this still something interesting to you?

<A>: Well, we don't comment about what particular number we're in the market at, but we've been in the market at – and to date, we've done about 20 million, so we're pleased with the progress that we've made so far on the buy-back.

<Q – Frank Marcella>: Okay. Good enough. Congratulations again.

<A>: Thanks.

<A>: Thanks.

Operator: [Operator Instructions] Your next question comes from Bill Mascovitz [ph] with Hart Williams Funds [ph].

<Q>: Well, good morning, guys and congratulations.

<A>: Hey, Bill.

<Q>: When, possible 700 million in royalties?

<A>: If you look at the investor presentation, that uses an example of 2010 and that's when the 3G market is hitting some fairly high numbers. So that's – and you can sort of run the same example for earlier or later years. We just use that as an example in the investor presentation.

<Q>: Okay. All right. Well, again, congratulations and thank you.

<A>: Good, thanks, Bill.

<A>: Thanks, Bill.

Operator: At this time, there are no further questions. I'll turn the call back to the presenters for any closing remarks.

Janet M. Point, Senior Communications and Investor Relations Officer

All right. Thanks very much. Thanks for joining our First Quarter Earnings Call. Again, this is Janet, and I'm available after the call if anybody has any follow-up questions and we'll talk to you next quarter. Thanks.

Operator: Thank you. This concludes today's InterDigital First Quarter Financial Results Conference Call. You may now disconnect.