

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

Filed 11/09/05 for the Period Ending 09/30/05

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CIK	0000354913
SIC Code	6794 - Patent Owners and Lessors
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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 September 30, 2005

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
(State or other jurisdiction of
incorporation or organization)

23-1882087
(I.R.S. Employer
Identification No.)

781 Third Avenue, King of Prussia, PA 19406-1409
(Address of principal executive offices and zip code)

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 an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes No

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

53,913,704

Class

Outstanding at November 1, 2005

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

INDEX

	PAGES
Part I – Financial Information:	
Item 1. Condensed Consolidated Financial Statements (unaudited):	1
Condensed Consolidated Balance Sheets – September 30, 2005 and December 31, 2004	1
Condensed Consolidated Statements of Operations - Three and Nine Months Ended September 30, 2005 and 2004	2
Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2005 and 2004	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	21
Part II – Other Information:	
Item 1. Legal Proceedings	22
Item 6. Exhibits	25
Signatures	26
Exhibit 10.81	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 99.1	

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

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 and enhanced Internet access.

3G

“Third Generation.” A generic term usually used in reference to the next generation of digital mobile devices and networks, 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.

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).

Circuit

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

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.

FDD

“Frequency Division Duplex.” A duplex operation using a pair of frequencies, one for transmission and one for reception.

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.

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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 more than 100,000 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.

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.

TIA/EIA-95

A 2G CDMA standard.

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.

[Table of Contents](#)

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, 2005	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 41,057	\$ 15,737
Short-term investments	73,170	116,081
Accounts receivable	14,805	11,612
Deferred tax assets	6,408	5,170
Prepaid and other current assets	6,790	8,017
Total current assets	142,230	156,617
PROPERTY AND EQUIPMENT, NET	10,889	10,716
PATENTS, NET	56,608	40,972
DEFERRED TAX ASSETS	17,888	27,164
OTHER NON-CURRENT ASSETS	5,178	6,451
	90,563	85,303
TOTAL ASSETS	\$ 232,793	\$ 241,920
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 344	\$ 212
Accounts payable	5,677	6,758
Accrued compensation and related expenses	11,853	9,264
Deferred revenue	25,274	28,075
Foreign and domestic taxes payable	77	379
Other accrued expenses	8,273	5,145
Total current liabilities	51,498	49,833
LONG-TERM DEBT	1,662	1,672
LONG-TERM DEFERRED REVENUE	76,380	71,121
OTHER LONG-TERM LIABILITIES	1,183	3,635
TOTAL LIABILITIES	130,723	126,261
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common Stock, \$.01 par value, 100,000 shares authorized, 60,203 and 59,662 shares issued and 53,697 and 55,156 shares outstanding	602	597
Additional paid-in capital	357,740	342,751
Accumulated deficit	(154,869)	(164,524)
Accumulated other comprehensive loss	(198)	(66)
Unearned compensation	(7,297)	(3,276)
	195,978	175,482
Treasury stock, 6,506 and 4,506 shares of common held at cost	93,908	59,823
Total shareholders' equity	102,070	115,659
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 232,793	\$ 241,920

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 SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
REVENUES	\$ 48,538	\$ 7,358	\$ 122,636	\$ 69,753
OPERATING EXPENSES:				
Sales and marketing	1,798	1,399	5,615	4,409
General & administrative	5,420	5,046	17,898	15,866
Patents administration and licensing	14,695	7,708	36,022	19,638
Development	15,610	12,349	46,704	38,091
Repositioning	849	3	849	607
	38,372	26,505	107,088	78,611
Income (loss) from operations	10,166	(19,147)	15,548	(8,858)
OTHER INCOME:				
Interest and investment income, net	779	436	2,246	1,126
Income (loss) before income taxes	10,945	(18,711)	17,794	(7,732)
INCOME TAX (PROVISION) BENEFIT	(4,419)	12,308	(8,139)	8,051
Net Income (loss)	6,526	(6,403)	9,655	319
PREFERRED STOCK DIVIDENDS	—	—	—	(66)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ 6,526	\$ (6,403)	\$ 9,655	\$ 253
NET INCOME (LOSS) PER COMMON SHARE - BASIC	\$ 0.12	\$ (0.12)	\$ 0.18	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	53,611	55,282	54,097	55,341
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	\$ 0.11	\$ (0.12)	\$ 0.17	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	57,089	55,282	57,663	59,421

The accompanying notes are an integral part of these statements.

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before Preferred Stock dividends	\$ 9,655	\$ 319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,426	7,288
Deferred revenue recognized	(43,647)	(36,899)
Increase in deferred revenue	46,105	62,994
Deferred income taxes	8,038	(16,639)
Tax benefit from stock options	—	5,430
Non-cash compensation	7,221	3,830
Non-cash repositioning charges	156	—
Decrease (increase) in deferred charges	838	(4,751)
Other	25	(20)
(Increase) decrease in assets:		
Receivables	(3,193)	31,236
Other current assets	1,554	3,144
(Decrease) increase in liabilities:		
Accounts payable	(508)	(545)
Accrued compensation	542	1,482
Other accrued expenses	2,421	950
Net cash provided by operating activities	<u>37,633</u>	<u>57,819</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(95,676)	(135,432)
Sales of short-term investments	138,538	119,506
Purchases of property and equipment	(4,006)	(2,654)
Capitalized patent costs	(12,543)	(8,816)
Acquisition of patents	(8,050)	—
Net cash provided (used) by investing activities	<u>18,263</u>	<u>(27,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	3,752	10,250
Payments on long-term debt, including capital lease obligations	(243)	(152)
Dividends on Preferred stock	—	(37)
Redemption of Preferred stock	—	(51)
Repurchase of Common stock	(34,085)	(17,061)
Net cash used by financing activities	<u>(30,576)</u>	<u>(7,051)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,320	23,372
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,737	20,877
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 41,057</u>	<u>\$ 44,249</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Issuance of restricted common stock	<u>\$ 494</u>	<u>\$ 450</u>
Leased asset additions and related obligation	<u>\$ 365</u>	<u>\$ —</u>
Interest paid	<u>\$ 148</u>	<u>\$ 121</u>
Income taxes paid, including foreign withholding taxes	<u>\$ 755</u>	<u>\$ 4,187</u>

Non-cash dividends on preferred stock

\$ —

\$ 29

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(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, 2005, the results of our operations for the three and nine months ended September 30, 2005 and 2004, and the cash flows for the nine months ended September 30, 2005 and 2004. 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, 2004 (2004 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 31, 2005. 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.

Certain prior period amounts have been reclassified to conform to the current period presentation.

There have been no material changes in our existing accounting policies from the disclosures included in our 2004 Form 10-K.

The Company accounts for stock-based employee compensation under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-option-based employee compensation cost is reflected in net income, as all effected options have an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-option-based employee compensation (in thousands, except per share data):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Net income (loss) applicable to Common Shareholders – as reported	\$ 6,526	\$ (6,403)	\$ 9,655	\$ 253
Add: Stock-based employee compensation expense included in reported net income	2,246	1,589	7,221	3,830
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,767)	(2,850)	(9,869)	(10,771)
Tax Effect	177	429	901	2,360
	\$ 6,182	\$ (7,235)	\$ 7,908	\$ (4,328)
Net income (loss) applicable to Common Shareholders – pro forma				
Net income (loss) per share – as reported – basic	0.12	(0.12)	0.18	0.00
Net income (loss) per share – as reported – diluted	0.11	(0.12)	0.17	0.00
Net income (loss) per share – pro forma – basic	0.12	(0.13)	0.15	(0.08)
Net income (loss) per share – pro forma – diluted	0.11	(0.13)	0.14	(0.08)

Table of Contents

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:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Expected option life (in years)	4.9	4.8	4.9	4.8
Risk-free interest rate	4.1%	3.5%	4.0%	3.4%
Volatility	78%	90%	78%	90%
Dividend yield	—	—	—	—
Weighted average fair value	\$ 13.02	\$ 12.60	\$ 12.63	\$ 19.50

In December 2004, the Financial Accounting Standards Board (FASB), issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will 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) replaces SFAS No. 123 and supersedes APB Opinion No. 25. 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, SFAS No. 123 permitted entities the option of continuing to apply the guidance in APB Opinion No. 25 as long as the accompanying footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. In April 2005, the SEC delayed the effective date of SFAS 123(R) for public companies to annual periods beginning after June 15, 2005. We plan to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method. We are currently evaluating the effect SFAS No. 123(R) will have on our consolidated financial position, results of operations and cash flows.

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 for 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 is required to be adopted by the Company no later than January 1, 2006. We do not expect the adoption of SFAS No. 154 will have a material impact on our consolidated financial position, results of operations and cash flows.

2. SIGNIFICANT AGREEMENTS AND EVENTS:

Kyocera

On September 1, 2005, our patent holding subsidiaries entered into a worldwide, non-transferable, non-exclusive, patent license agreement with Kyocera Wireless Corporation, and its parent corporation, Kyocera Corporation, (collectively, "Kyocera"). The five-year 3G patent license agreement covers the sale of terminal units compliant with cdma2000[®] technology and its extensions commencing July 1, 2004.

Under the terms of the patent license agreement and subject to a Kyocera option to convert the license to a royalty-bearing basis, Kyocera is obligated to pay a license fee of \$50 million, which covers licensed product sales up to a specified threshold dollar amount. Kyocera has made an

Table of Contents

initial payment of \$20 million, which we received in third quarter 2005. Subject to Kyocera's right to exercise its option, Kyocera is obligated to pay three additional \$10 million installments due no later than the third quarters of 2006, 2007, and 2008, respectively.

General Dynamics

In December 2004, we entered into an agreement with General Dynamics C4 Systems (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. Under the agreement, we expect to receive \$18.5 million for delivery of, and a limited license to, our commercial technology solution for use within the government's MUOS and Joint Tactical Radio System programs. Maintenance and product training are also covered by this amount. The agreement also includes options that are exercisable by General Dynamics at various times through March 2006 for additional deliverables valued at up to \$4.0 million. We anticipate that a majority of our MUOS program deliverables and related payments will occur in 2005. After 2005, any significant revenue related to this agreement, as currently in place, would occur only if the options are exercised by General Dynamics. In addition to the deliverables specifically identified in the agreement, we have agreed to provide additional future services as requested by General Dynamics. The SLA may be terminated for convenience if the U.S. Government terminates, for convenience, that portion of the MUOS program that includes General Dynamics.

We are accounting for the delivery of and limited license to our commercial technology platform under the SLA using the percentage-of-completion method. This portion of the agreement is valued at \$16.5 million. From the inception of the agreement through September 30, 2005, we recognized approximately \$13.6 million in revenue, including approximately \$3.4 million in third quarter 2005. Our accounts receivable included unbilled amounts of approximately \$5.7 million and \$0.1 million at September 30, 2005 and December 31, 2004, respectively. At September 30, 2005, our other current assets included approximately \$0.2 million of related costs which were deferred in accordance with our application of the percentage-of-completion method.

During the first nine months of 2005, we received \$8.0 million from General Dynamics related to completed milestones.

Subsequent to the delivery of our commercial technology platform, we will provide General Dynamics with support for a period of three years. This portion of the SLA is valued at \$2.0 million and we will recognize the related revenue evenly over the period of support.

Philips

In August 2005, we entered into an agreement with Philips Semiconductors B.V. (Philips) that requires us to deliver our HSDPA technology solution to Philips for integration into Philips' family of Nxpria™ 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 will provide Philips with support and maintenance over an aggregate estimated period of approximately 2 years.

We are accounting for the delivery of and limited license to our HSDPA technology solution under the Philips agreement using the percentage-of-completion method. From the inception of the agreement through September 30, 2005, we recognized approximately \$1 million in revenue. During third quarter 2005, we received \$0.5 million from Philips in connection with the signing of the agreement. At September 30, 2005, our accounts receivable included unbilled amounts of approximately \$0.5 million.

Table of Contents

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:

Our accumulated tax losses, which include allowable deductions related to exercised employee stock options, generated federal net operating loss (NOL) credit carryforwards of approximately \$110 million as of December 31, 2004. These NOL credit carryforwards were the largest component of our deferred tax assets which, before any adjustment for valuation allowance, had a tax-effected value of \$107.6 million. Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not we will be unable to utilize the asset to offset future taxes.

During the first nine months of 2005, our effective tax rate, excluding foreign source withholding tax was approximately 34%. At December 31, 2004, we held a valuation allowance of approximately \$75.2 million against our deferred tax assets of approximately \$107.6 million. We will continue to evaluate the potential use of our deferred tax assets and, depending on various factors, could reverse all or a portion of the remaining valuation allowance in the future. We believe that the future utilization of our deferred tax assets, which are currently offset by a valuation allowance, continues to be dependent, in part, upon our success in three key areas: (1) the potential amount and timing of revenue associated with our technology products; (2) the outcome of outstanding patent license arbitrations and litigations; and (3) our ability to sign additional revenue generating patent license agreements. We will continue to provide a valuation allowance on a portion of our deferred tax assets until our success in these or other areas provides evidence that our deferred tax assets will be more fully utilized. Subsequent revisions to the estimated realizable value of our deferred tax assets could cause our provision for income taxes to vary significantly from period-to-period, although our cash tax payments would remain unaffected until our NOL credit carryforward is fully utilized or has expired.

Under Internal Revenue Code Section 382, the utilization of a corporation's NOL credit 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 the Company's NOL credit 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 credit carryforward period.

In 1992, the Company experienced a more-than-50% cumulative change in ownership. As a result of such change in ownership, approximately \$20 million of the Company's NOL credit carryforwards were limited as of December 31, 2004. If the Company experiences an additional more-than-50% cumulative ownership change, the full amount of the NOL credit carryforward may become subject to annual limitation under Internal Revenue Code Section 382. There can be no assurance that the Company will realize the benefit of any NOL credit carryforward.

Table of Contents

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, 2005			Three Months Ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income (loss) per share - basic:						
Income (loss) available to Common Shareholders	\$ 6,526	53,611	\$ 0.12	\$ (6,403)	55,282	\$ (0.12)
Effect of dilutive options, warrants and restricted stock units	—	3,478	(0.01)	—	—	—
Income (loss) per share - diluted:						
Income (loss) available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	\$ 6,526	57,089	\$ 0.11	\$ (6,403)	55,282	\$ (0.12)
	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share - basic:						
Income available to Common Shareholders	\$ 9,655	54,097	\$ 0.18	\$ 253	55,341	\$ 0.00
Effect of dilutive options, warrants and restricted stock units	—	3,566	(0.01)	—	4,080	—
Income per share - diluted:						
Income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	\$ 9,655	57,663	\$ 0.17	\$ 253	59,421	\$ 0.00

For the three and nine months ended September 30, 2005, options and warrants 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 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 and nine months ended September 30, 2004, options and warrants to purchase approximately 2.2 million and 1.7 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.

Table of Contents

5. LITIGATION AND LEGAL PROCEEDINGS :

Nokia

Nokia Arbitration

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K) and Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, respectively (Forms 10-Q), in July 2003, Nokia Corporation (Nokia) filed a Request for Arbitration against InterDigital Communications Corporation (IDCC) and InterDigital Technology Corporation (ITC), one of the Company's wholly-owned subsidiaries, regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement with ITC (Nokia Arbitration). The arbitration was conducted by the International Court of Arbitration of the International Chamber of Commerce (ICC), in accordance with the dispute resolution provisions of the patent license agreement. The binding arbitration related to ITC's claim that the patent license agreements ITC signed with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) in March 2003 defined the financial terms under which Nokia would be required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002.

In the Final Award, rendered in June 2005, the Arbitral Tribunal (Tribunal) operating under the auspices of the ICC held that ITC's patent license agreement with Ericsson constituted a Major Competitor License Agreement for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE infrastructure and that ITC's patent license agreement with Sony Ericsson constituted a Major Competitor License Agreement for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units. As such, the Tribunal determined that these agreements were properly applied to Nokia by ITC, and commenced Nokia's royalty obligations with respect to those products from 2002 through 2006.

In July 2005, IDCC and ITC filed in the United States District Court for the Southern District of New York a Petition to confirm the Final Award. In August 2005, Nokia filed an Opposition to IDCC's and ITC's Petition and a Cross-Petition and Cross-Motion to vacate or modify the Final Award. As part of its filing, Nokia has requested that the Court refuse to enforce the Final Award and set aside or modify the Final Award. IDCC and ITC believe that Nokia's actions are without merit and intend to continue to vigorously pursue enforcement of the Final Award. The Court has scheduled oral arguments on the foregoing matters for December 2005.

Nokia UK Proceedings

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in June 2004, Nokia commenced a patent revocation proceeding in the English High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's UK patents declared invalid (UK Revocation Proceeding). Nokia also seeks a Declaration that manufacture and sale of GSM mobiles and infrastructure equipment compliant with the ETSI GSM Standard (Release 4) without license from ITC does not require infringement of the 3 UK patents, so that none of the patents are essential IPR for that standard. The hearing on this matter commenced November 2, 2005.

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 the importation, manufacture, sale, supply, keeping or use of mobile phones and/or infrastructure equipment compliant with the FDD mode of operation as set out in 3GPP Standard TS 41.101 Release 5 or any revisions to this or later releases without license from ITC does not require infringement of any of thirty-one of ITC's UMTS European Patents registered in the UK, such that none of the patents is Essential IPR for that standard. InterDigital intends to vigorously defend its position.

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 the Company and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. We have filed a motion to dismiss the complaint to which Nokia has responded. The Court has not ruled on the motion.

Table of Contents

Samsung

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in November 2003, Samsung Electronics Co. Ltd. (Samsung) filed a Request for Arbitration against IDCC and ITC with the ICC regarding Samsung's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under its existing patent license agreement with ITC (Samsung Arbitration). The binding Samsung Arbitration relates to ITC's claim that the patent license agreements ITC signed with Ericsson and Sony Ericsson in March 2003 defined the financial terms under which Samsung would be 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. An evidentiary hearing is currently scheduled to be conducted in January 2006.

Lucent

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in March 2004, Tantivy Communications, Inc., one of our wholly-owned subsidiaries (Tantivy), filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000[®] equipment. The case was originally based on our assertions of infringement by Lucent of nine of Tantivy's US patents. The lawsuit sought damages for past infringement and an injunction against future infringement, as well as interest, costs, and attorneys' fees. Lucent responded to the lawsuit seeking a declaration of non-infringement and alleging that the patents were invalid and requested attorneys' fees and costs.

In November 2005, Tantivy and Lucent agreed to dismiss the patent infringement litigation between them and, together with IDCC, entered into a combined patent license and technology agreement. Under the terms of the agreement, Lucent is obligated to pay approximately \$14 million over a period of approximately 5 years. Tantivy granted a patent license to Lucent under only those patents which were involved in the litigation being dismissed covering Lucent's cdma2000[®] infrastructure products. In addition, IDCC and Lucent agreed to cooperate on advanced technology programs. The parties expect to enter into negotiations regarding licensing the balance of their respective patent portfolios and to discuss further business relationships.

Table of Contents

Federal

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, 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 their 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 is found to be valid and enforceable, the Company is seeking 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 has not yet been decided. 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, 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 materially affect us.

6. STOCK REPURCHASE :

In October 2004, our Board of Directors authorized the repurchase of one million shares of the Company's common stock (Repurchase Program). In March 2005, the Board of Directors expanded the Repurchase Program by an additional

Table of Contents

one million shares to a total of two million shares. We began activity under the Repurchase Program early in first quarter 2005 and repurchased a total of 500,000 shares in the first quarter at a cost of approximately \$9.0 million. We repurchased the remaining 1.5 million shares under the Repurchase Program in early second quarter 2005 at a cost of approximately \$25.1 million.

7. COMPREHENSIVE INCOME :

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	\$6,526	\$(6,403)	\$9,655	\$ 253
Unrealized (loss) gain on investments	(96)	36	(132)	(303)
Total comprehensive income	\$6,430	\$(6,367)	\$9,523	\$ (50)

8. REPOSITIONING ACTIVITIES :

On August 4, 2005, we announced plans to close our Melbourne, Florida design facility. We ceased our development activity at this facility in third quarter 2005 and relocated certain development efforts and personnel to other Company locations. On the date of the announced closing, there were thirty-three full or part-time employees at this facility, of which 5 have accepted offers of continued employment elsewhere within our organization. We expect the repositioning to result in annual pre-tax cost savings of \$6.0 million.

In connection with the closure, we expect to recognize repositioning charges totaling approximately \$1.4 million, comprised of severance and relocation costs of \$0.9 million and facility closing costs of \$0.5 million. The facility closing costs include lease termination costs, fixed asset writeoffs and costs to wind down the facility. We recorded approximately \$0.8 million of this charge in third quarter 2005 and expect to record the majority of the remaining charges over the next nine months. The third quarter charge was comprised of both severance and relocation costs (\$0.5 million) and facility closing costs (\$0.3 million). We have accrued a liability of approximately \$0.4 million at September 30, 2005, relating to the third quarter repositioning charge.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. OVERVIEW

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained 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, 2004 (2004 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 31, 2005, 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 September 30, 2005.

Expiring 2G Patent License and Technology Revenue

We will complete the amortization of \$53 million of royalty revenue associated with our TDMA patent license agreement (2G) with NEC Corporation of Japan (NEC) in February 2006. Telefonaktiebolaget LM Ericsson and Ericsson Inc. (Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) obligations to pay royalties under their respective 2G/2.5G patent license agreements will end on December 31, 2006. Together, these three licensees contributed approximately \$25.7 million or 21% of our revenue in first nine months 2005. In addition, by December 31, 2005, we will have completed amortization of deferred revenue from other 2G agreements, which collectively contributed \$2.5 million or 2.0% of our revenue in first nine months 2005.

We also anticipate that a majority of our deliverables under the Mobile User Objective System (MUOS) program for the U.S. military and related payments under our agreement with General Dynamics C4 Systems, (General Dynamics) will occur in 2005. After 2005, any significant revenue related to this agreement as currently in place would occur only if the options provided for in such agreement are exercised by General Dynamics.

We continue to place substantial focus on both expanding our base of 3G licensees and resolving outstanding patent license arbitrations and litigations. We also continue to seek additional 2G licensees. We believe that these efforts will result in additional patent license revenues. As discussed below, in third quarter 2005 we signed a 3G patent license agreement with Kyocera Wireless Corporation, and its parent corporation, Kyocera Corporation, (collectively, "Kyocera"), which covers the sale of terminal units compliant with CDMA2000[®] technologies and its extensions. In addition, in third quarter 2005 we also signed 2G/3G patent license agreements with Arima Communications and Quanta Computer Inc. Furthermore, in 2005 we have diversified our revenue base to include technology offerings to customers such as General Dynamics and Philips Semiconductors B.V. (Philips) and will seek to continue such diversification through additional agreements.

Kyocera

On September 1, 2005, our patent holding subsidiaries entered into a worldwide, non-transferable, non-exclusive, patent license agreement with Kyocera. The five-year patent license agreement commenced July 1, 2004.

Under the terms of the patent license agreement and subject to a Kyocera option to convert the license to a royalty-bearing basis, Kyocera is obligated to pay InterDigital a license fee of \$50 million, which covers licensed product sales up to a specified threshold dollar amount. Kyocera has made an initial payment of \$20 million, which we received in third quarter 2005. Subject to Kyocera's right to exercise its option, Kyocera's obligated to pay three additional \$10 million installments due no later than the third quarters of 2006, 2007, and 2008, respectively.

General Dynamics

In December 2004, we entered into an agreement with General Dynamics, to serve as a subcontractor on the 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. Under the agreement, we expect to receive \$18.5 million for delivery of, and a limited license to our commercial technology solution for use within the government's MUOS and Joint Tactical Radio

Table of Contents

System programs. Maintenance and product training are also covered by this amount. The agreement also includes options that are exercisable by General Dynamics at various times through March 2006 for additional deliverables valued at up to \$4.0 million. We anticipate that a majority of our MUOS program deliverables and related payments will occur in 2005. After 2005, any significant revenue related to this agreement, as currently in place, would occur only if the options are exercised by General Dynamics. In addition to the deliverables specifically identified in the agreement, we have agreed to provide additional future services as requested by General Dynamics. The SLA may be terminated for convenience if the U.S. Government terminates, for convenience, that portion of the MUOS program that includes General Dynamics.

We are accounting for the delivery of and limited license to our commercial technology platform under the SLA using the percentage-of-completion method. This portion of the agreement is valued at \$16.5 million. From the inception of the agreement through September 30, 2005, we recognized approximately \$13.6 million in revenue, including approximately \$3.4 million in third quarter 2005. Our accounts receivable included unbilled amounts of approximately \$5.7 million and \$0.1 million at September 30, 2005 and December 31, 2004, respectively. At September 30, 2005, our other current assets included approximately \$0.2 million of related costs which were deferred in accordance with our application of the percentage-of-completion method.

During the first nine months of 2005, we received \$8.0 million from General Dynamics related to completed milestones.

Subsequent to the delivery of our commercial technology platform, we will provide General Dynamics with support for a period of three years. This portion of the SLA is valued at \$2.0 million and we will recognize the related revenue evenly over the period of support.

Philips

In August 2005, we entered into an agreement with Philips Semiconductors B.V. (Philips) that requires us 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 will provide Philips with support and maintenance over an aggregate estimated period of approximately 2 years. This portion of the agreement is valued at approximately \$1.0 million and we will recognize the related revenue evenly over the period of support.

This portion of the agreement is valued at approximately \$1.0 million and we will recognize the related revenue evenly over the period of support.

We are accounting for the delivery of and limited license to our HSDPA technology solution under the Philips agreement using the percentage-of-completion method. From the inception of the agreement through September 30, 2005, we recognized approximately \$1 million in revenue. During third quarter 2005, we received \$0.5 million from Philips in connection with the signing of the agreement. At September 30, 2005, our accounts receivable included unbilled amounts of approximately \$0.5 million.

Table of Contents

Repositioning

On August 4, 2005, we announced plans to close our Melbourne, Florida design facility. We ceased our development activity at this facility in third quarter 2005 and relocated certain development efforts and personnel to other Company locations. On the date of the announced closing, there were thirty-three full or part-time employees at this facility, of which 5 have accepted offers of continued employment elsewhere within our organization. We expect the repositioning to result in annual pre-tax cost savings of \$6.0 million.

In connection with the closure, we expect to recognize repositioning charges totaling approximately \$1.4 million, comprised of severance and relocation costs of \$0.9 million and facility closing costs of \$0.5 million. The facility closing costs include lease termination costs, fixed asset writeoffs and costs to wind down the facility. We recorded approximately \$0.8 million of this charge in third quarter 2005 and expect to record the majority of the remaining charges over the next nine months. The third quarter charge was comprised of both severance and relocation costs (\$0.5 million) and facility closing costs (\$0.3 million). We have accrued a liability of approximately \$0.4 million at September 30, 2005, relating to the third quarter repositioning charge.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2004 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 2004 Form 10-K. There have been no material changes in our existing accounting policies from the disclosures included in our 2004 Form 10-K. In June 2005, we updated our estimates related to our Long-Term Compensation Program (LTCP) for the reasons provided below.

Performance-Based Compensation

We use a variety of compensation programs to both attract and retain engineers and other key employees and more closely align employee compensation with Company performance. These programs include, but are not limited to, an annual bonus tied to performance goals, cash awards to inventors for filed patent applications and patent issuances, as well as an LTCP that includes restricted stock units (RSUs) and a performance-based cash incentive component. The LTCP was originally designed to consist of three year cycles that overlap by one year. The first cycle under the program covers the period from April 1, 2004 through January 1, 2006 ("Cycle 1"). The second cycle under the LTCP originally covered the period from January 1, 2005 through January 1, 2008 ("Cycle 2"). In second quarter 2005, the Compensation Committee of our Board of Directors amended the LTCP to revise the performance-based cash award portion of Cycle 2 to cover a 3.5 year period from July 1, 2005 through January 1, 2009, and authorized a pro-rated interim payment, of approximately \$0.9 million, related to first half 2005. Because we had previously accrued a total of approximately \$0.9 million related to the Cycle 2 performance based cash award, no additional expense was recorded in second quarter 2005 related to the pro-rated interim payment.

In June 2005, we adjusted our assessment of progress towards the achievement of certain qualitative goals relating to the Cycle 1 performance-based cash award. As a result of this updated assessment, we recorded a cumulative adjustment of approximately \$1.6 million to reduce related expenses at that time. If we had continued to accrue for the Cycle 1 performance-based cash award based on a 100% payout, as we had prior to June 2005, we would not have recorded the cumulative adjustment and would have instead recognized additional expenses associated with the Cycle 1 performance-based cash award of approximately \$1.3 million in the nine months ended September 30, 2005. We are currently accruing for the Cycle 2 performance-based cash award based on a 100% payout.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will 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) replaces SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25. 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, SFAS No. 123 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. In April 2005, the SEC delayed the effective date

Table of Contents

of SFAS 123(R) for public companies to annual periods beginning after June 15, 2005. We plan to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method. We are currently evaluating the effect SFAS No. 123(R) will have on our consolidated financial position, results of operations and cash flows.

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 for 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 is required to be adopted by the Company no later than January 1, 2006. We do not expect the adoption of SFAS No. 154 will have a material impact on our consolidated financial position, results of operations and cash flows.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

We generated positive cash flow from operating activities of \$37.6 million in the nine month period ended September 30, 2005 (first nine months 2005) compared to \$57.8 million in the nine month period ended September 30, 2004 (first nine months 2004). The positive operating cash flow in first nine months 2005 arose principally from receipts of approximately \$113.4 million from patent licensing agreements and \$8.5 million from General Dynamics and Philips. This included approximately \$27.9 million from Sony Ericsson, the majority of which represented a new prepayment under our 2003 patent license agreement, \$26.0 million from Sharp Corporation (Sharp) related to our 2G and 3G patent license agreements, \$27.5 million from NEC Corporation of Japan (NEC) associated with our 3G patent license agreement, \$20.0 million from Kyocera relating to our 3G patent license agreement and approximately \$12.0 million from other licensees related to their respective patent license agreements, including \$6.4 million related to a new prepayment under an existing 3G patent license agreement. 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 \$91.4 million, and changes in working capital during first nine months 2005. The positive operating cash flow in first nine months 2004 arose principally from net receipts of approximately \$123.1 million from patent licensing agreements. This included approximately \$27.0 million from Sanyo Electric Co., Ltd (Sanyo) and \$10.0 million from Toshiba Corporation related to separate 2004 patent license agreements that updated and expanded each licensee's prior agreement, approximately \$23.9 million from NEC associated with our 3G patent license agreement, approximately \$23.0 million from Sharp related to our 2G and 3G patent license agreements, \$16.0 million from Ericsson and approximately \$11.6 million from Sony Ericsson under their respective patent license agreements, and approximately \$11.6 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses of \$67.5 million and changes in working capital during first nine months 2004.

Net cash provided by investing activities in first nine months 2005 was \$18.3 million compared to a use of cash by investing activities of \$27.4 million in first nine months 2004. Our net sales of short-term marketable securities in first nine months 2005 were \$42.9 million compared to net purchases of \$15.9 million in first nine months 2004. This change resulted from first nine months 2005 cash requirements of approximately \$34.1 million and \$8.1 million, respectively, to finance both our Repurchase Program and an acquisition of patents from a third party. Our purchases of property and equipment of \$4.0 million during first nine month 2005 increased approximately \$1.3 million compared to first nine months 2004 and primarily consisted of investments necessary to support our engineering information systems network. Our pace of investment associated with patent filings increased \$3.7 million to \$12.5 million in first nine months 2005 compared to first nine months 2004, reflecting continued growth in our development of intellectual property over recent years.

A use of approximately \$34.1 million related to our Repurchase Program contributed to a \$30.6 million use of cash by financing activities in first nine months 2005. In first nine months 2004, our financing activities used cash of \$7.1 million primarily related to repurchases of our Common Stock that was partially offset by proceeds from option and warrant exercises and our employee stock purchase program.

Table of Contents

As of September 30, 2005, we had \$114.2 million of cash, cash equivalents and short-term investments, compared to \$131.8 million as of December 31, 2004. The decrease was mainly due to the Repurchase Program described above. Our working capital, adjusted to exclude cash, cash equivalents, short-term investments, current deferred tax assets, current maturities of debt and current deferred revenue, decreased to \$(4.3) million at September 30, 2005 from \$(1.9) million at December 31, 2004.

We are capable of supporting our operating requirements for the near future, including costs associated with our repositioning activities, through cash and short-term investments on hand, as well as other internally generated funds, primarily from 2G and 3G patent licensing royalties. We would not expect that an adverse resolution of our dispute with Federal Insurance Company (See, Part II, “*Item 1. Legal Proceedings-Federal*”) would prevent us from supporting our operating requirements for the near future. Although we do not presently anticipate any need for additional financing for daily operations through either bank facilities or the sale of debt or equity securities, we may seek to establish a revolving credit facility to provide us with additional flexibility in managing our business.

As of December 31, 2004, we had federal net operating loss (NOL) credit carryforwards of approximately \$110 million. Our obligation to pay foreign source withholding taxes to Japan on the collection of Japanese sourced royalties ceased effective July 1, 2004. We will continue to pay local and state income taxes, and alternative minimum taxes (AMT) when applicable, however we do not expect to pay federal income tax (other than AMT) until these NOL credit carryforwards are fully utilized.

RESULTS OF OPERATIONS

Third Quarter 2005 Compared to Third Quarter 2004

Revenues

In third quarter 2004 we transitioned to recognizing revenue associated with per-unit royalties in the quarter when royalty reports are received from licensees, rather than in the quarter in which our licensees’ underlying sales occurred. Due to this transition, third quarter 2004 revenues of \$7.4 million included only the amortization of paid-up royalties and fixed obligations. As a result, revenues of \$48.5 million for third quarter 2005 increased \$41.1 million or 560% over third quarter 2004 revenues.

Our third quarter 2005 revenues included \$33.8 million of recurring patent license royalties, \$10.2 million related to past infringement associated with new patent license agreements, including Kyocera’s 3G agreement and \$4.5 million from technology solution agreements with General Dynamics and Philips. Third quarter 2005 revenues from Kyocera (26%), NEC (24%), and Sharp (19%) contributed 69% of our total revenues.

Operating Expenses

Operating expenses increased 45% to \$38.4 million in third quarter 2005 from \$26.5 million in third quarter 2004. The quarter-over-quarter increase was driven by higher (i) legal fees primarily associated with patent license arbitrations and litigations (\$4.9 million), (ii) wages, resulting from higher levels of headcount prior to the third quarter repositioning (\$1.6 million), (iii) commission expense associated with higher revenues (\$1.5 million), and (iv) LTCP costs resulting from overlapping LTCP cycles (\$1.2 million). In addition, third quarter operating expenses included approximately \$0.8 million of repositioning charges.

Development expenses increased 26% to \$15.6 million in third quarter 2005 from \$12.4 million in third quarter 2004. This increase was due primarily to increased headcount and higher costs related to the above-noted overlapping LTCP cycles.

Sales and marketing expenses of \$1.8 million in third quarter 2005 increased 29% from \$1.4 million in third quarter 2004, primarily as a result of higher LTCP costs.

General and administrative expenses in third quarter 2005 increased 7% to \$5.4 million from \$5.0 million in third quarter 2004, primarily resulting from the overlapping LTCP cycles.

Patents administration and licensing expenses of \$14.7 million in third quarter 2005 increased 91% from \$7.7 million in third quarter 2004 due to increased litigation and arbitration costs associated with our respective arbitrations and litigations with Nokia, Samsung and Lucent (\$5.1 million) and increased commissions primarily associated with new license agreements (\$1.5 million).

Table of Contents

Interest and Investment Income, net

Interest and investment income of \$0.8 million in third quarter 2005 increased \$0.4 million compared to \$0.4 million in third quarter 2004 due to higher rates of return on our investments in 2005.

Income Taxes

Our income tax provision was \$4.4 million in third quarter 2005 compared to a net tax benefit of \$12.3 million in third quarter 2004. The income tax provision for third quarter 2005 consisted of an approximate \$4.0 million federal income tax accrual and \$0.4 million of foreign source withholding tax expense. The benefit in third quarter 2004 resulted from a credit to the statement of operations of approximately \$17 million related to our recognition of an increase in the valuation of our deferred tax assets. This benefit was offset by foreign withholding taxes of approximately \$0.4 million and an accrual of approximately \$4.3 million that was based on our estimated book income tax expense for full year 2004.

First Nine Months 2005 Compared to First Nine Months 2004

Revenues

Revenues in first nine months 2005 increased \$52.8 million to \$122.6 million from \$69.8 million in first nine months 2004. This increase was attributable to the above-noted third quarter 2004 transition in reporting per-unit royalties, higher levels of patent licensing royalties and contributions to revenue in first nine months 2005 of \$14.7 million from our technology solutions agreements with General Dynamics and Philips. Due to our third quarter 2004 transition in reporting per-unit royalties, revenues for the first nine months 2004 included only two quarters of per-unit royalties.

Our first nine months 2005 revenues included \$97.7 million of recurring patent license royalties, \$10.2 million of past infringement associated with new patent license agreements, including Kyocera and \$14.7 million from our agreements with General Dynamics and Philips. First nine months 2005 revenues from NEC (30%), Sharp (21%), and General Dynamics (11%) contributed 62% of our total revenues.

Operating Expenses

Operating expenses increased 36% to \$107.1 million in first nine months 2005 from \$78.6 million in first nine months 2004. Legal fees primarily associated with patent license arbitrations and litigations contributed \$13.9 million of this increase. Higher costs associated with the overlapping LTCP cycles contributed another \$3.1 million of the increase. Other key contributors were increased levels of headcount prior to our third quarter repositioning (\$3.3 million), executive severance charges (\$1.2 million), amortization of patent costs (\$1.4 million), increased commissions (\$1.2 million) and our third quarter repositioning charge (\$0.9 million).

Development expenses increased 23% in first nine months 2005 to \$46.7 million from \$38.1 million in first nine months 2004. This increase was due primarily to a \$4.5 million increase in personnel costs resulting from increased headcount and the overlapping LTCP cycles. The remaining increase resulted from targeted outsourced services and other costs related to work associated with our HSDPA platform development.

Sales and marketing expenses of \$5.6 million increased 27% from \$4.4 million in first nine months 2004. Approximately one half of this increase was attributable to personnel costs while the remaining increase was primarily due to increased trade show activities.

General and administrative expenses in first nine months 2005 increased 13% to \$17.9 million from \$15.9 million in first nine months 2004, primarily due to a \$1.2 million severance charge associated with a second quarter change in executive management and increased costs associated with our overlapping LTCP cycles.

Patents administration and licensing expenses of \$36.0 million increased 84% from \$19.6 million in first nine months 2004. This increase resulted primarily from \$13.4 million increase in legal costs associated with our respective arbitrations and litigations with Nokia, Samsung and Lucent.

Interest and Investment Income, net

Interest and investment income of \$2.2 million in first nine months 2005 increased \$1.1 million compared to \$1.1 million in first nine months 2004 due to higher rates of return on our investments in 2005.

Table of Contents

Income Taxes

Our income tax provision was \$8.1 million in first nine months 2005 compared to a net tax benefit of \$8.1 million in first nine months 2004. The income tax provision for first nine months 2005 consisted of an approximate \$6.4 million federal income tax accrual and \$1.7 million of foreign source withholding tax expense. The benefit in first nine months 2004 resulted from a credit to the statement of operations of approximately \$17 million related to our recognition of an increase in the valuation of our deferred tax assets. This benefit was offset by foreign withholding taxes of approximately \$3.5 million and an accrual of approximately \$5.5 million that was based on our estimated book income tax expense for full year 2004.

Expected Trends

We will provide guidance on fourth quarter 2005 revenue after we receive and review the applicable royalty reports and update our forecasts on anticipated revenue from work associated with technology solution agreements. The level of fourth quarter 2005 expenses associated with current arbitrations and litigations will depend, in large part, upon the level of activity associated with current or upcoming hearings and trials and could be as high as those experienced in third quarter 2005. We anticipate that other fourth quarter 2005 operating expenses will be slightly lower than our third quarter 2005. Lastly, absent any adjustment to our valuation allowance against deferred tax assets, we expect that our book tax rate for fourth quarter 2005 will approximate 35% to 38%, plus an amount for deferred foreign source withholding tax expense which is, in part, dependent on the level and geographic mix of per-unit royalties.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q (Form 10-Q), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, reflecting, among other things, the Company’s beliefs, plans and expectations as to: (i) our revenues under our agreement with General Dynamics and the timing of a majority of the deliverables, and associated revenue and support services; (ii) our focus on 3G patent licensing and resolution of patent arbitrations and litigations, our continued 2G licensing program and the impact thereof on revenues, and diversification of our revenue base; (iii) the timing, amount and benefit of repositioning charges and minimum annual pre-tax cost savings associated with our repositioning relating to our Melbourne, Florida facility; (iv) the effect of our January 1, 2006 adoption of SFAS No. 123(R) and SFAS No. 154 on our consolidated financial position, results of operations and cash flows, respectively; (v) the impact of any resolution of our dispute with Federal on our ability to meet our near term operating requirements; (vi) our needs and plans with respect to additional financing; (vii) our future federal income tax obligations, our expected utilization of our federal NOL credit carryforwards, and our fourth quarter 2005 book tax rate and deferred foreign source withholding tax expense; (viii) fourth quarter 2005 expenses including expenses associated with current arbitration and litigation matters; (ix) our plans to pursue enforcement of the Final Award and our belief that Nokia’s motions to set aside or modify the Final Award are without merit; and (x) our plans to vigorously defend our position in the July 29, 2005 claim filed by Nokia in the UK Patents Court, and our belief that unsuccessful outcomes in the UK Patents Court proceedings would not materially impact our operations or licensing program. Words such as “expect,” “anticipate,” “if,” “believe,” “assessing,” “evaluating,” “may,” “will,” “plan,” “future,” “should,” “could,” “seek,” “continue,” or similar expressions 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 the Company. Consequently, forward-looking statements are 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 not place undue reliance on these forward-looking statements. In addition to the associated risks and uncertainties identified in this Form 10-Q as well as other information contained herein, each of the following factors should be considered in evaluating our business and prospects.

Table of Contents

The timing of deliverables and associated payments under our contract with General Dynamics in 2005 and any related additional services may be impacted by our ability to satisfactorily meet milestones, changes in delivery schedules, the needs of General Dynamics, or an exercise of termination by convenience on the part of the U.S. Government.

The focus of our patent licensing efforts and the impact thereof on revenues and our ability to increase the diversity of our revenue base may be affected by: (i) delays or difficulties in executing an agreement to acquire a 2G protocol stack, or in securing additional patent licensing and technology agreements generally; (ii) our ability to leverage a third party 2G protocol stack solution with our 3G protocol stack or with our patents (iii) the market relevance of our technologies; (iv) the expiration of some of our 2G patents; (v) changes in technology preferences of strategic partners or consumers and the availability or development of substitute or competitive technologies; (vi) the economy and sales trends in the wireless market and opportunities in government contracting; (vii) delays or unfavorable resolution of our patent licensing disputes or unanticipated difficulties in enforcing awards or in securing issuances of patents in foreign jurisdictions; (viii) our ability to monetize our investments in technology development; and (ix) proposed patent reform legislation.

The timing, amount, benefit and nature of repositioning charges and minimum annual pre-tax cost savings associated with the closing of our Melbourne, Florida facility may be impacted by: (i) the termination dates of certain employees and the timing of costs associated with relocation packages and stay bonuses; and (ii) our ability to negotiate a favorable termination of such facility's leasehold agreement.

The impact of our January 1, 2006 adoption of SFAS No. 123(R) on our compensation costs relating to share-based payment transactions may be effected by: (i) a change in the valuation method used; and (ii) errors in current estimates of additional compensation expenses due to the amount of affected outstanding stock options at such time. The impact of our January 1, 2006 adoption of SFAS No. 154 would be impacted by a change in our interpretation of SFAS No. 154.

Our ability to support our operating requirements in the near future, and our belief that any resolution of our dispute with Federal would not affect our operating requirements in the near future may be affected by the factors listed herein, as well as our cash flow and our recurring royalties which are dependent on: (i) the market share and performance of our primary licensees in realizing our projections for sales of covered products; (ii) the economy and sales trends in the wireless market; (iii) our ability to expand our customer, partner and licensing relationships; (iv) whether new licensees or existing licensees make past payments for royalties due or pre-payments against future royalties; (v) our ability to successfully prosecute, enforce and protect our patents and other intellectual property rights; and (vi) unanticipated changes in the schedule or costs associated with the Nokia proceedings and Samsung arbitration; and (vii) expenses associated with our long-term compensation program. Further, our failure to generate sufficient cash flows over the long-term may be affected by the factors listed herein, as well as: (i) technical, financial, resource or other difficulties or delays we may experience related to further development of our technologies and products, and which could affect strategic relationships, product marketing efforts, and our timing for critical market windows; and (ii) the increase of potential 3G technology licensors in the marketplace and increasing pressure by licensees to cap royalty rates. A failure to generate sufficient cash flows over the long-term also could adversely impact operating requirements and our current lack of need to seek additional financing.

Table of Contents

Our deferred foreign source withholding tax expense may be affected by: (i) changes in federal and/or state tax regulations; (ii) changes to international tax treaties and foreign and domestic tax laws and regulations; (iii) changes in our expectations of the amount and composition of full-year taxable income; and (iv) the amount of per-unit royalties paid by new and existing licensees. In addition to the above risks, our future federal income tax obligations, and our fourth quarter 2005 book tax rate may also be affected by: (i) the cost of litigation; and (ii) our level of continued self-funding in technology development activities. Our expected utilization of our federal NOL credit carryforwards are dependent on: (i) changes in the market share and the performance of our primary licensees in selling their products; (ii) the market acceptance of our technology products; (iii) our ability to effectively manage costs; (iv) the costs and outcome of ongoing litigation/arbitration; (v) changes to our tax planning strategies; (vi) changes to existing federal or state tax regulations; and (vii) our ability to enter into new or expand existing patent license agreements.

Fourth quarter 2005 expenses associated with current arbitration and litigation matters may be effected by: (i) unanticipated additional legal proceedings or costs associated with legal proceedings; (ii) changes in the schedules or costs associated with the Nokia legal proceedings and the Samsung arbitration, or adverse rulings in such legal proceedings.

Our plans to enforce the Final Award could be affected by a decision by the U.S. District Court to grant Nokia's motion to vacate or modify the Final Award, in whole or in part, or an agreement by the parties to resolve issues upon terms other than those set forth in the Final Award. Our defense in the UK Patents Court could be impacted by a decision by the UK Patents Court to grant the requested Declaration in whole or in part and unanticipated costs. In addition, unsuccessful outcomes in the UK Patents Court proceedings alone, or coupled with unsuccessful outcomes in other patent disputes, could result in an unfavorable perception in the market which could adversely impact our licensing program.

Factors affecting one forward-looking statement may affect other forward-looking statements. We undertake no duty to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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 2004 Form 10-K.

Item 4. CONTROLS AND PROCEDURES .

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company's management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Nokia

Nokia Arbitration

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K) and Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, respectively (2005 Forms 10-Q), in July 2003, Nokia Corporation (Nokia) filed a Request for Arbitration against InterDigital Communications Corporation (IDCC) and InterDigital Technology Corporation (ITC), one of the Company's wholly-owned subsidiaries, regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement with ITC (Nokia Arbitration). The arbitration was conducted by the International Court of Arbitration of the International Chamber of Commerce (ICC), in accordance with the dispute resolution provisions of the patent license agreement. The binding arbitration related to ITC's claim that the patent license agreements ITC signed with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) in March 2003 defined the financial terms under which Nokia would be required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002.

In the Final Award, rendered in June 2005, the Arbitral Tribunal (Tribunal) operating under the auspices of the ICC held that ITC's patent license agreement with Ericsson constituted a Major Competitor License Agreement for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE infrastructure and that ITC's patent license agreement with Sony Ericsson constituted a Major Competitor License Agreement for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units. As such, the Tribunal determined that these agreements were properly applied to Nokia by ITC, and commenced Nokia's royalty obligations with respect to those products from 2002 through 2006.

In July 2005, IDCC and ITC filed in the United States District Court for the Southern District of New York a Petition to confirm the Final Award. In August 2005, Nokia filed an Opposition to IDCC's and ITC's Petition and a Cross-Petition and Cross-Motion to vacate or modify the Final Award. As part of its filing, Nokia has requested that the Court refuse to enforce the Final Award and set aside or modify the Final Award. IDCC and ITC believe that Nokia's actions are without merit and intend to continue to vigorously pursue enforcement of the Final Award. The Court has scheduled oral arguments on the foregoing matters for December 2005.

Nokia UK Proceedings

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in June 2004, Nokia commenced a patent revocation proceeding in the English High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's UK patents declared invalid (UK Revocation Proceeding). Nokia also seeks a Declaration that manufacture and sale of GSM mobiles and infrastructure equipment compliant with the ETSI GSM Standard (Release 4) without license from ITC does not require infringement of the 3 UK patents, so that none of the patents are essential IPR for that standard. The hearing on this matter commenced November 2, 2005.

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 the importation, manufacture, sale, supply, keeping or use of mobile phones and/or infrastructure equipment compliant with the FDD mode of operation as set out in 3GPP Standard TS 41.101 Release 5 or any revisions to this or later releases without license from ITC does not require infringement of any of thirty-one of ITC's UMTS European Patents registered in the UK, such that none of the patents is Essential IPR for that standard. InterDigital intends to vigorously defend its position.

While we continue to contest these matters, in the event that we are unsuccessful, we do not believe that there will be a material impact on our operations or licensing program. However, if we are unsuccessful under such proceedings, under English law we could be liable, or partially liable, for the reimbursement of the prevailing party's attorneys' fees and similar costs.

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 the Company and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. We have filed a motion to dismiss the complaint to which Nokia has responded. The Court has not ruled on the motion.

Table of Contents

Samsung

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in November 2003, Samsung Electronics Co. Ltd. (Samsung) filed a Request for Arbitration against IDCC and ITC with the ICC regarding Samsung's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under its existing patent license agreement with ITC (Samsung Arbitration). The binding Samsung Arbitration relates to ITC's claim that the patent license agreements ITC signed with Ericsson and Sony Ericsson in March 2003 defined the financial terms under which Samsung would be 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. An evidentiary hearing is currently scheduled to be conducted in January 2006.

Lucent

As previously reported in the Company's 2004 Form 10-K and 2005 Forms 10-Q, in March 2004, Tantivy Communications, Inc., one of our wholly-owned subsidiaries (Tantivy), filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000[®] equipment. The case was originally based on our assertions of infringement by Lucent of nine of Tantivy's US patents. The lawsuit sought damages for past infringement and an injunction against future infringement, as well as interest, costs, and attorneys' fees. Lucent responded to the lawsuit seeking a declaration of non-infringement and alleging that the patents were invalid and requested attorneys' fees and costs.

In November 2005, Tantivy and Lucent agreed to dismiss the patent infringement litigation between them and, together with IDCC, entered into a combined patent license and technology agreement. Under the terms of the agreement, Lucent is obligated to pay approximately \$14 million over a period of approximately 5 years. Tantivy granted a patent license to Lucent under only those patents which were involved in the litigation being dismissed covering Lucent's cdma2000[®] infrastructure products. In addition, IDCC and Lucent agreed to cooperate on advanced technology programs. The parties expect to enter into negotiations regarding licensing the balance of their respective patent portfolios and to discuss further business relationships.

Table of Contents

Federal

As previously reported in the Company's 2004 Form 10-K and March 31, 2005 and June 30, 2005 Forms 10-Q, 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 their 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 is found to be valid and enforceable, the Company is seeking 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 which has not yet been decided. 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, 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 materially affect us.

Table of Contents

Item 6. EXHIBITS.

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
†10.81	Severance Agreement and General Release between InterDigital Communications Corporation and Alain Briancon dated October 25, 2005.
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.
99.1	Litigation Expense and Reimbursement Agreement by and between InterDigital Communications Corporation, InterDigital Technology Corporation and Federal Insurance Company dated February 15, 2000.

† Management contract or compensatory plan or arrangement.

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: November 9, 2005

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

Date: November 9, 2005

/s/ R.J. FAGAN

Richard J. Fagan
Chief Financial Officer

Alain Briçon

Re: Severance Agreement and General Release

Dear Employee:

We are interested in resolving amicably your separation of employment with InterDigital Communications Corporation (“the Company”), effective October 24, 2005 (“Termination Date”). Toward this end, we propose the following Severance Agreement, which includes a General Release.

The terms and conditions set forth in Paragraph 1 below will apply regardless of whether you elect to sign this Severance Agreement and General Release. However, the severance payments and other benefits set forth in Paragraph 2 below are contingent on your signing this Severance Agreement and General Release.

You may consider for twenty one (21) days whether you wish to sign this Severance Agreement and General Release. You are encouraged to review the proposed Agreement with your attorney.

1. As noted above, regardless of whether you sign this Agreement:

(a) Your last day of employment will be your Termination Date. You will be paid for all time worked up to and including your Termination Date.

(b) You will be paid for accrued but unused PTO following payroll’s receipt of your final timesheet in accordance with Company policy.

(c) Your eligibility to participate in Company sponsored health insurance (including medical, dental and vision) will cease effective your Termination Date. However, you will be eligible to continue such benefits, at your sole expense, pursuant to the Consolidated Omnibus Budget Reconciliation Act (“COBRA”), subject to COBRA’s terms, conditions and restrictions.

(d) Your eligibility to participate in all other Company sponsored group benefits including group life, disability and accidental death and dismemberment coverage will cease effective your Termination Date. However, you may be eligible to convert your life insurance coverage to a private policy, at your sole expense, subject to the insurer’s terms, conditions and restrictions. If you wish to convert your life insurance policy to a private policy, please contact Human Resources to receive the appropriate paperwork. Your participation in the Company’s 401(k) Savings Plan or Employee Stock Purchase Plan shall cease effective your Termination Date. You will receive detailed information from the Company’s 401(k) Plan provider (Diversified Investment Advisors) regarding your 401(k) Plan fund status and disbursement options.

(e) Your participation in the Company's Flexible Reimbursement Account will cease effective your Termination Date. You will have a set amount of time following your last day of employment to submit claims for reimbursement under this Plan. Details will be provided by Human Resources.

(f) All vested stock options previously granted to you by the Board will terminate in accordance with the terms of the applicable stock option plan under which they were granted. Any non-vested options will terminate effective your last day of employment. A schedule setting forth your holdings has been provided to you. You are responsible for reviewing the applicable stock option plan and option grant and determining the expiration date of your options. If you need assistance, please contact the Company's stock plan administrator.

(g) You will receive a pro-rata portion of any Cycle 1 and Cycle 2 cash award and a pro rata portion of your Cycle 1 and Cycle 2 RSU awards under the Company's Long Term Compensation Program (LTCP) in accordance with the terms of the LTCP.

(h) The restricted stock granted as part of your annual bonus in the last two fiscal years will remain restricted as to transferability as set forth in the related award agreements.

2. If you sign this Agreement, agreeing to be bound by the General Release set forth in Paragraph 3 below and the other terms and conditions of this Agreement, the Company agrees as follows, intending to be legally bound:

(a) To pay 12 months of severance pay in accordance with your Employment Agreement dated January 2, 2001 at your current rate of base salary as of \$291,900, less withholding of all applicable federal, state and local taxes. The severance payments will be paid to you in accordance with the Company's regular payroll practices. The first severance payment will be made to you consistent with the first regular pay period following the expiration of the Revocation Period set forth in paragraph 19 below, provided that the Company has received an executed copy of this Agreement.

(b) To pay the "designated portion" of the premiums with regard to your continued participation in the Company's group health insurance (medical, dental, vision) pursuant to COBRA for a period of 12 months, provided that you continue to have your co-payment withheld from your severance pay or otherwise pay your co-payment on a timely basis. Thereafter, your continued participation in the Company's group health plan pursuant to COBRA shall be at your sole expense. For purposes of this provision, the "designated portion" shall be the portion of the premium which the Company paid at the time of your termination.

(c) To accelerate settlement of the pro rata portion of the RSUs awarded to you under Cycle 2 of the LTCP to the same date as your Cycle 1 RSUs are distributed.

(d) To pay you a pro rata portion of your 2005 annual bonus based on the number of pay periods worked in 2005, such bonus to be calculated under the terms of the Company's Annual Employee Bonus Plan and paid no later than March 15, 2006, in exchange for your agreement to relinquish all rights and interest in any pro-rata portion of a cash award you could be entitled to under Cycle 2 of the LTCP. Your rights with respect to a pro rata portion of any cash award under Cycle 1 of the LTCP remain unaffected. By signing this Agreement, you expressly agree to relinquish all rights and any claim in a cash award in Cycle 2 of the LTCP.

(e) To provide you with outplacement services designed for executives for a period of 6 months if you so request. The provider shall be selected by the Company.

3. In consideration for the Company's severance payments and other benefits set forth above in Paragraph 2, you agree, intending to be legally bound, to release and forever discharge the Company and any parent, subsidiary, related or affiliated companies, and each of their past, present and future officers, directors, attorneys, employees, owners, partners, insurers, benefit plan fiduciaries and agents, and their respective successors and assigns (collectively "Releasees"), jointly and severally, from any and all actions, complaints, causes of action, lawsuits or claims of any kind, known or unknown, asserted or unasserted to the extent permitted by law (collectively "Claims"), which you, your heirs, agents, successors or assigns ever had, now have or hereafter may have against Releasees arising out of any matter, occurrence, omission, or event existing or occurring prior to your execution of this Agreement, including, without limitation: (a) any Claims relating to or arising out of your employment with and/or termination of employment by the Company and/or any of its parent, subsidiary, related and/or affiliated companies; (b) any Claims for unpaid or withheld wages, severance, benefits, bonuses, equity compensation, cash awards under the LTCP, commissions and/or other compensation of any kind; (c) any Claims for reimbursement of expenses of any kind; (d) any Claims arising under the Employee Retirement Income Security Act; (e) any Claims arising out of or relating to your Employment Agreement dated January 2, 2001; (f) any Claims for attorneys' fees, costs or expenses; (g) **any Claims of discrimination and/or harassment based on age, sex, race, religion, color, creed, disability, handicap, citizenship, national origin, ancestry, sexual orientation, or any other factor protected by Federal, State or Local law (such as the Age Discrimination in Employment Act, 29 U.S.C. §621 et. seq., Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, and the Pennsylvania Human Relations Act and the New York Human Rights Law)** and any Claims for retaliation under any of the foregoing; (h) any Claims under the Family and Medical Leave Act or any other federal, state or local laws governing leaves of absence; (i) any Claims under the National Labor Relations Act; (j) any Claims under the Sarbanes-Oxley Act of 2002; (k) any Claims for violation of public policy; (l) any other Claims for retaliation and/or any whistleblower Claims; (m) any Claims for emotional distress or pain and suffering; and/or (n) any other statutory or common law Claims, now existing or hereinafter recognized, including, but not limited to, breach of contract, libel, slander, fraud, wrongful discharge, promissory estoppel, equitable estoppel and misrepresentation.

4. You acknowledge and agree that the Company's severance payments and other benefits under Paragraph 2 above are not required by any policy, plan or prior agreement and constitute adequate consideration to support your General Release in Paragraph 3 above. In particular your Employment Agreement provides that you are not entitled to severance payments and continuation of medical and dental insurance unless you execute and deliver, without revocation, the Company's termination letter which includes a broad-based release of claims.

5. The General Release in Paragraph 3 above does not:

- (a) Apply to any vested benefits or result in the waiver of any claim under any Company retirement, 401(k), profit-sharing, ESPP or other deferred compensation plan;
- (b) Preclude you from filing a Claim to determine the scope, meaning or effect of the Agreement;
- (c) Constitute a waiver of any rights to indemnification or coverage under director and officer liability insurance policies or indemnity agreements.

6. Regardless of whether you execute this Agreement:

(a) Regardless of whether you execute this Agreement, you are prohibited from using or disclosing, directly or indirectly, for you own benefit or the benefit of any person or entity, any of the confidential and proprietary information of the Company (the "Confidential Information"), except as may be required to be disclosed pursuant to judicial, arbitral or governmental requirement or order, provided you take reasonable steps to give the Company sufficient notice in order to contest such requirement or order in accordance with 6(b) below. Such Confidential Information includes but is not limited to, information regarding the Company's sales and marketing information and techniques, business plans, financial data, trade secrets (including without limitation any technical information, hardware, software, algorithms, source code, object code, drawings, sketches, designs, processes, procedures, formulae, data, reports, computer programs, charts, improvements and any other technical information or knowledge relating to the development, design and implementation of the Company's products and services), pricing lists, supplier lists and other confidential supplier data, customer lists and other confidential customer data, and any other information or knowledge concerning the Company and its business or others that the Company does business with, whether or not in tangible form, that is not otherwise publicly available. Further, you are required to execute such documents or instruments as may be required for patent prosecution. You are reminded of your obligations under Sections 6, 7 and 8 of your Employment Agreement dated January 2, 2001 as well as your obligations under your Non-Disclosure and Assignment of Ideas Agreement dated as of February 28, 2005 ("Non-Disclosure Agreement"). Your obligations under your Non-Disclosure Agreement as well as Sections 6, 7, 8, 10 and 22 of your Employment Agreement survive termination of your employment, regardless of whether you execute this Agreement. By

signing this Agreement, you re-affirm your obligations under the Employment Agreement and Non-Disclosure Agreement as defined above.

(b) In the event you receive a request or demand, orally, in writing, electronically or otherwise, for the disclosure or production of information which you acquired in the course of your employment which is not generally known by or readily accessible to the public, you must notify immediately the Company's General Counsel by calling him immediately at the following phone number: 610-878-7800. Regardless of whether you are successful in reaching the General Counsel by telephone, you also must notify him immediately in writing, via certified mail, at the following address: 781 Third Avenue, King of Prussia, PA 19406. Any and all documents relating to the request or demand shall be included with the written notification. You shall wait a minimum of ten (10) days (or the maximum time permitted by such legal process, if less) after sending the letter before making a disclosure or production to give the Company time to determine whether the disclosure or production involves confidential and/or proprietary information, in which event the Company may seek to prohibit and/or restrict the production and/or disclosure and/or to obtain a protective order with regard thereto. This provision covers, but is not limited to, requests or demands in connection with judicial, administrative, arbitration and all other adversarial proceedings. If the request or demand is in conjunction with judicial, administrative, arbitration or other adversarial proceedings, copies of all correspondence regarding the request or demand shall be included with the information sent to the Company's General Counsel.

7. As a condition precedent to receiving the severance payments and other benefits set forth in paragraph 2 above, you must return to the Company, retaining no copies, all Confidential Information, Company property, keys, access cards, documents, forms, correspondence, computer equipment, computer tapes and diskettes, CDs, DVDs, PDAs, manuals, engineering notebooks, customer information, and any other property and information in either printed or electronic formats which you obtained as a result of or in connection with your employment by the Company. Additionally, as a condition precedent to receiving the severance payments and other benefits set forth in paragraph 2 above, you will provide certification and other written assurance to the Company that you have complied with the provisions set forth in this section 7.

8. You agree that, at all times, the existence, terms and conditions of this Agreement will be kept secret and confidential and will not be disclosed voluntarily to any third party, except to your spouse, if applicable, to the extent required by law, to enforce the Agreement or to obtain confidential legal, tax or financial advice with respect thereto.

9. You agree that you will not make any negative comments or disparaging remarks, in writing, orally or electronically, about the Company or any other Releasee and their respective officers, directors, employees and agents and their respective products and services. However, nothing in this Agreement shall be interpreted to restrict your right and obligation (i) to testify truthfully in any forum or (ii) to cooperate fully in any investigation by a governmental agency which regulates the Company or its business.

10. In response to any inquiries by employees of the Company or third parties concerning any of the terms or circumstances of your termination, you agree (i) that you will state only that your employment with the Company has been terminated or state information publicly disclosed by the Company, whether in press releases, public filings or otherwise, or (ii) if information publicly disclosed by the Company, whether in press releases, public filings or otherwise, concerning this Agreement is inaccurate in any material respect, you may respond to the inquiry with accurate corrective information so long as you have previously notified the Company of the material inaccuracy and requested the Company to issue a corrective disclosure and the Company has failed to issue such a corrective disclosure within five business days of your notification and request.

11. You agree to resign from any and all positions with the Company, its subsidiaries, related and affiliated organizations as well as from any and all positions you hold with any non-affiliated organization (including trade organizations or standards bodies) in a capacity as a representative of the Company.

12. While you are not prevented from applying for employment or reemployment with the Company or any related or affiliated company in the event that you seek employment and/or reemployment, the Company or any parent, subsidiary, related or affiliated company shall have no obligation to employ you or reemploy you, and the failure or refusal to employ you or reemploy you shall not be deemed to be unlawful retaliation or discrimination against you.

13. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to conflict of law principles.

14. Nothing in this Agreement shall be construed as an admission or concession of liability or wrongdoing by the Company or any other Releasee as defined above. Rather, the proposed Agreement is being offered for the sole purpose of settling amicably any and all possible disputes between the parties.

15. If any provision in this Agreement or the application thereof is construed to be overbroad, then the court making such determination shall have the authority to narrow the provision as necessary to make it enforceable and the provision shall then be enforceable in its narrowed form. Moreover, each provision in this Agreement is independent of and severable from each other. In the event that any provision in this Agreement is determined to be legally invalid or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, the affected provision(s) shall be stricken from the Agreement, and the remaining terms of the Agreement and its enforceability shall remain unaffected thereby.

16. This Agreement constitutes the entire agreement between the parties and supersedes any and all prior agreements, written or oral, expressed or implied, except the Non-Disclosure Agreement, Sections 6, 7, 8, 10 and 22 of the Employment Agreement, the Indemnity Agreement

dated March 19, 2003, the Company's D&O liability insurance, which survive the termination of your employment and are incorporated herein by reference.

17. You acknowledge and agree that, subsequent to the termination of your employment, you shall not be eligible for any payments from the Company or Company-paid benefits, except as expressly set forth in this Agreement.

18. You agree and represent that:

- (a) You have read carefully the terms of this Agreement, including the General Release;
- (b) You have had an opportunity to and have been encouraged to review this Agreement, including the General Release, with an attorney;
- (c) You understand the meaning and effect of the terms of this Agreement, including the General Release;
- (d) You were given as much time as you needed to determine whether you wished to enter into this Agreement, including the General Release;
- (e) The entry into and execution of this Agreement, including the General Release, is of your own free and voluntary act without compulsion of any kind;
- (f) No promise or inducement not expressed herein has been made to you; and
- (g) You have adequate information to make a knowing and voluntary waiver.

19. If you sign this Agreement, you will retain the right to revoke it for seven (7) days. The Agreement shall not be effective until after the Revocation Period has expired. To revoke this Agreement, you must send a certified letter to my attention. The letter must be post-marked within 7 days of your execution of this Agreement. If the seventh day is a Sunday or federal holiday, then the letter must be post-marked on the following business day. If you revoke this Agreement on a timely basis, you shall not be eligible for the severance payments and other benefits set forth in paragraph 2 above.

20. As noted above, you have 21 days to decide whether you wish to execute this Agreement. If you do not sign this Agreement on or before November 14, 2005, then this offer is withdrawn and you will not be eligible for the severance payments and other benefits set forth in paragraph 2 above.

**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; and
 - 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: November 9, 2005

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

**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; and
 - 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: November 9, 2005

/s/ R.J. F AGAN

**Richard J. Fagan
Chief Financial Officer**

**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 September 30, 2005, 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: November 9, 2005

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

**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 September 30, 2005, 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: November 9, 2005

/s/ R.J. F AGAN

Richard J. Fagan
Chief Financial Officer

**LITIGATION EXPENSE AND REIMBURSEMENT
AGREEMENT**

This Litigation Expense and Reimbursement Agreement is made this 15th day of February, 2000, by and between INTERDIGITAL COMMUNICATIONS CORPORATION (hereinafter "IDC") and INTERDIGITAL TECHNOLOGY CORPORATION (hereinafter "ITC"), hereinafter collectively referred to as the "Insureds," and FEDERAL INSURANCE COMPANY (hereinafter "Federal" or "Insurer"). The Insureds and Insurer are collectively referred to as the "Contracting Parties."

Recitals

A. On or about September 9, 1993, a civil action was commenced against the Insureds styled Ericsson Radio Systems, Inc. et al. v. InterDigital Communications Corporation, et al., United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3:93 CV 1809-H (hereinafter "the First Ericsson Lawsuit"). The plaintiffs in the First Ericsson Lawsuit are hereinafter collectively referred to as "Ericsson."

B. The Insureds are insured under Federal insurance policies No. 3529-74-28 and 7908-16-49 (hereinafter "the Policies"), subject to the terms and conditions of the Policies.

C. The Insureds tendered the defense of the First Ericsson Lawsuit to Federal, who agreed to provide a defense under policy No. 3529-74-28, subject to reservation of Federal's rights, as more particularly set forth in letters by Federal's representatives to the Insureds and/or their attorneys.

D. After the First Ericsson Lawsuit was commenced, ITC filed a civil action entitled InterDigital Technology Corporation v. Ericsson GE Mobile Communications, Inc. et al., in the United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3:93 CV 2119-H (hereinafter "the ITC Lawsuit").

E. The First Ericsson Lawsuit and the ITC Lawsuit eventually were consolidated by order of the United States District Court for the Northern District of Texas (hereinafter "the Combined Lawsuit").

F. On or about December 16, 1997, another civil action was filed by Ericsson styled Ericsson Radio Systems, Inc. et al. v. InterDigital Communications Corporation, et al., United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3:97 CV 3067-H (hereinafter referred to as "the Second Ericsson Lawsuit").

G. The second Ericsson Lawsuit eventually was consolidated into the Combined Lawsuit by the filing of a fourth amended complaint by Ericsson.

H. A fifth amended complaint was filed by Ericsson in December, 1999.

I. Federal has reimbursed the Insureds for certain of the litigation expenses incurred in connection with the Combined Lawsuit.

J. The Insureds and Insurer desire to resolve all issues between them regarding funding, allocation, apportionment and reimbursement of litigation costs pertaining to the Combined Lawsuits.

K. The Insureds and Insurer agree that the consideration for this Agreement is the reciprocal trade off, and/or compromise, of their respective rights which have been reserved and/or asserted with regard to funding, allocation, apportionment and reimbursement of litigation expenses with regard to the Combined Lawsuits and, further, the certainty that is derived from such agreement.

Agreement

1. **Audit of Legal Bills**. The invoices and/or bills pertaining to the Combined Lawsuits will not be submitted to Legalgard or any similar entity for audit, effective April 1, 1999.

2. **Attorney Fee Reimbursement**. Federal will continue to reimburse the Insureds for Attorney time in the same manner as Federal has been doing consistent with the terms of this Agreement. The maximum rate for attorney time to be reimbursed by Federal will be at the actual hourly rate up to a maximum of \$200 per hour for services performed April 1, 1999 and thereafter.

3. **Other Reimbursements**.

a. Federal will continue to reimburse the Insureds for non-attorney litigation related expenses, such as, but not limited to, expert fees, Ikon document production services, stenographic & videographic expenses, demonstrative exhibit fees, and similar expenses, in the same manner as Federal has been doing to date.

b. **Administrative/Overhead Expenses**. Federal will not be expected to reimburse for any overhead or administrative expenses, which are defined as secretarial, word processing, overtime for staff, air conditioning, and other occupancy expenses for other than business hours, postage, internal photocopy expense, telephone, computer research expense (Westlaw, LEXIS, etc.), and meals other than while traveling, incurred April 1, 1999 and thereafter. Billing for express mail and messenger service will be paid by Federal subject to an agreement for approval of such expense by the Dallas, Texas, representative of Chubb & Son who is monitoring the Combined Lawsuit.

4. **Demand for Litigation Expenses**. During any settlement negotiations, the Insureds will, in good faith, demand and negotiate for Ericsson to include a separate reimbursement amount for litigation expenses. However, the failure of the Insureds to obtain such a separate amount shall not be considered a breach of this Agreement and the Insureds' obligations hereunder.

5. **Participation in Award or Settlement Reimbursement for Litigation Expenses**. If there is a specific court award, or specific reimbursement by Ericsson for litigation expenses as a result of a settlement with Ericsson, those payments actually paid to the Insureds will be shared between Federal and the Insureds in proportion to each party's contribution to the litigation expenses incurred and paid.

6. **Reimbursement of Litigation Expenses from Court Award or Settlement Funds**.

a. In the event there is a court award, or a settlement with Ericsson, and there is not a separate amount reimbursing litigation expenses that results in complete reimbursement to Federal for all of the litigation expenses it paid to or on behalf of the Insureds, the Insureds will pay to Federal, upon receipt of sums paid by Ericsson, the following:

(1). 9% of the first \$50 million of the agreed-upon settlement; and

(2). 10% of everything above \$50 million of the agreed-upon settlement for the Patents and Claims in Suit.

b. As used in this Agreement, "Patents and Claims in Suit" shall mean all of the patents and claims identified and litigated in the Combined Lawsuit and shall include all sums and fees paid by Ericsson to the Insureds, and/or the Insureds' affiliates, for settlement, licensing, royalty and/or other rights associated with such patents and claims, including, but not limited to, digital radio technology known as timed division multiple access ("TDMA") and/or digital telephony systems marketed in compliance with the IS-54 Standard, IS-136 Standard and/or the GSM Standard.

c. **Minimum Portion of Settlement to Which Reimbursement Will Apply**.

(i) If any agreement between Ericsson and the Insureds results in payments for the Patents and Claims in Suit of less than 70% of all patent related payments to be made by Ericsson to the Insureds and their affiliates under such agreement, the Insureds and Federal agree that for purposes of this Agreement, the percentage will be set at 70%.

(ii) The 70% minimum set forth in c(i), above, and the 9% and 10% rates of reimbursement set forth in a(1) and a(2), above, will apply to all up-front payments and all recurring revenue payments by Ericsson (including, but not limited to, royalties and/or licensing fees), but will not apply to payments for engineering or other services, except as follows. If it is reasonably projected that Federal will not be fully reimbursed within four (4) years from the date of the settlement based on the foregoing payments, Federal will also receive 1.5% of all payments made by Ericsson for engineering services. If the combination of all of the foregoing is not reasonably projected to fully reimburse Federal within those four (4) years, Federal may, at its option, seek additional reimbursement from the Insureds during which time a representative of the Insureds and Federal, each of which having the authority to bind their respective entities, shall meet. If the Insureds and Federal cannot agree on a resolution, the matter will be submitted to arbitration, pursuant to Pennsylvania's Uniform Arbitration Act, before a single arbitrator approved by Federal and the Insureds, for a determination of the additional value to the Insureds and its affiliates of the settlement (beyond the cash payments related to the Patents and Claims in Suit and for engineering services) and a determination of the payments to be made to Federal based on such additional value of the settlement agreement, consistent with the reimbursement provisions set forth above. The arbitrator shall be free to set the overall percentage of such agreement value to whatever value is deemed appropriate. However, in no event will the Insureds be required to reimburse Federal in an amount greater than the total amount realized by the Insureds from Ericsson, or require the Insured to pay Federal prior to receipt of cash or other consideration from Ericsson and in no event will the reimbursement to Federal be less than the reimbursement set forth in sub-paragraphs 6a and c(i), above.

d. The terms of this paragraph 6 will apply to any court award, whether by verdict, judgment or otherwise; or any settlement, whether pre-trial, at trial, or post-trial; except as set forth in e, f, g, or h, below.

e. Federal shall not be entitled to any reimbursement in the event of a verdict or judgment that all of the Patents and Claims in Suit in the Combined Lawsuit are not valid or were not infringed, unless that verdict or judgment is reversed by post-trial motion or appeal.

f. If the Combined Lawsuit is resolved or rendered moot by a Sale Transaction (as defined below) in which the Successor Entity (as defined below) is Ericsson or any affiliate of Ericsson, Federal will be paid by the Insureds and/or the Successor Entity, in forty-eight (48) consecutive, equal monthly payments commencing prior to or on the date of the consummation of the Sale Transaction, the amount that Federal paid for the litigation expenses of the Combined Lawsuit. For the purposes of this Agreement:

(i) a "Sale Transaction" shall mean (a) a sale, liquidation, or other disposition to a third party (a "Purchaser") of all or any substantial portion of any of the Insureds' stock or assets; (b) a merger or other business combination between any of the

Insureds and a third party, provided the surviving entity is the transaction partner or a newly formed entity (the “Surviving Entity”) and not one of the Insureds; or (c) any transaction or series of transactions which transfer all or any substantial portion of the stock or assets of any of the Insureds to a third party (an “Acquiror”).

(ii) a “Successor Entity” shall mean (a) a Purchaser, (b) the Surviving Entity, (c) a Partnership and/or (d) an Acquiror.

g. If the Combined Lawsuit is resolved or rendered moot by an Ericsson Transaction (as defined below), Federal will be paid by the Insureds, in forty-eight (48) consecutive, equal monthly payments commencing prior to or on the date of the consummation of the Ericsson Transaction, the amount that Federal paid for the litigation expenses of the Combined Lawsuit. For the purposes of this Agreement:

(i) an “Ericsson Transaction” shall mean (a) a sale, liquidation, or other disposition to any of the Insureds or any of their affiliates of all or any substantial portion of the stock or assets of any of the entities constituting Ericsson or any of their affiliates; (b) a merger or other business combination between any of the Insureds or any of their affiliates and any of the entities constituting Ericsson or any of their affiliates, provided the surviving entity is one of the Insureds or one of the Insureds’ affiliates; or (c) any transaction or series of transactions which transfer all or any substantial portion of the stock or assets of any of the entities constituting Ericsson or any of their affiliates to any of the Insureds or any of their affiliates.

h. If the Combined Lawsuit is resolved or rendered moot by a Partnership Transaction (as defined below), such that Federal will not be reimbursed pursuant to the provisions of sub-paragraphs 6a and c(ii) then Federal will be paid by the Insureds and/or the Partnership, in forty-eight (48) consecutive, equal monthly payments commencing on or before the date of creation of the Partnership, the amount that Federal paid for the litigation expenses of the Combined Lawsuit. For the purposes of this Agreement, a “Partnership Transaction” shall mean the formation of any alliance, joint venture or similar arrangement, or partnership (the entity, so formed, irrespective of form (such as LLC, partnership, corporation, etc.) being the “Partnership”).

7. **Maximum Reimbursement to Federal**. The maximum amount that the Insureds shall pay to Federal from any recovery in the Combined Lawsuit is the amount of money paid by Federal to the Insureds, or on the Insureds’ behalf, as part of the litigation of the Combined Lawsuit. Therefore, the maximum that Federal can recover is a reimbursement of the litigation expenses that it has paid.

8. **Continuation of Defense After Dismissal of Potentially Covered Claims**. Federal will continue to reimburse litigation expenses of the Combined Lawsuit through any appeal to a court of last resort, consistent with the terms and conditions of this Agreement, even if the Insureds are successful in having stricken all claims potentially covered by the Policies.

However, Federal will not continue to reimburse for expenses incurred after trial if all claims potentially covered by the Policies have been stricken or otherwise determined adverse to Ericsson and Ericsson does not file a post-trial motion or appeal regarding any of the potentially covered claims. In the event that Ericsson seeks a post trial motion or appeal as to any of the potentially covered claims, reimbursement will end upon ruling on such post-trial motion(s) or appeal(s) if Ericsson does not seek further review or appeal regarding any of the potentially covered claims.

9. **Submission and Reimbursement of Continuing Litigation Expenses** . For bills received by the Insureds after the date of this Agreement, the Insureds will submit to Federal, within sixty (60) days of receipt by the Insureds, all bills and invoices for litigation expenses pertaining to the Combined Lawsuits , with a breakdown showing the portions that Federal does not have to pay because of the limitations in paragraphs 2 and 3, above. Federal will have thirty (30) days, from receipt by Federal, to review those bills and raise any concerns it has regarding those expenses. Expenses for which Federal does not raise a concern will be reimbursed to the Insureds fifteen (15) days thereafter. If Federal raises a concern regarding any expense, the Insureds and Federal will endeavor to resolve the concern within an additional thirty (30) day period, during which time a representative of the Insureds and Federal, each of which having the authority to bind their respective entities, shall meet. If the concern is resolved, Federal will pay the questioned bill, in accordance with the resolution, within fifteen (15) days after the resolution. Any questioned bills which cannot be resolved between the Insured and Federal will be referred to arbitration, pursuant to Pennsylvania's Uniform Arbitration Act, before a single arbitrator approved by Federal and the Insureds.

10. **Federal Administrator** . Federal acknowledges that Chubb & Son, a division of Federal Insurance Company, having a place of business at 1445 Ross Avenue, Dallas, Texas has been and will continue to be (unless hereafter changed by Federal) the administrator of policy coverage for the Insureds, having the authority and responsibility to deal with those issues that it has exercised with the Insureds to the date of this Agreement.

11. **Notices and Requests for Reimbursement** . All notices between the parties or requests for reimbursement by the Insureds under this Agreement shall be in writing and given by overnight mail service (i.e. Federal Express or equivalent) or by facsimile addressed to the parties at the addresses immediately below or to such other substitute or additional address of which either party may advise the other in writing. Notices will be deemed given when sent.

If to the Insureds:

InterDigital Communications Corporation
781 Third Avenue
King of Prussia, Pennsylvania 19406
Attention: Ericsson Litigation Counsel
Phone: (610) 878-7800
Fax: (610) 992-9432

If to Federal:

Sylvia Garcia
Senior Litigation Examiner
Chubb & Son, a division of Federal Insurance Company
1445 Ross Avenue
Suite 4200
Dallas, Texas 75202-2812
Phone: (214) 754-8187
Fax: (214) 754-8570

With a copy to:

Michael J. Plevyak, Esquire
White and Williams LLP
1500 Lancaster Avenue
Paoli, Pennsylvania 19301-1500
Phone: (610) 251-0466
Fax: (610) 296-4628

12. **Reservation of Rights and Non-Waiver Agreement**. The Contracting Parties agree that neither Federal nor the Insureds waive any of their rights or defenses under the Policies, or otherwise, by this Agreement except as it applies to their respective rights concerning funding, allocation, apportionment and/or reimbursement of litigation expenses arising out of or relating to the Combined Lawsuits.

13. **Successors and Assigns**.

a. The Contracting Parties understand and agree that the agreements, undertakings, acts and other things done or to be done by each of the Contracting Parties in this Agreement shall run to and be binding upon the respective Contracting Parties, and their respective successors and assigns, which with respect to the Insureds shall specifically include any Successor Entity. No assignment of this Agreement by the Insureds shall serve to release the Insureds from their obligations hereunder.

b. Additionally, each of the Insureds, as a material inducement to Federal to enter into this Agreement, agrees to all of the following. Prior to the consummation of any sale, liquidation, or other disposition to a third party (an "Asset Purchaser") of all or any substantial portion of any of the Insureds' assets, the Insureds shall provide reasonable prior notice of same to Federal. The Insureds shall also require the Asset Purchaser, as a condition of closing, to enter into an agreement with Federal, in form and substance reasonably satisfactory to Federal, whereby the Asset Purchaser expressly agrees to be bound by the terms of this Agreement, with the same force and effect as if it were included as one of the Insureds hereunder. In lieu of obtaining the agreement of the Asset Purchaser as required above, the Insureds may elect to comply with option (i) or option (ii), below, as applicable:

(i) If the amount of the reimbursement obligation to Federal has been established by virtue of a court award or settlement, the Insureds shall, prior to or on the date of that sale, liquidation or other disposition:

(1) pay the balance of that reimbursement obligation to Federal; or

(2) provide (in form, substance and amount satisfactory to Federal) security or a bond to cover any remaining reimbursement obligation and continue to reimburse Federal as if such sale, liquidation or other disposition had not taken place.

(ii) If the amount of the reimbursement obligation to Federal has not yet been established by virtue of a court award or settlement, the Insureds shall provide security (in form, substance and amount satisfactory to Federal) to cover their reimbursement obligation under this Agreement.

The Insureds acknowledge and agree that the provisions of this paragraph 13b may be specifically enforced by any court of competent jurisdiction.

14. **Entire Agreement**. All agreements, covenants, representations and warranties, express and implied, oral and written, of the Contracting Parties to this Agreement concerning its subject matter are contained herein. No other agreements, covenants, representations or warranties, express or implied, oral or written, have been made by any party concerning the subject matter of this Agreement. All prior and contemporaneous conversations, negotiations, possible and alleged agreements, representations, covenants and warranties concerning the subject matter of this Agreement are merged herein. This is an integrated Agreement.

15. **Confidentiality**. The terms and conditions of this Agreement shall be kept confidential and not be disclosed to any third party except upon the express written consent of the Contracting Parties; as might be required by applicable law or required by order of any court of competent jurisdiction; or as might be required to enforce or effectuate this agreement.

16. **Advice of Counsel**. The Contracting Parties warrant and represent that they are executing this Agreement after having received full legal advice as to their rights from their attorneys.

17. **Warranty of No Transfer**. The Insureds further represent and warrant that no assignment or other transfer of all or any rights, whether in tort, contract or otherwise, which the Insureds might have or have had against the Insurer under the Policies and/or any other contract or agreement between the Insureds and the Insurer has been made.

18. **Construction of Contract**. The Contracting Parties agree that this Agreement is to be construed and interpreted without regard to the identity of the party drafting it. This Agreement is to be construed according to the laws of the Commonwealth of Pennsylvania.

19. **Miscellaneous**.

a. Each of the Contracting Parties agrees to execute such further papers and documents as shall be necessary or proper in order to fulfill the terms and conditions of this Agreement.

b. All headings contained herein are only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

