

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

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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 June 30, 1998 or

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

For the transition period from _____ to _____

Commission File Number 1-11152

**INTERDIGITAL COMMUNICATIONS
CORPORATION**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-1882087

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

781 Third Avenue, King of Prussia, PA 19406
(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 X No

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

48,427,465 Shares of Common Stock, par value \$.01 per share, were outstanding on August 7, 1998.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**
(in thousands)

ASSETS -----	DECEMBER 31, 1997 -----	JUNE 30, 1998 ----- (UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$193 and \$139 respectively	\$ 17,828	\$ 3,739
Short term investments	7,976	47,805
Accounts receivable, net of allowance for uncollectable accounts of \$897 and \$933, respectively	3,058	2,953
Inventories	12,284	12,094
Other current assets	5,428	6,546
Total current assets	----- 46,574 -----	----- 73,137 -----
Property, plant and equipment, net of accumulated depreciation of \$11,454 and \$13,227, respectively	11,373	10,301
Patents, net of accumulated amortization of \$5,579 and \$5,969, respectively	9,292	9,713
Long term deposits	519	223
Other	1,605	1,614
	----- 22,789 -----	----- 21,851 -----
	\$ 69,363 =====	\$ 94,988 =====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 869	\$ 803
Accounts payable	8,223	6,539
Accrued compensation and related expenses	6,013	5,551
Deferred revenue	3,461	5,963
Other accrued expenses	5,105	6,905
Total current liabilities	----- 23,671 -----	----- 25,761 -----
LONG TERM DEBT	3,591	3,323
OTHER LONG TERM LIABILITIES	3,596	1,429
 COMMITMENTS AND CONTINGENCIES (Note 2)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value, 14,399 shares authorized-\$2.50 Convertible Preferred, 102 shares issued and outstanding	10	10
Common Stock, \$.01 par value, 75,000 shares authorized, 48,230 shares and 48,427 shares issued and outstanding	482	484
Additional paid-in capital	234,765	235,457
Accumulated deficit	(196,752)	(171,476)
Total shareholders' equity	----- 38,505 -----	----- 64,475 -----
	\$ 69,363 =====	\$ 94,988 =====

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1997	1998	1997	1998
REVENUES:				
Product	16,442	1,599	\$ 40,218	\$ 3,762
Licensing and alliance	1,768	44,842	3,955	52,756
	-----	-----	-----	-----
	18,210	46,441	44,173	56,518
	-----	-----	-----	-----
OPERATING EXPENSES:				
Cost of product	14,766	5,037	35,731	7,639
Sales and marketing	2,117	987	4,191	2,054
General and administrative	2,612	1,597	4,782	3,286
Patents administration and licensing	755	4,085	1,856	6,350
Product development	6,451	3,820	12,702	7,703
	-----	-----	-----	-----
	26,701	15,526	59,262	27,032
	-----	-----	-----	-----
Income (loss) from operations	(8,491)	30,915	(15,089)	29,486
OTHER INCOME (EXPENSE):				
Interest income	665	648	1,023	1,023
Interest and financing expenses	(108)	(97)	(228)	(199)
	-----	-----	-----	-----
Income (loss) before income taxes	(7,934)	31,466	(14,294)	30,310
INCOME TAX PROVISION	(17)	(4,383)	(34)	(4,906)
	-----	-----	-----	-----
Net income (loss)	(7,951)	27,083	(14,328)	25,404
PREFERRED STOCK DIVIDENDS	(63)	(64)	(128)	(128)
	-----	-----	-----	-----
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ (8,014)	\$ 27,019	\$ (14,456)	\$ 25,276
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE - BASIC	\$ (0.17)	\$ 0.56	\$ (0.30)	\$ 0.52
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	48,161	48,382	48,138	48,310
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	\$ (0.17)	\$0.55	\$ (0.30)	\$ 0.52
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	48,161	49,584	48,138	48,895
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the six months ended June 30,	
	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(14,456)	\$ 25,276
Adjustments to reconcile net loss to net cash used for operating activities-		
Depreciation and amortization	2,346	2,163
Other	(1,614)	(2,167)
Decrease (increase) in assets-		
Receivables	5,191	105
Inventories	5,865	190
Other current assets	(7,850)	(1,118)
Increase (decrease) in liabilities-		
Accounts payable	(9,351)	(1,684)
Accrued compensation	947	(462)
Deferred revenue	(1,685)	2,503
Other accrued expenses	727	1,800
	\$ (19,880)	\$ 26,606
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in short-term investments	\$ 25,746	\$(39,829)
Additions to property and equipment, net of non-cash additions of \$141 and \$120, respectively	(1,486)	(581)
Additions to patents	(489)	(811)
Other non-current assets	(360)	286
	\$ 23,411	\$(40,935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	\$ 251	\$ 694
Payments on long-term debt, including capital lease obligations	(416)	(454)
	\$ (165)	\$ 240
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 3,366	\$(14,089)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,954	17,828
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,320	\$ 3,739
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 158	\$ 173
Income taxes paid	\$ 104	\$ 524

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998
(UNAUDITED)

1. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly the financial position of InterDigital Communications Corporation (the "Company" or "InterDigital") as of June 30, 1998, the results of its operations for the three and six month periods ended June 30, 1997 and 1998, and cash flows for the six month periods ended June 30, 1997 and 1998. The accompanying unaudited 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 for a fair presentation of 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 filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

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 disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CONTINGENCIES:

The Company and InterDigital Technology Corporation ("ITC"), a wholly-owned subsidiary, are parties to a certain patent-related litigation in which ITC is asserting that a certain third party infringes ITC's patents. ITC generally is seeking monetary damages. The alleged infringer generally seeks declarations that ITC's patents are invalid and/or that its products do not infringe ITC's patents as well as monetary damages. ITC is also involved in administrative proceedings in which various parties have challenged the validity of ITC's patents.

In addition to litigation associated with patent enforcement and licensing activities and the other litigation described above, the Company is a party to certain legal actions arising in the ordinary course of its business. Based on current information, Management believes that the outcomes of these matters will not have a material impact on the Company's financial position or results of operations.

3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

The Company considers investments purchased with a remaining maturity of three months or less to be cash equivalents for purposes of the statements of cash flows. The Company invests its excess cash in various time deposits and marketable securities, which are included in cash and cash equivalents, as follows (in thousands):

	December 31, 1997	June 30, 1998
Money market funds and demand deposits	\$ 8,979	\$2,472
Repurchase agreements	7,856	267
Commercial paper	993	1,000
	-----	-----
	\$17,828	\$3,739
	=====	=====

The repurchase agreements are fully collateralized by United States Government securities and are stated at cost which approximates fair market value.

Short-term investments available for sale as of December 31, 1997 consisted of \$2.6 million in government-issued discount notes and \$5.3 million in corporate debt securities. Short-term investments available for sale as of June 30, 1998 consisted of \$24.6 million in government-issued discount notes and \$23.2 million in corporate debt securities.

4. MAJOR CUSTOMERS:

In fiscal 1997, the Company's Indonesian and Philippine customers represented 75% and 7% of UltraPhone(R) product sales. In the three months ended June 30, 1997, the Company's Indonesian customer accounted for 83% of UltraPhone product revenues. In the six months ended June 30, 1997, the Company's Indonesian customer accounted for 80% of UltraPhone product revenues. Late in 1997, InterDigital began shipping prototype units of its new TrueLink(TM) wireless local loop product based on its B-CDMA(TM) technology to its alliance partners. In the three months ended June 30, 1998, the Company's partners and InterDigital's customer in Myanmar accounted for 51.8% and 24.8% of product revenues, respectively. During the six months ended June 30, 1998, product revenue from sales to its partners accounted for 70.4% of the Company's product revenue and sales to the Company's customer in Myanmar accounted for 10.5% of its product revenue.

Product revenues by geographic area are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1998	1997	1998
Domestic	\$ 330	\$ 254	\$ 578	\$ 470
Foreign	16,112	1,345	39,640	3,292
	-----	-----	-----	-----
	\$16,442	\$1,599	\$40,218	\$3,762
	=====	=====	=====	=====

Licensing and Alliance Revenue

The licensing and alliance revenues for the three months ended June 30, 1998 include alliance revenues of \$852,000 from Samsung Electronics Co., Ltd. ("Samsung") and \$1.3 million from Alcatel Espana ("Alcatel"), \$175,000 in recurring royalties from an existing licensee and \$42.5 million from new licensees. Licensing and alliance revenues for the three months ended June 30, 1997 include \$704,000 from Samsung, \$264,000 of recurring royalty revenue from one licensee and \$800,000 from Siemens Aktiengesellschaft ("Siemens"). During the six months ended June 30, 1998, the Company recognized \$4.3 in alliance revenue from its partners, \$367,000 in recurring royalty licensing revenue and \$48.1 million in licensing revenue from new licensees. During the six months ended June 30, 1997, licensing and alliance revenues include \$1.4 million from Samsung, \$1.6 million from Siemens and \$947,000 of recurring royalty revenue from one licensee.

6. INVENTORIES:

	December 31, 1997	June 30, 1998
	-----	-----
	(In thousands)	
Component parts and work-in-progress	\$10,249	\$ 9,482
Finished goods	2,035	2,612
	\$12,284	\$12,094
	=====	=====

Inventories are stated net of valuation reserves of \$5.8 million and \$9.3 million as of December 31, 1997 and June 30, 1998, respectively. The Company's UltraPhone inventory includes components used in a variety of radio frequencies. Some inventory has been identified as supporting frequencies with little to no demand in the Company's targeted niche markets. Accordingly, the Company has increased its inventory reserves to include items with low market potential.

7. INCOME TAXES:

Effective January 1, 1991, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

The income tax provision for the three months ended June 30, 1997 consisted of a current state tax provision of \$17,000. The income tax provision for the three months ended June 30, 1998 consisted of a current state tax provision of \$59,329 and a foreign tax provision of \$4,323,260. For the six months ended June 30, 1997, the income tax provision consisted of a current state tax provision of \$34,000. The income tax provision for the six months ended June 30, 1998 consisted of a current state provision of \$77,224, a foreign withholding tax provision of \$4,878,760, and a state tax refund of \$49,855 from a prior period. At December 31, 1997, the Company had net operating loss carryforwards of approximately \$135 million. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit is recorded as of June 30, 1998.

Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The annual limitation is generally equal to the product of (x) the aggregate fair market value of the Company's stock immediately before the ownership change times (y) the "long-term tax exempt rate" (within the meaning of Section 382(f) of the Code) in effect at that time. The Company believes that no ownership change for purposes of Section 382 occurred up to and including June 30, 1998.

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 Consolidated Financial Statements and notes thereto, contained elsewhere in this document.

InterDigital commenced operations in 1972 and until 1987 was primarily engaged in research and development activities related to its TDMA wireless digital communications technology. In 1986, InterDigital introduced the UltraPhone system, a fixed digital wireless local loop telephone system employing its patented and proprietary TDMA technology, which it began installing in 1987. InterDigital's operations from 1987 through 1992 were characterized by increasing revenues accompanied by significant operating losses. In late 1992, InterDigital acquired by merger two related companies whose business included research and development activities related to CDMA wireless digital communications technology. Since that time, InterDigital has invested substantial amounts in its B-CDMA development efforts. In 1997, InterDigital and its alliance partners started to engage in pre-market planning activities associated with their new B-CDMA-based wireless local loop products. During 1997, InterDigital had approximately \$1.1 million of sales related to prototype TrueLink products and component sales to its alliance partners. These sales included B-CDMA ASICS (Application Specific Integrated Circuits) and other components sold for integration into the alliance partners' pre-production products. In January 1998, InterDigital announced that it had restructured its operations to more fully concentrate on the commercialization of its B-CDMA technology. As part of that restructuring, InterDigital announced its plans to curtail its level of spending relating to the re-engineering and next generation development efforts on the UltraPhone system and is not currently pursuing additional UltraPhone product redesign efforts, although the Company continues to market the UltraPhone product to niche markets. In March 1998, InterDigital's TrueLink system was unveiled for commercial launch at the CEBIT show. InterDigital expects field trials of the TrueLink product to occur during 1998.

In addition to its UltraPhone and B-CDMA business activities, in 1993, InterDigital, together with ITC implemented a comprehensive license strategy designed to capitalize upon the revenue potential of ITC's extensive TDMA and CDMA patent portfolio. This strategy has resulted in the establishment of strategic alliances with Siemens, Samsung and Alcatel and patent licenses with a total of seventeen licensees through June 30, 1998. It resulted in license and alliance revenues of over \$180 million since 1993, including \$52.7 million in 1998. Much of this success occurred in the first half of 1998. Through June 30, 1998, InterDigital entered into three new patent licenses with Sharp Corporation, Kyocera Corporation and Toshiba Corporation for aggregate gross payments of \$48 million. Of this amount, InterDigital recognized \$5.6 million in the first quarter of 1998 and \$42.4 million in the second quarter of 1998. Additionally, in the first quarter of 1998, InterDigital entered into an alliance with Alcatel, its third alliance partner, covering B-CDMA technology development, CDMA patent licensing, trademark licensing, development, technology transfer, standards support and other areas of cooperation. Despite these successes, revenues from alliance partners and licensees have been, thus far, primarily in the form of up-front, non-refundable payments. This coupled with the fact that new license and/or alliance agreements are not entered into on a regular, predictable basis have been major factors in the significant fluctuations in the Company's revenues and operating results from quarter to quarter. InterDigital expects the variability in licensing and alliance revenues and, consequently, its cash flow to continue unless and until significant recurring royalties are received under the applicable license and alliance agreements.

Liquidity

The Company had working capital of \$47.4 million at June 30, 1998 compared to working capital of \$22.9 million at December 31, 1997. The increase in working capital since December is due primarily to the receipt of \$48 million of cash from three new patent licensees in the first half of 1998.

Demands on working capital in 1998 and beyond are expected to increase. The Company expects to significantly increase its B-CDMA technology development expenditures to commercialize, update and expand applications for its technology. As the commercial development effort for the current product nears completion, substantial additional expenditures are expected to be incurred for marketing and other activities and subsequent, substantial additional expenditures will be required to support later stage development. Marketing, administrative, and other costs are expected to increase as well as the Company seeks to more effectively support its alliance program. Further, the cost of prosecuting patent applications worldwide, defending the validity of ITC's patents, and litigating patent infringement actions related to ITC's patents can be substantial.

The Company's working capital requirements will depend on numerous additional factors, including but not limited to the success of furthering the alliance strategy, the extent of the niche market and related margins for the UltraPhone system, the ability to generate license fees and royalties, and the need to expend funds in connection with its patent enforcement activities.

The Company does not presently maintain bank lines of credit. The Company is investigating and may, at some future date, find it desirable to obtain additional debt or equity capitalization to fully support its technical and product development and marketing activities and/or to fund its patent enforcement activities. There can be no assurances that the Company will be able to sell any such securities, or that it will be able to do so on terms favorable to the Company.

The Company believes that its investment in inventories and non-current assets are stated on its December 31, 1997 and June 30, 1998 balance sheets at realizable values based on expected selling price and order volumes. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no additional write-downs are required at this time due to lack of use or technological obsolescence. With respect to other assets, the Company believes that the value of its patents is at least equal to the value included in the December 31, 1997 and June 30, 1998 balance sheets.

Backlog

At June 30, 1998, the Company's backlog of orders for UltraPhone telephone equipment and services was \$342,000. At June 30, 1997, the Company's backlog of orders for UltraPhone telephone equipment and services was \$1.4 million.

Cash Flows and Financial Condition

The Company has experienced positive cash flows of \$26.6 million from operations during the six months ended June 30, 1998. The positive cash flows from operations are primarily due to the payments received from new licensees.

The Company converted cash into short-term investments in the first half of 1998 resulting in negative cash flows from investment activities. Notwithstanding the above, the amount of cash used in investing activities has, historically, been low relative to cash used in operations.

During the six month period ended June 30, 1998, the Company experienced positive cash flows of \$240,000 from financing. Proceeds from the exercise of stock options and warrants and the sales of stock through the Company's Employee Stock Purchase Plan were partially offset by payments on long-term debt (including capital lease obligations).

Cash, cash equivalents and short-term investments of \$3.7 million as of June 30, 1998 includes \$193,000 of restricted cash. Accounts receivable of \$2.1 million at June 30, 1998 reflect amounts due from normal trade receivables, including non-domestic open accounts, as well as funds to be remitted under letters of credit. Of the outstanding trade receivables as of June 30, 1998, \$250,750 million has been collected through July 31, 1998.

Net inventory levels at June 30, 1998 of \$12.1 million have decreased as compared to \$12.3 million as of December 31, 1997. Inventories at December 31, 1997 and June 30, 1998 are stated net of valuation reserves of \$5.9 million and \$9.3 million, respectively.

Included in other accrued expenses at June 30, 1998 are professional fees, consulting and other accruals as well as sales taxes payable.

RESULTS OF OPERATIONS

Second Quarter of 1998 Compared to the Second Quarter of 1997

Total Revenues. Total revenues in the second quarter ended June 30, 1998 increased to \$46.4 million from \$18.2 million in the second quarter ended June 30, 1997. The increase was primarily due to an increase in licensing revenue in the second quarter of 1998 to \$44.8 million from \$1.8 million the comparable quarter of 1997, partially offset by declining product sales.

Cost of Product Sales. The cost of Product sales for the second quarter of 1998 decreased to \$5.0 million from \$14.8 million for the second quarter of 1997 due to the decrease in product revenues. The Company experienced a negative gross margin on product revenue of 214.4% as compared to a positive gross margin of 10.2% for the quarter ended June 30, 1997 when manufacturing overhead expenses were almost fully absorbed. Included in cost of product sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services. Also included in the cost of sales are increases in inventory reserves and any manufacturing overhead expenses the Company has incurred that are not absorbed into inventory based on low volume of production during the quarter.

Other Operating Expenses. Other operating expenses include sales and marketing expenses, general and administrative expenses, patent services, and product development expenses.

Sales and marketing expenses decreased 53.4% to \$987,000 during the second quarter of 1998 as compared to \$1.1 million during the second quarter of 1997. The decrease is primarily due to decreased staff and activity levels, and included a decrease in commission expense due to the decrease in UltraPhone product revenues in the three month period of 1998.

General and administrative expenses for the second quarter of 1998 decreased 38.5% to \$1.6 million from \$2.6 million for the second quarter of 1997. The decrease is primarily due to cost containment measures and the timing of certain administrative expenses.

Patents administration and licensing expenses increased 441% to \$4.1 million during the second quarter of 1998 as compared to \$755,000 during the same period in 1997. The increase is due primarily to expenses related to new patents and increased activity related to capitalizing the revenue potential of InterDigital's extensive TDMA and CDMA patent portfolio.

Product development expenses for the second quarter of 1997 decreased 40.8% to \$3.8 million during the first quarter of 1998 as compared to \$6.5 million during the second quarter of 1997. Staff and activity levels devoted to further development of the TDMA technology decreased significantly. Expenses were also affected by the timing of certain B-CDMA activities.

Other Income and Expense. Interest income for the second quarter of 1998 was \$648,000 as compared to \$665,000 for the second quarter of 1997. The Company had similar average invested cash balances in both periods. Interest expense for the three month period ended June 30, 1998 was \$97,000 as compared to \$108,000 for the three month period ended June 30, 1997. The decrease is due to lower outstanding debt in the period.

Results of Operations - Six Months Ended June 30, 1998 Compared to Six Months Ended June 30, 1997

Total Revenues. Total revenues for the six months ended June 30, 1998 increased to 27.9% to \$56.5 million from \$44.2 million for the six months ended June 30, 1997 primarily due to an increase in the amount of licensing revenues partially offset by a decrease in product revenues. Licensing and alliance revenues for the six months ended June 30, 1998 include \$2.6 million from Alcatel, \$1.7 million from Samsung, \$367,000 from recurring royalty licensing revenue and \$48.1 million in licensing revenue from new licensees. Licensing and alliance revenues for the six months ended June 30, 1997 includes \$1.4 million as part of the Samsung Agreements, \$1.6 million as part of the Siemens Agreements and \$947,000 of recurring royalty licensing revenue from one licensee.

Cost of Product Sales. The cost of Product sales for the six months ended June 30, 1998 decreased 78.6% to \$7.6 million from \$35.7 million for the six months ended June 30, 1997. The Company incurred a negative gross margin on Product sales of 102.8% for the six months ended June 30, 1997. Included in cost of product sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to product sales, as well as increases in inventory reserves and the overhead expenses the Company has incurred in maintaining its production resources that were not absorbed into inventory due to the low volume of production. At low production levels, such as those experienced in the first half of 1998, the Company incurs substantial negative gross margins because production costs are spread over only a limited number of units of production.

Other Operating Expenses. Other operating expenses include sales and marketing expenses, general and administrative expenses, patent services, and product development expenses.

Sales and marketing expenses decreased 51% to \$2.1 million during the six months ended June 30, 1998 compared to \$4.2 million during the six months ended June 30, 1997. The decrease is primarily due to decreased commissions expense, commensurate with decreased UltraPhone product revenues and decreased activity levels.

General and administrative expenses for the six months ended June 30, 1998 decreased 31.1% to \$3.3 million from \$4.8 million for the six months ended June 30, 1997. The decrease in general and administrative expense is due primarily to cost containment measures.

Patents administration and licensing activities expense increased 242% in the six months ended June 30, 1998 to \$6.4 million compared to \$1.9 million in the first half of 1997. The Company has substantially increased its activities supporting the licensing strategy to offer non-exclusive, royalty bearing patent, technology and know-how and trademark licensees.

Product development expenses decreased 39.4% for the six months ended June 30, 1998 to \$7.7 million from \$12.7 million for the six months ended June 30, 1997. The decrease over the prior year period is due primarily to decreased staff and activity levels devoted to further development of the Company's UltraPhone product and to timing of certain costs related to its B-CDMA technology.

Other Income and Expense. Interest income for the six months ended June 30, 1998 was \$1.0 million as compared to \$1.0 million for the six months ended June 30, 1997. Interest expense for the six month period ended June 30, 1998 was \$199,000 as compared to \$228,000 for the six month period ended June 30, 1997. The decrease is due to lower overall debt in the first half of 1998 as compared to the first half of 1997.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The foregoing Management's Discussion and Analysis contains forward looking statements reflecting, among other things, InterDigital's current beliefs and expectations as to its working capital requirements, field tests, and receipt of revenues from alliances and royalty payments. Words such as "intends", "expects", and "believes", variations of such words, and words with similar meaning or connotations are intended to identify such forward looking statements.

Such statements are subject to risks and uncertainties. InterDigital cautions the readers that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such forward looking statement. For example, working capital requirements may be affected by the Company's ability to generate revenues, secure other sources of adequate capital (or access thereto) to fund operations and to maintain capital, which in turn may be affected by general economic and industry specific conditions, its ability to successfully implement the alliance and the licensing programs, its ability to successfully develop and commercialize product, and the costs related to enforcement of its patent rights. Field tests could be impeded by the failure or inability of persons with a business relationship with the Company to secure required permits or frequencies or other things necessary to fulfill their obligations to InterDigital. Receipt of expected revenues from alliances or royalties could be affected by the failure to enter into additional strategic alliances, the failure or inability of InterDigital's alliance partners to meet InterDigital's expectations or contractual commitments, the failure of InterDigital to successfully negotiate additional licensing agreements for its patents and other intellectual property or to enforce its rights under its license agreements; the outcomes under legal and administrative cases and proceedings relating to InterDigital's assertion of its patents rights, the inability or failure of InterDigital to protect its intellectual property rights, and the inability to successfully prove infringement of its patents. In addition, factors affecting one forward looking statement may affect other forward looking statements and other factors may exist that are not listed above or that are not fully known to InterDigital at this time. InterDigital undertakes no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

PART II - OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Shareholders held on June 18, 1998, the shareholders of the Company elected Mr. Robert S. Roath as a director of the Company, ratified the appointment of Arthur Andersen LLP as the Company's independent accountants for the year ending December 31, 1998, and authorized an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 75,000,000 to 100,000,000, as set forth in the Company's Proxy Statement dated May 11, 1998. The Company's shareholders elected Mr. Roath as a director by a vote of 45,575,658 in favor, and 1,364,574 withheld. Messrs. Harry G. Campagna, D. Ridgely Bolgiano, Steven T. Clontz, Joseph S. Coleson, Jr., and William A. Doyle also continued to serve their terms as directors. The vote ratifying the appointment of Arthur Andersen LLP was 45,984,754 shares for, 856,984 shares against and 98,494 shares abstaining. The vote approving the amendment to the Certificate of Incorporation was 43,087,967 shares for, 3,567,118 shares against and 285,147 shares abstaining. There were no broker non-votes with respect to any matters voted on at this Meeting.

Item 5. OTHER INFORMATION

Discretionary Proxy Voting Authority/Shareholder Proposals

On May 21, 1998 the Securities and Exchange Commission adopted an amendment to Rule 14a-4, as promulgated under the Securities and Exchange Act of 1934. The amendment to Rule 14a-4(c)(1) governs the Company's use of its discretionary proxy voting authority with respect to a shareholder proposal which the shareholder has not sought to include in the Company's proxy statement. The new amendment provides that if a proponent of a proposal fails to notify the company at least 45 days prior to the month and day of mailing of the prior year's proxy statement, then the management proxies will be allowed to use their discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement.

With respect to the Company's 1999 Annual Meeting of Shareholders, if the Company is not provided notice of a shareholder proposal, which the shareholder has not previously sought to include in the Company's proxy statement, by March 29, 1999, the management proxies will be allowed to use their discretionary authority as outlined above.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following is a list of exhibits filed as part of this Form 10-Q:

Exhibit 3.1 Restated Articles of Incorporation dated as of June 26, 1998.

Exhibit 3.2 By-laws, as amended April 23, 1998.

Exhibit 27 Financial Data Schedule.

(b) The following is a list of Current Reports on Form 8-K filed during the second quarter of 1998:

The Company filed a Current Report on Form 8-K dated April 21, 1998 under

Item 5 - Other Events, relating to patent license agreements between the Company

and Sharp Corporation and the Company and Kyocera Corporation, respectively. No financial statements were filed with this report.

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: August 13, 1998

/s/ William A. Doyle

William A. Doyle, President

Date: August 13, 1998

/s/ Loretta P. Brehony

*Loretta P. Brehony, Controller
and Principal Accounting Officer*

Articles of Incorporation

In compliance with the requirements of the Pennsylvania Business Corporation Law of 1988, as amended, the Articles of Incorporation of INTERDIGITAL COMMUNICATIONS CORPORATION are hereby amended and restated in their entirety to read as follows:

First. The name of the Corporation is InterDigital Communications Corporation.

Second. The location and post office address of its registered office is 781 Third Avenue, King of Prussia, Pennsylvania 19406-1409.

Third. The Corporation is incorporated under the Business Corporation Law of the Commonwealth of Pennsylvania for the purpose or purposes of engaging in or doing any lawful act concerning any or all lawful business for which corporations may be incorporated under the Pennsylvania Business Corporation Law, including but not limited to manufacturing, owning, using, leasing and dealing in personal property of every class and description, and acquiring, owning, using and disposing of real property of any nature whatsoever.

Fourth. The term for which the Corporation is to exist is perpetual.

Fifth. The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is

- (i) 100,000,000 shares of Common Stock, \$0.01 par value per share ("Common Stock"), and
- (ii) 14,398,600 shares of Preferred Stock, \$0.10 par value per share ("Preferred Stock").

The voting rights, designations, preferences, qualifications, privileges, limitations, options, conversion rights and other special rights (the "Rights and Preferences") of the shares of the respective classes of stock of the Corporation are and will be determined as follows:

A. Preferred Stock

The Board of Directors of the Corporation shall have full and complete authority, by resolution from time to time, to establish one or more series and to issue shares of Preferred Stock and to fix, determine and vary the Rights and Preferences of each series of Preferred Stock, including, but not limited to, dividend rates and manner of payment, preferential amounts payable upon voluntary or involuntary liquidation, voting rights, conversion rights, redemption prices, terms and conditions and sinking fund and stock purchase prices, terms and conditions.

B. \$2.50 Cumulative Convertible Preferred Stock

The series of Preferred Stock, \$.10 par value per share, of the Corporation known as the \$2.50 Cumulative Convertible Preferred Stock shall have the following Rights and Preferences:

Section 1. Designation and Amount. The shares of such series shall be designated as \$2.50 Cumulative Convertible Preferred Stock (the "Convertible Preferred Stock"), and the number of shares constituting such series shall be 105,212. Such number of shares may not be increased, but may be decreased, at any time and from time to time, by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Convertible Preferred Stock to a number less than that of the shares then outstanding.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of preferred stock ranking senior to the shares of Convertible Preferred Stock with respect to dividends, the holders of shares of Convertible Preferred Stock, in preference (to the extent provided in Section 4) to the holders of any and all other classes of stock, whether common or preferred, including the Common Stock, par value \$.01 per share, of the Corporation (the "Common Stock"), shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, semiannual dividends payable in cash, Common Stock or a combination of cash and Common Stock, at the Corporation's election in its sole discretion (subject to the terms of Section 12), as hereinafter provided. Dividends on each share of Convertible Preferred Stock shall begin to accrue and be cumulative from the first date of issuance of any such share and shall accumulate and be payable on the first calendar day of June and December in each year, commencing December 1, 1987, or, if such day is not a business day of the Corporation, the next succeeding business day of the Corporation (each such date being referred to herein as a "Dividend Payment Date"), at an annual rate of \$2.50 per share of Convertible Preferred Stock, calculated on the basis of a year of 360 days consisting of twelve 30-day months. The amount of dividends payable per share for each full dividend period shall be computed by dividing by two the \$2.50 annual rate (rounding such amount to the nearest cent). If less than six months shall have elapsed from the first date of issuance of Convertible Preferred Stock to the first Dividend Payment Date after such issuance, the dividends payable on such Dividend Payment Date shall be the amount payable on each subsequent Dividend Payment Date multiplied by a fraction, the numerator of which is the number of days from the first date of issuance of the Convertible Preferred Stock to such first Dividend Payment Date and the denominator of which is 180. If the Corporation elects to pay all or any portion of a dividend in Common Stock, the number of shares of Common Stock to be issued by the Company in payment of such dividend or portion thereof shall be the dollar amount of the dividend or portion thereof not paid in cash divided by the per share Computed Price (as defined below) of the Common Stock. Accumulated but unpaid dividends shall not bear interest. Dividends paid on shares of Convertible Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Convertible Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 50 days prior to the date fixed for the payment thereof.

(B) Notwithstanding the provisions of Section 2(A) above, a dividend on Convertible Preferred Stock will be payable only in cash in the following circumstances: (i) to the extent the number of shares of Common Stock at the time authorized, unissued and unreserved for all purposes, or held in the Corporation's treasury, is insufficient to pay the portion of such dividend to be paid in Common Stock; (ii) to the extent the issuance or delivery of shares of Common Stock in payment of a dividend on Convertible Preferred Stock would require registration with or approval of any governmental authority under any law or regulation, and such registration or approval has not been effected or obtained; (iii) the Computed Price (as defined below) is less than the then par value of the Common Stock; (iv) to the extent the shares of Common Stock to be issued in payment of a dividend on the Convertible Preferred Stock have not been authorized for listing, upon official notice of issuance, on any United States national or regional securities exchange on which such Common Stock is then listed; or (v) the Common Stock is no longer traded in the over-the counter market and is not listed on a United States national or regional securities exchange.

(C) As used herein, the "Computed Price" of a share of Common Stock shall mean the price equal to the following applicable percentage of the arithmetic average of the Closing Sale Price (as defined below) of the Common Stock for the 10 consecutive trading days ending on the fifth trading day prior to the applicable Dividend Payment Date: 100%, if the Amount of the Shares (as defined below) is less than or equal to one-half the Average Dollar Volume Amount (as defined below); 95%, if the Amount of the Shares is greater than one-half but less than or equal to one times

the Average Dollar Volume Amount; 90%, if the Amount of the Shares is greater than one times but less than or equal to two times the Average Dollar Volume Amount; 85%, if the Amount of the Shares is greater than two times but less than or equal to four times the Average Dollar Volume Amount; 80%, if the Amount of the Shares is greater than four times but less than or equal to six times the Average Dollar Volume Amount; or 75%, if the Amount of the Shares is greater than six times the Average Dollar Volume Amount.

For purposes of this Section 2(C), the "Closing Sale Price" of the Common Stock on a given day means the closing sale price of (or, if such price is not reported, the closing bid price for) the Common Stock on such day, as reported in the composite transactions for this principal United States securities exchange on which the Common Stock is traded, or, if the Common Stock is not listed on a United States national or regional stock exchange, as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or the National Quotation Bureau Incorporated (or if the Common Stock is not so listed and such closing sale and closing bid price are not reported by NASDAQ or the National Quotation Bureau Incorporated, then such price shall be determined by the Board of Directors in good faith, such determination to be conclusive); the "Amount of the Shares" means the sum of (a) the dollar amount of dividends to be paid in shares of Common Stock on the Convertible Preferred Stock on the applicable Dividend Payment Date plus (b) the dollar amount of dividends and interest paid in shares of Common Stock during the 60 consecutive calendar days preceding such Dividend Payment Date (the "Period") on any other securities issued or guaranteed by the Corporation or any of its subsidiaries plus (c) the dollar amount of redemptions in respect of any securities issued or guaranteed by the Corporation or any of its subsidiaries paid or satisfied in Common Stock during the Period plus (d) the dollar amount of Common Stock issued during the Period upon any Forced Conversion (as defined below) or any convertible debt or equity securities (excluding employee stock options) of the Corporation or any of its subsidiaries; the "Average Dollar Volume Amount" means one-half of the sum of the products obtained by multiplying (i) the daily volume of Common Stock traded for each of the twenty consecutive trading days ending on the fifth trading day prior to the Dividend Payment Date by (ii) the Closing Sale Price of the Common Stock on the corresponding particular trading day; and "Forced Conversion" means conversions (a) within the period following a notice of redemption and prior to the redemption date to which such notice relates, excepting redemptions of the Corporation's Preferred Stock, First Series, (b) within a 90-day period following a voluntary reduction in the conversion price below the market price of the Common Stock or (c) pursuant to a provision which sets the conversion price for a specified period (the "conversion period") as a percentage (of less than 100%) of the market price of the Common Stock during the conversion period or during a period beginning not more than 90 days prior to the first day of such conversion period.

(D) No interest or sum of money in lieu of interest shall be payable in respect of any dividend payment or payments which may be arrears. In the event that two consecutive semi-annual dividends payable on the Convertible Preferred Stock are in arrears and the full amount of accumulated dividends due under Section 2(A) above is not (i) paid or (ii) declared and funds or shares of Common Stock (to the extent permissible hereunder) sufficient to pay the full amount of accumulated dividends due under Section 2(A) above set aside for payment of dividends, within 15 business days after the Dividend Payment Date of the second consecutive dividend in arrears (any such occurrence being referred to herein as a "Dividend Default"), the holder of each share of Convertible Preferred Stock may, on the two business days following the applicable Penalty Conversion Date (defined as the thirtieth calendar day after such second consecutive Dividend Payment Date), at the option of such holder, in lieu of all dividends which have accrued but remain unpaid (whether or not declared), and notwithstanding that such Dividend Default may have been cured subsequent to such period of 15 business days, convert such share of Convertible Preferred Stock into the number of shares of Common Stock determined as set forth below (a "Penalty Conversion Right"). The number of shares of Common Stock into which each share of Convertible Preferred Stock shall be so convertible upon a Dividend Default and the exercise of the resulting Penalty Conversion Right shall be a fraction, rounded to the nearest one hundredth, the numerator of which is \$25.00 plus an amount per share equal to all accrued and unpaid dividends thereon to

the applicable Penalty Conversion Date, whether or not declared, and the denominator of which is seventy-five percent (75%) of the lowest Closing Sale Price (as previously defined) of the Common Stock during the period beginning on the second consecutive Dividend Payment Date immediately preceding the Penalty Conversion Date and ending five trading days prior to the Penalty Conversion Date (such denominator being referred to herein as the "Penalty Conversion Price"). Upon the occurrence of a Dividend Default, the Corporation shall promptly mail to each holder of shares of Convertible Preferred Stock at such holder's last address as the same appears on the books of the Corporation a notice (a) stating that a Dividend Default has occurred, (b) setting forth the terms of the Penalty Conversion Right and (c) setting forth the time, place and manner of exercise of such Penalty Conversion Right.

(E) If (i) a Dividend Default shall have occurred, (ii) a Penalty Conversion Right with respect to any of the outstanding shares of Convertible Preferred Stock shall be exercisable in accordance with the terms of Sections 2(D) and (iii) any of the following circumstances shall then exist (any such concurrent occurrence of each of (i), (ii) and (iii) being referred to herein as a "Penalty Conversion Right Extension"):

(a) the number of shares of Common Stock at the time authorized, unissued and unreserved for all other purposes or held in the Corporation's treasury is insufficient to satisfy the Corporation's obligations with respect to the conversion of Convertible Preferred Stock pursuant to any such Penalty Conversion Right; (b) the issuance or delivery of shares of Common Stock in satisfaction of any such Penalty Conversion Right would require registration with or approval of any governmental authority under any law or regulation, and such registration or approval has not been effected or obtained; (c) the Penalty Conversion Price is less than the then par value of the Common Stock; (d) the shares of Common Stock to be issued in payment of a dividend on the Convertible Preferred Stock have not been authorized for listing upon official notice of issuance, on any United States national or regional securities exchange on which such Common Stock is then listed; or (e) the Common Stock is no longer traded in the over-the-counter market and is not listed on a United States national or regional securities exchange (any of such circumstances (a) through (e) being referred to herein as a "Penalty Conversion Right Extending Event"),

then the Penalty Conversion Right with respect to the Convertible Preferred Stock shall not terminate at the end of the two business days following the Penalty Conversion Date, but shall remain exercisable at any time until and including the Extended Penalty Conversion Date (defined as the thirtieth calendar day after the day on which no Penalty Conversion Right Extending Event shall continue to exist) in the manner set forth in Section 2(F) (an "Extended Penalty Conversion Right"). The number of shares of Common Stock into which each share of Convertible Preferred Stock shall be convertible upon the exercise of an Extended Penalty Conversion Right shall be a fraction, rounded to the nearest one-hundredth, the numerator of which is \$25.00 plus an amount per share equal to all accrued and unpaid dividends thereon, whether or not declared, to the date of the exercise of such Extended Penalty Conversion Right, and the denominator of which is seventy-five percent (75%) of the lowest Closing Sales Price (as defined above) of the Common Stock during the period beginning on the second consecutive Dividend Payment Date with respect to which the Dividend Default giving rise to such Extended Penalty Conversion Right originally occurred and ending five trading days prior to the Extended Penalty Conversion Date (such denominator being referred to herein as the "Extended Penalty Conversion Price").

In the event that a Dividend Default shall have occurred and any Penalty Conversion Price Extending Event shall be in existence, the Corporation shall promptly mail to each holder of shares of Convertible Preferred Stock, at such holder's last address as the same appears on the books of the Corporation, a notice of the existence of such Dividend Default and Penalty Conversion Right Extending Event, which notice shall describe the terms upon which an Extended Penalty Conversion Right may arise and be exercised. Upon the cessation of all Penalty Conversion Right Extending Events, the Corporation shall notify each holder in a similar manner of the date upon which the

Penalty Conversion Right or the Extended Penalty Conversion Right, as the case may be, shall terminate. Such notice shall set forth the terms and manner of exercise of such Right.

(F) A holder of shares of Convertible Preferred Stock may surrender for conversion pursuant to a then exercisable Penalty Conversion Right or Extended Penalty Conversion Right (either of which is referred to hereinafter in this Section 2 as a "Conversion Right") all or any portion of such shares. Holders of Convertible Preferred Stock desiring to exercise a Conversion Right shall so elect by presenting to the Corporation at its principal place of business, within the period permitted to exercise such Conversion Right, their stock certificates representing the shares of Convertible Preferred Stock to be so converted pursuant to such conversion right, with the Notice of Election to Convert printed on the reverse side of such certificates appropriately completed, together with appropriate endorsements and transfer documents sufficient to transfer the Convertible Preferred Stock being converted to the Corporation free of any adverse interest, and by paying, at that time, any transfer or similar tax if required pursuant to Section 2(G). A Conversion Right in respect of shares of Convertible Preferred Stock for which certificates are not presented in accordance with the terms of this

Section 2(F) within such applicable period of time or in respect of which the election to exercise the Conversion Right is not made in accordance with the terms of this Section 2(F) shall cease to be exercisable, provided, that such a termination of a Conversion Right shall not prejudice any new Conversion Right that may subsequently arise in accordance with the terms of Section 2(D) or 2(E). A conversion pursuant to a Conversion Right shall be deemed to have been made at the close of business on the day on which the converting holder presents to the Corporation the certificates for shares of Convertible Preferred Stock to be converted (assuming that such holder has satisfied all of the requirements set forth in this Section 2(F)), and the rights of such holder with respect to any such converted share shall cease at such time. The person in whose name the Common Stock certificate is registered shall be treated as a shareholder of record on and after the day of conversion. On such day, or as soon thereafter as is practicable, the Corporation shall deliver to the converting holder a stock certificate for the number of shares of Common Stock issuable upon the conversion and a stock certificate representing the number of shares of Convertible Preferred Stock equal to any unconverted portion of the stock certificate surrendered by the holder to the Corporation pursuant to this Section 2(F). Except as set forth in Section 2(D) or 2(E) with respect to the computation of the number of shares of Common Stock issuable upon exercise of a Conversion Right, no payment or adjustment will be made for accrued dividends on any share of Convertible Preferred Stock converted pursuant to a Conversion Right or for dividends on any Common Stock issued pursuant to the exercise of a Conversion Right. All accrued and unpaid dividends on such share shall cease to be payable following conversion of a share of Convertible Preferred Stock.

Any Conversion Right then exercisable in respect of any shares of Convertible Preferred Stock called for redemption shall terminate at the close of business on the business day prior to the date fixed for redemption, provided that no default by the Corporation in the payment of the application redemption price (including any accrued and unpaid dividends) shall have occurred and be continuing.

(G) If a holder of a share of Convertible Preferred Stock converts such share pursuant to a Conversion Right, the Corporation shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, such holder shall pay any such tax that is due because the shares are issued in a name other than that such converting holder's name, and the Corporation shall not be required to issue or deliver certificates representing such shares of Common Stock unless or until the party or parties requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(H) The Corporation covenants that it will, after a Dividend Default and prior to any Penalty Conversion Date, use its best efforts to reserve and keep available, free from preemptive rights, out of its authorized Common Stock, solely for the purpose of issuance upon conversion of

shares of Convertible Preferred Stock pursuant to Conversion Rights, such number of shares of Common Stock as it then reasonably estimates shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock that may be converted pursuant to Conversion Rights that may be excisable following the next Penalty Conversion Date. The Corporation covenants that all shares of Common Stock that shall be issuable upon the exercise of Conversion Rights shall be, when issued, duly and validly issued and fully paid and nonassessable, free of all liens and charges and not subject to any preemptive rights. For purposes of this Section 2(H), the number of shares of Common Stock that shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock shall be computed as if at the time of computation all outstanding shares of Convertible Preferred Stock were held by a single holder. The issuance of shares of Common Stock upon conversion of Convertible Preferred Stock pursuant to exercise of any Conversion Rights is authorized in all respects.

(I) In any case if any (i) consolidation or merger of the Corporation with or into another entity (other than a consolidation or merger in which the Corporation is the surviving entity), (ii) sale or conveyance of all or substantially all of the assets of the Corporation, (iii) reclassification or change of the Corporation's Common Stock issuable upon conversion of shares of Convertible Preferred Stock pursuant to a Conversion Right (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination, but including any division of the Corporation's Common Stock into two or more classes or series), (iv) consolidation or merger of another entity into the Corporation in which the Corporation is the surviving entity and in which there is a reclassification or change of the Corporation's Common Stock (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination, but including any division of the Corporation's Common Stock into two or more classes or series), or

(v) Statutory exchange of securities with another entity (including any exchange effected in connection with a merger of a third entity into the Corporation), in each case while any shares of Convertible Preferred Stock remain outstanding, there shall be no adjustment of the Penalty Conversion Price or the Extended Penalty Conversion Price but the holders of outstanding shares of Convertible Preferred Stock shall have the right thereafter to convert such shares of Convertible Preferred Stock pursuant to an exercise of any Conversion Right pursuant to the terms of Section 2(D) or 2(E), as the case may be, solely into the kind and amount of shares of stock or other securities, cash or other property, or any combination thereof, receivable upon such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance, as if such shares of Convertible Preferred Stock had been converted into shares of Common Stock immediately prior to the effective date of such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance (assuming that the holders of such shares of Convertible Preferred Stock, as holders of Common Stock prior to the transaction, would not have exercised any rights of election as holders of Common Stock as to the kind or amount of stock or other securities, cash or other property receivable upon such reclassification, statutory exchange, consolidation, merger, sale or conveyance; provided, that if the kind or amount of stock or other securities, cash or other property receivable upon such reclassification, change, statutory exchange, consolidation, merger, sale, or conveyance is not the same for each non-electing share of Common Stock, then the kind and amount of stock or other securities, cash or other property receivable shall be deemed to be the kind and amount so receivable by a plurality of the non-electing shares).

(J) An adjustment made pursuant to Section 2(I) shall become effective immediately after the effective date in respect of the transaction giving rise to such adjustment. If, as a result of an adjustment made pursuant to Section 2 (I), the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine for accounting purposes the allocation of the Penalty Conversion Price or Extended Penalty Conversion Price, as the case may be, between or among shares of such classes of capital stock or shares of Common Stock and other capital stock.

(K) If (i) any transaction described in Section 2(I) shall have occurred such that shares of Convertible Preferred Stock shall then be convertible, in whole or in part, into a security or securities other than the Common Stock of the Corporation (any such security being referred to in this Section 2(K) as an "Other Security"), (ii) a Dividend Default shall have occurred, (iii) a Penalty Conversion Right with respect to any of the outstanding shares of Convertible Preferred Stock shall be exercisable in accordance with the terms of Section 2(D), and (iv) any of the following circumstances shall then exist:

(a) the number of units of an Other Security at the time authorized, unissued and unreserved for all purposes or held in the treasury of the Corporation or its successors, as the case may be, is in sufficient to satisfy the Corporation's or such successor's obligations with respect to the conversion of Convertible Preferred Stock pursuant to any such Penalty Conversion Right; (b) the issuance or delivery of an Other Security in satisfaction of any such Penalty Conversion Right would require registration with or approval of any governmental authority under law or regulation, and such registration or approval has not been effected or obtained; (c) the Other Security to be issued in payment of a dividend on the Convertible Preferred Stock has not been authorized for listing, upon official notice of issuance, on any United States national or regional securities exchange on which such Common Stock is then listed; or (d) the Other Security is not traded in the over-the-counter market and is not listed on a United States national or regional securities exchange,

then the Penalty Conversion Right with respect to the Convertible Preferred Stock shall not terminate at the end of two business days following the Penalty Conversion Date but shall remain exercisable, in the manner set forth in Section 2(F), at any time until and including the thirtieth calendar day after the day on which none of the circumstances set forth in (a) or (b) above shall continue to exist.

In the event that a Dividend Default shall have occurred and any of the circumstances set forth in (a) or (b) above shall be in existence, the Corporation shall promptly mail to each holder of shares of Convertible Preferred Stock, at such holder's last address as the same appears on the books of the Corporation, a notice of the existence of such Dividend Default and such circumstance set forth in (a) or (b) above, which notice shall describe the terms upon which an extended Penalty Conversion Right may arise and be exercised pursuant to this Section 2(K). Upon the cessation of all circumstances giving rise to such extended Penalty Conversion Right, the Corporation shall notify each holder in similar manner of the date upon which the Penalty Conversion Right or the Extended Penalty Conversion Right, as the case may be, shall terminate. Such notice shall set forth the terms and manner of exercise of such Right.

(L) The Corporation may, in its sole discretion, make any appropriate upward adjustment in the number of shares of Common Stock issuable upon conversion of shares of Convertible Preferred Stock pursuant to the exercise of a Conversion Right as the Corporation considers to be advisable in order that any event treated for Federal income tax purposes as a distribution of stock or stock rights with respect to the Common Stock will not be taxable to the holders of Common Stock.

(M) Whenever the Penalty Conversion Right of the Convertible Preferred Stock is adjusted as provided in Section 2(I) or 2(L), a notice stating that the Penalty Conversion Right has been adjusted, setting forth the terms of the Penalty Conversion Right as adjusted, and containing a brief statement of the facts giving rise to such adjustment and the manner of computing the same (which certificate shall be conclusive evidence of the correctness of such adjustment), shall forthwith be mailed by the Corporation or its successor, as the case may be, to each holder of shares of Convertible Preferred Stock at such holder's last address as the same appears on the books of the Corporation.

In the event that any time as a result of an adjustment made pursuant to Section 2(I), the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the Penalty of Conversion Right with respect to such other shares so receivable upon conversion of any share of Convertible Preferred Stock shall be subject to readjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained herein.

In any case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the holders of shares of Convertible Preferred Stock, to the end that the provisions set forth herein shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the conversion of shares of Convertible Preferred Stock pursuant to exercise of a Conversion Right.

The above provisions shall similarly apply to successive consolidations, mergers, reclassifications, changes, statutory exchanges, sales or conveyances.

(N) In the event that: (i) the Corporation shall take any action which would require an adjustment in the Penalty Conversion Right of the Convertible Preferred Stock pursuant to the terms of this Section 2; (ii) there shall be any capital reorganization, or reclassification or change of the Common Stock (other than a change in the par value of the Common Stock, or from par value to no par value or as a result of a subdivision or combination of the outstanding Common Stock, but including any division of the Corporation's Common Stock into two or more classes or series), or any consolidation or merger to which the Corporation is a party or any statutory exchange of securities with another corporation and for which approval of any stockholders of the Corporation is required, or any sale or conveyance of all or substantially all of the assets of the Corporation; or (iii) there shall be a voluntary or involuntary liquidation, dissolution or winding up of the Corporation; then the Corporation shall cause to be mailed to each holder of shares of Convertible Preferred Stock at such holder's last address as the same appears on the books of the Corporation, at least 15 days prior to the applicable date hereinafter specified, a notice stating the data on which such reorganization, reclassification, change, statutory exchange, consolidation, merger, sale, conveyance, liquidation, dissolution or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for stock or other securities, cash or other property deliverable upon such reorganization, reclassification, change statutory exchange, consolidation, merger, sale, conveyance, liquidation, dissolution or winding up. Failure to give such notice, or any defect therein, shall not, however, affect the legality or validity of any action described in clauses (i), (ii) or (iii) of this Section 2(N).

Section 3. Voting Rights. Except as otherwise expressly provided herein or as specifically required by law, the holders of shares of Convertible Preferred Stock shall have no voting rights.

(A) So long as the Convertible Preferred Stock is outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of all outstanding shares of Convertible Preferred Stock, voting as a class, (i) amend, alter or repeal any provisions of the Corporation's Articles of Incorporation, as amended, or By-laws which would materially adversely affect the Rights and Preferences of the Convertible Preferred Stock, provided that an amendment that would authorize or create or increase the amount of any stock ranking junior to the Convertible Preferred Stock as to dividend and liquidation rights will be deemed not to adversely affect such Rights and Preferences, or (ii) authorize or create, or increase the authorized amount of, any capital stock of the Corporation of any class, or any security convertible into such capital stock, ranking prior to or on a parity with the Convertible Preferred Stock as to either dividend or liquidation rights. Notwithstanding the foregoing, if the voting rights set forth in this Section 3(A) are exercisable as to a particular matter by more than one series of the Corporation's preferred stock, the affirmative

vote on such matter will be of the holders of at least a majority of the shares of all such series voting as a single class without regard to series, and the separate voting rights of the holders of Convertible Preferred Stock as set forth in this Section 3(A) shall not apply.

(B) (i) Whenever and as often as two or more consecutive semi-annual dividends payable on the Convertible Preferred Stock shall be past due (a "Default"), the holders of the Convertible Preferred Stock, voting as a class, shall have the exclusive right, as set forth below, to vote for and to elect one director of the Corporation. The right of the holders of the Convertible Preferred Stock to elect such director, however, shall cease when all arrearage in the payment of dividends on the Convertible Preferred Stock shall have been cured (either through payment or through being declared and set aside for payment) or no such Convertible Preferred Stock is outstanding, whichever first occurs.

(ii) If, at any time, a Default shall occur, then (i) the number of directors of the Corporation shall be increase by one, effective as of the time of election of such directors as hereinafter provided, and (ii) the holders of Convertible Preferred Stock, voting as a single class, shall be entitled to elect one director to fill the vacancy caused by so increasing the number of directors (the class or classes of directors to which such director is to be assigned to be determined by the board of Directors). The right of the holders of the Convertible Preferred Stock so to elect such director may be exercised at any time before all arrearage in the payment of dividends on the Convertible Preferred Stock are cured, as set forth in (i) above. Effective as of such cure, (i) the holders of the Convertible Preferred Stock shall no longer have the right so to elect any directors, subject to revesting in the event of each and every subsequent Default, (ii) the term of office of the director then in office elected by such holders voting as a class shall forthwith terminate and (iii) the number of directors of the Corporation shall be reduced by one, effective as of the date of such termination.

The foregoing right of the holders of the Convertible Preferred Stock with respect to the election of a director may be exercised at any annual meeting of shareholders or, within the limitations hereinafter provided, at a special meeting of shareholders held for such purpose. If a Default shall occur more than one ninety (90) days preceding the date established for the next annual meeting of shareholders, the Corporation shall, within twenty (20) days after delivery to the Corporation at its principal office of a written request for a special meeting signed by the holders of at least an aggregate of twenty-five percent (25%) of the outstanding shares of Convertible Preferred Stock, call a special meeting of the holders of the Convertible Preferred Stock to be held within sixty (60) days after the delivery of such request, for the purpose of electing an additional director to serve until the next annual meeting of shareholders of the Corporation and until such director's successor shall have been elected and qualified or until such director's earlier death or resignation, or until such earlier date as provided herein, whichever occurs first. Notice of such meeting shall be mailed to each holder of Convertible Preferred Stock as provided by Pennsylvania law and the Corporation's By-laws.

The Board of Directors may fix a record date for the determination of holders of Convertible Preferred Stock entitled to vote for the election of a director pursuant to the terms of this Section 3 at an annual or special meeting of shareholders, as the case may be, which record date shall not be more than fifty (50) days prior to the date of the meeting.

The holders of at least a majority of the outstanding shares of Convertible Preferred Stock voting as a class shall have the right to remove without cause at any time and replace any director such holders have elected pursuant to this Section 3. If the office of any director elected by the holders of the Convertible Preferred Stock becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, the vacancy may be filled by vote of the holders of the Convertible Preferred Stock in the manner provided above.

(C) On any matter as to which the holders of Convertible Preferred Stock shall be entitled to vote as provided above, they shall be entitled to one vote per share. The holders of Convertible Preferred Stock shall not have the right of cumulative voting in any election of directors.

(D) The holders of Convertible Preferred Stock shall not be entitled to vote as provided above on any matter if, at or prior to the time when the act with respect to which such vote would otherwise be required will be effected, all outstanding shares of Convertible Preferred Stock have been redeemed, or have been called for redemption if sufficient funds have been deposited with a bank or trust company to effect such redemption as provided in Section 8.

(E) Nothing herein contained shall require a vote of the holders of shares of Convertible Preferred Stock in connection with (i) the authorization, designation, increase or issuance of any shares of any class or series of capital stock which ranks junior to the Convertible Preferred Stock as to dividend and liquidation rights, (ii) the authorization, issuance or increase in the amount of any bonds, mortgages, debentures or other obligations of the Corporation, or (iii) any merger or consolidation involving the Corporation or any reclassification of any stock ranking junior to the Convertible Preferred Stock as to dividend and liquidation rights.

Section 4. Certain Restrictions.

(A) Whenever any semi-annual dividend payable on the Convertible Preferred Stock as provided in Section 2 is in arrears, thereafter and until (i) all accumulated and unpaid dividends, whether or not declared, on shares of Convertible Preferred Stock outstanding shall have been paid in full or (ii) all shares of Convertible Preferred Stock shall have been converted into Common Stock as provided in Section 2 or Section 9, the Corporation shall not

(i) declare or pay dividends or make any other distributions on any shares of stock ranking junior to the Convertible Preferred Stock as to dividends;

(ii) declare or pay dividends or make any other distributions on any shares of stock ranking on a parity with the Convertible Preferred Stock as to dividends, except (a) dividends or other distributions paid ratably on the Convertible Preferred Stock and all such parity stock so that the amount of dividends or other distributions declared per share on each such series or class of stock bear to each other the same ratio that the accumulated but unpaid dividends per share on the shares of each such series or class of stock bear to each other, or (b) dividends or other distributions paid in Common Stock (or other stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up) on the Convertible Preferred Stock and such other stock of the Corporation as shall be entitled to receive dividends or distributions in Common Stock (or such other junior stock), such that all accumulated and unpaid dividends on all such stock shall be paid in full;

(iii) redeem or purchase or otherwise acquire for consideration (including pursuant to sinking fund requirements) shares of any stock ranking junior to the Convertible Preferred Stock as to dividends, except that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock by the conversion of such shares into, or the exchange of such shares for, shares of any stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon dissolution, liquidation or winding up;

(iv) redeem pursuant to a sinking fund or otherwise any stock for the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, except (a) by means of a redemption pursuant to which all outstanding shares of Convertible Preferred Stock and all stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends are redeemed or pursuant to which a pro rata redemption is made

from all holders of the Convertible Preferred Stock and all stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, the amount allocable to each series of such stock being determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and the shares of each series being redeemed only a pro-rata basis, or (b) by conversion of such parity stock into, or exchange of such parity stock for, stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up; or

(v) purchase or otherwise acquire for any consideration any stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, except (a) pursuant to an acquisition made in accordance with the terms of one or more offers to purchase all of the outstanding shares of Convertible Preferred Stock and all stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends (which offers shall describe such proposed acquisition of all such parity stock), which offers shall each have been accepted by the holders of at least 50% of the shares of each series or class of stock receiving such offer outstanding at the commencement of the first of such purchase offers, or (b) by conversion of such parity stock into, or exchange of such parity stock for, stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Section 4(A), purchase or otherwise acquire such shares at such time and in such manner.

Section 5. **Reacquired Shares.** Any shares of Convertible Preferred Stock redeemed or acquired by conversion or otherwise by the Corporation in any manner whatsoever shall have the status of authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. **Liquidation, Dissolution or Winding up.** Upon any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, no distribution shall be made

(A) to the holders of shares of stock ranking junior to the Convertible Preferred Stock upon liquidation, dissolution or winding up unless, prior thereto, the holders of shares of Convertible Preferred Stock shall have received \$25.00 per share plus an amount equal to accrued and unpaid dividends and distributions thereon to the date of such payment, whether or not declared, or

(B) to the holders of stock ranking on a parity with the Convertible Preferred Stock upon liquidation, dissolution or winding up, except distributions made ratably on the Convertible Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

After payment in full of the liquidation preference of the Convertible Preferred Stock as aforesaid, the Convertible Preferred Stock shall not be entitled to receive any additional cash, property or other assets of the Corporation upon the liquidation, dissolution or winding up of the Corporation. In the event of a liquidation preference payment amounting in the aggregate to less than \$25.00 per share plus accrued dividends, the Corporation in its discretion may require the surrender of certificates of the Convertible Preferred Stock and issue a replacement certificate or certificates, or it may require the certificates evidencing the shares in respect of which such payments are to be made to be presented to the Corporation, or its agent, for notation thereon of amounts of the liquidation preference payments made in respect of such shares. In the event a certificate for Convertible Preferred Stock on which payment of one or more partial liquidation preference payments has been made is presented for exchange or transfer, the certificate issued

upon such exchange or transfer shall bear an appropriate notation as to the aggregate amount of liquidation preference payments theretofore made in respect thereof.

Section 7. Consolidation, Merger and Sale of Assets.

(A) A consolidation or merger of the Corporation with or into another corporation, the merger of any other corporation into the Corporation, a voluntary sale, conveyance, lease, exchange or transfer of all or substantially all of the assets of the Corporation in consideration of the issuance of equity securities of another corporation or otherwise, or any purchase or redemption of some or all of the shares of any class or series of stock of the Corporation, shall not be deemed to be a liquidation, dissolution or winding up of the Corporation for any purpose in connection with or related to the Convertible Preferred Stock (unless in connection therewith the liquidation, dissolution or winding up of the Corporation is specifically approved).

(B) The Corporation shall not be consolidated or merge with, or sell, transfer or lease all or substantially all of its assets to another corporation, person or entity unless the successor entity assumes in writing all of the obligations of the Corporation with respect to the Convertible Preferred Stock.

Section 8. Optional Redemption.

(A) The Convertible Preferred Stock may not be redeemed by the Corporation prior to June 1, 1990 unless the Closing Sale Price (as defined in Section 2(C), hereof) of the Common Stock shall have equaled or exceeded 150% of the then effective Conversion Price (as defined in Section 9 hereof) for at least 20 trading days within a period of 30 consecutive trading days ending no more than five days prior to giving of notice of redemption. In such event prior to June 1, 1990, and in any event on and after June 1, 1990, the Corporation may, at its sole option and election, redeem the Convertible Preferred Stock, in whole or in part, out of funds legally available therefor, at any time and from time to time, during the following periods and at the following prices per share:

Period	Redemption Price
June 1, 1987-May 31, 1988	\$27.50
June 1, 1988-May 31, 1989	27.25
June 1, 1989-May 31, 1990	27.00
June 1, 1990-May 31, 1991	26.75
June 1, 1991-May 31, 1992	26.50
June 1, 1992-May 31, 1993	26.25
June 1, 1993-May 31, 1994	26.00
June 1, 1994-May 31, 1995	25.75
June 1, 1995-May 31, 1996	25.50
June 1, 1996-May 31, 1997	25.25
June 1, 1997 and thereafter	25.00

in each case plus all dividends (whether or not declared) accrued and unpaid to the date of redemption.

No sinking funding shall be established for the Convertible Preferred Stock.

(B) If less than all of the Convertible Preferred Stock at the time outstanding is to be redeemed, the shares so to be redeemed shall be selected by lot, pro rata or by substantially equivalent method.

(C) Notice of any redemption of the Convertible Preferred Stock shall be mailed, by means of first class mail, postage pre-paid, at least thirty (30), but not more than sixty (60), calendar days prior to the date fixed for redemption to each holder of Convertible Preferred Stock to be redeemed, at such holder's address as it appears on the books of the Corporation. In order to

facilitate the redemption of the Convertible Preferred Stock, the Board of Directors may fix a record date for the determination of holders of Convertible Preferred Stock to be redeemed, which shall not be more than fifty (50) days prior to the date fixed for such redemption.

Each such notice shall specify (i) the redemption date, (ii) the redemption price, (iii) the place for payment and for delivering the stock certificate(s) and transfer instrument(s) in order to collect the redemption price, (iv) the shares of Convertible Preferred Stock to be redeemed and (v) the then effective Conversion Price (as defined below) and that the right of holders of shares of Convertible Preferred Stock being redeemed to convert such shares of Common Stock shall terminate at the close of business on the business day prior to the redemption date (provided that no default by the Corporation in the payment of the applicable redemption price shall have occurred and be continuing).

Any notice mailed as provided herein shall be conclusively deemed to have been duly given whether or not such notice is in fact received.

The holder of any shares of Convertible Preferred Stock redeemed upon any exercise of the Corporation's redemption right shall not be entitled to receive payment of the redemption price for such shares until such holder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificates representing such shares of Convertible Preferred Stock and (ii) appropriate endorsements and transfer documents sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the redemption price of any share of Convertible Preferred Stock after its redemption date.

(D) On the redemption date specified in the notice given pursuant to Section 8(C), the Corporation shall, and at any time after such notice shall have been mailed and before such redemption date the Corporation may, deposit for the pro rata benefit of the holders of the shares of Convertible Preferred Stock so called for redemption the funds necessary for such redemption with a bank or trust company having a capital and surplus of at least \$50,000,000. Any monies so deposited by the Corporation and unclaimed at the end of two years from the date designated for such redemption shall revert to the general funds of the Corporation. After such reversion, such bank or trust company shall, upon demand, pay over to the Corporation such unclaimed amounts and thereupon such bank or trust company shall be relieved of all responsibility in respect thereof to such holder and such holder shall look only to the Corporation for the payment of the redemption price. In the event that monies are deposited pursuant to this Section 8(D) in respect of shares of Convertible Preferred Stock that are converted in accordance with the provisions of Section 2 or 9, such monies shall, upon such conversion, revert to the general funds of the Corporation and, upon demand, such bank or trust company shall pay over to the Corporation such monies and shall thereupon be relieved of all responsibility to the holders of such shares in respect thereof. Any interest accrued on funds so deposited pursuant to this Section 8(D) shall be paid from time to time to the Corporation for its own account.

(E) Upon deposit of funds pursuant to Section 8(D) in respect of shares of Convertible Preferred Stock called for redemption, notwithstanding that any certificates for such shares shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding, the rights to receive dividends thereon shall cease to accrue from and after the date of redemption designated in the notice of redemption and all rights of the holders of the shares of Convertible Preferred Stock called for redemption shall cease and terminate, excepting only the right to receive the redemption price therefor (including any accrued and unpaid dividends to the date fixed for redemption), without interest.

(F) Subject to Section 4 hereof, the Corporation shall have the right to purchase shares of Convertible Preferred Stock in the public market at such prices as may from time to time be available in the public market for such shares and shall have the right at any time to acquire any

shares of Convertible Preferred Stock from the owner of such shares on such terms as may be agreeable to such owner. Shares of Convertible Preferred Stock may be acquired for the Corporation from any shareholder pursuant to this paragraph without offering any other shareholder an equal opportunity to sell his stock to the Corporation, and no purchase by the Corporation from any shareholder pursuant to this paragraph shall be deemed to create any right on the part of any shareholder to sell any shares of Convertible Preferred Stock (or any other stock) to the Corporation.

(G) Notwithstanding the foregoing provisions of this Section 8, and subject to the provisions of Section 4 hereof, whenever any dividend payable on the Convertible Preferred Stock as provided in Section 2 is in arrears, thereafter and until (i) all accumulated and unpaid dividends and distributions, whether or not declared, on shares of Convertible Preferred Stock outstanding shall have been paid in full or (ii) all shares of Convertible Preferred Stock shall have been converted into Common Stock as provided in Section 2 or Section 9, the Corporation shall not (a) redeem any shares of Convertible Preferred Stock, except (1) by means of a redemption pursuant to which all outstanding shares of Convertible Preferred Stock are simultaneously redeemed or the outstanding shares of Convertible Preferred Stock are redeemed on a pro rata basis, or (2) by conversion of shares of Convertible Preferred Stock into, or exchange of such shares for, Common Stock or any other stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution and winding up; or (b) purchase or otherwise acquire any shares of Convertible Preferred Stock, except (1) pursuant to a purchase or exchange offer made on the same terms to all holders of Convertible Preferred Stock, or (2) by conversion of shares of Convertible Preferred Stock into, or by an exchange of such shares for, Common Stock or any other stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution and winding up.

Section 9. Conversion Option.

(A) The holder of any share of Convertible Preferred Stock shall have the right, at such holder's option (but if such share is called for redemption, then in respect of such share only to and including but not after the close of business on the business day immediately prior to the date fixed for such redemption, provided that no default by the Corporation in the payment of the applicable redemption price (including any accrued and unpaid dividends) shall have occurred and be continuing) to convert such share into that number of fully paid and non-assessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) obtained by dividing \$25 by the Conversion Price then in effect. The Conversion Price shall initially be \$12.00 per share and shall be subject to adjustment as set forth below.

(B) In order to exercise the conversion privilege, the holder of shares of Convertible Preferred Stock shall surrender the certificate(s) evidencing such share(s), accompanied by instruments of transfer satisfactory to the Corporation and sufficient to transfer the Convertible Preferred Stock being converted to the Corporation free of any adverse interest, at any of the offices or agencies maintained for such purpose by the Corporation ("Conversion Agent") and shall be complete and sign the Notice of Election to Convert on the reverse side of the certificate (s). The holder shall also contemporaneously provide to the Corporation a written notice stating the name or names, together with address or addresses, in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. As promptly as practicable after the surrender of such share(s) of Convertible Preferred Stock as aforesaid, the Corporation shall issue and shall deliver, at the offices of such Conversion Agent, to such holder, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such share(s) in accordance with the provisions hereof and any fractional interest in respect of a share of Common Stock arising upon such conversion shall be settled as provided in Section 10 below. A new certificate or certificates will be issued representing the remaining shares of Convertible Preferred Stock in any case in which fewer than all of the

shares of Convertible Preferred Stock represented by a certificate are converted. Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which shares of Convertible Preferred Stock shall have been so surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the Common Stock represented thereby at such time, unless the stock transfer books of the Corporation shall be closed on the date on which shares of Convertible Preferred Stock are so surrendered for conversion, in which event such conversion shall be deemed to have been effected immediately prior to the close of business on the next succeeding day on which such stock transfer books are open, and such person or persons shall be deemed to have become such holder or holders of record of the Common Stock at the close of business on such later day. In either circumstance, such conversion shall be at the Conversion Price in effect on the date upon which such share shall have been surrendered and such notice received by the Corporation. No payment or adjustment shall be made on conversion for any dividends accrued on shares of Convertible Preferred Stock surrendered for conversion or for any dividends on the Common Stock delivered on conversion. Effective as of any such conversion, the Corporation shall be excused from paying any dividends on the shares of Convertible Preferred Stock converted, including any dividends past due at the time of conversion; provided that if a share of Convertible Preferred Stock is surrendered for conversion after the record date for a declared dividend payment, such dividend shall nevertheless be paid on such share in the normal course.

(C) If, in lieu of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of any share or shares of Convertible Preferred Stock, the Corporation, pursuant to the terms of Section 10 hereof, shall deliver cash, the fair market value of a share of Common Stock shall be deemed to be equal to the Closing Sale Price (as defined above) of the Common Stock on the day of conversion or, if such day is not a trading day, on the trading day immediately prior to the day of conversion. If more than one certificate representing shares of Convertible Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Convertible Preferred Stock represented by such certificates, or the specified portions thereof to be converted, so surrendered.

(D) Notwithstanding the other provisions of this Section 9, the Conversion Price shall be adjusted on December 15, 1988 to an amount equal to the lesser of (i) the Conversion Price otherwise then in effect and (ii) 120% of the average of the daily Closing Sales Prices (as defined above) of the Common Stock for the 60 consecutive trading days ending December 8, 1988 and provided further, that any such adjustment of the Conversion Price shall be made only with respect to shares of Convertible Preferred Stock which shall not have been surrendered for conversion prior to December 15, 1988. When the Conversion Price is adjusted as provided in this Section 9, the Corporation shall promptly file with any Conversion Agent, a certificate signed by the President, and by the Treasurer, or an Assistant Treasurer, and the Secretary or an Assistant Secretary, of the Corporation setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the manner of computing the same. Any determination as to whether an adjustment is required, or as to the amount or nature thereof, shall be binding upon the holders of the Convertible Preferred Stock and the Corporation if made in good faith by the Board of Directors to the Corporation. Upon the filing of the certificate required by this Section 9(D), the Corporation shall promptly make a summary of the adjustment generally available to the holders of the Convertible Preferred Stock, by such means as is reasonable determined by the Board of Directors in its sole discretion. In the event that at any time prior to or on December 15, 1988 as a result of an adjustment made pursuant to subsection (a) below, the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any share of Convertible Preferred Stock shall be subject to readjustment on December 15, 1988 in a manner and on terms

as nearly equivalent as practicable to the provisions with respect to Common Stock contained herein.

The Conversion Price shall be adjusted from time to time as follows:

(a) In case the Corporation shall hereafter (i) pay a dividend or make a distribution on its Common Stock in shares of Common Stock or in shares of capital stock other than Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares or (iv) issue by reclassification of its Common Stock any shares of capital stock of the Corporation, the Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of any share thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other capital stock of the Corporation which he would have owned immediately following such action had such shares been converted immediately prior thereto. An adjustment made pursuant to this subsection (a) shall become retroactively effective as of immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this subsection (a), the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive and shall be described in a statement filed with any Conversion Agent) shall determine for accounting purposes the allocation of the adjusted Conversion Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock.

(b) In case the Corporation shall hereafter issue rights or warrants to holders of its outstanding shares of Common Stock generally entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share (determined as provided below) of the Common Stock on the record date mentioned below, the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares of Common Stock offered pursuant to such rights or warrants would purchase at such current market price, and of which the denominator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants. Such adjustment shall become retroactively effective as of immediately after the record date for the determination of stockholders entitled to receive such rights or warrants.

(c) In case the Corporation shall hereafter distribute to holders of its outstanding Common Stock generally evidences of indebtedness or assets (excluding any cash dividend or cash distributions, dividends or distributions payable in stock for which adjustment is made pursuant to subsection (a) above) or rights or warrants to subscribe for or purchase securities of the Corporation (excluding those referred to in subsection (b) above), then in each such case the Conversion Price of the shares of Common Stock shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided below) of the Common Stock on the record date mentioned below less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution of the Board of Directors) of the portion of the evidences of indebtedness or assets so distributed to the holder of one share of Common Stock or of such subscription rights or warrants applicable to one share of Common Stock, and of which the denominator shall be such current market price per share of Common Stock. Such adjustment shall become retroactively effective as

of immediately after the record date for the determination of stockholders entitled to receive such distribution.

(d) For the purpose of any computation under subsections (b) and (c) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily Closing Sales Price (as defined above) of the Common Stock for the 30 consecutive trading days commencing 45 trading days before the day in question.

(e) In any case which shall require that an adjustment be made immediately following a particular date, the Corporation may elect to defer (but only five business days following the filing by the Corporation with any Conversion Agent of its certificate referred to above) issuing to the holder of any share of Convertible Preferred Stock converted after such date the shares of Common Stock issuable upon such conversion over and above the shares of Common Stock issuable upon such conversion on the basis of the Conversion Price prior to adjustment.

(f) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% of such price; provided, however, that any adjustments which by reason of this subsection (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be.

(g) In the event that at any time as a result of an adjustment made pursuant to subsection (a) above, the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any share of Convertible Preferred Stock shall be subject to readjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained herein.

In the event that: (i) the Corporation shall take any action which would require an adjustment in the Conversion Price pursuant hereto; (ii) there shall be any capital reorganization, or reclassification or change of the Common Stock (other than a change in the par value of the Common Stock, or from par value to no par value, or as a result of a subdivision or combination of the outstanding Common Stock, but including any division of the Corporation's Common Stock into two or more classes or series), or any consolidation or merger to which the Corporation is a party or any statutory exchange of securities with another corporation and for which approval of any shareholders of the Corporation is required, or any sale or conveyance of all or substantially all of the assets of the Corporation; or (iii) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation; then the Corporation shall cause to be mailed to all holders of shares of the Convertible Preferred Stock at each such holder's last address as the same appears on the books of the Corporation, at least 15 days prior to the applicable date hereinafter specified, a notice stating the date on which such reorganization, reclassification, change, statutory exchange, consolidation, merger, sale, conveyance, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other securities, cash or other property deliverable upon such reorganization, reclassification, change, statutory exchange, consolidation, merger, sale, conveyance, dissolution, liquidation or winding up. Failure to give such notice, or any defect therein, shall not, however, affect the legality or validity of any action described in clauses (i), (ii), (iii) of this paragraph.

The Corporation may, at any time and from time to time, by resolution of the Board of Directors, reduce the Conversion Price, provided that such reduction is for a minimum period of 20 days and is irrevocable during such period, and that the Company notifies (in the manner herein set forth) holders of Convertible Preferred Stock of such reduction at least 15 days prior to the date on which the reduced conversion price takes effect. The Corporation shall give notice of any such

reduction to any Conversion Agent and, by mail, to each holder of shares of Convertible Preferred Stock at their last address as the same appears on the books of the Corporation.

(E) If a holder of a share of Convertible Preferred Stock converts such share, the Corporation shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, such holder shall pay any such tax that is due because the shares are issued in a name other than such converting holder's name, and neither the Corporation nor any Conversion Agent shall be required to issue or deliver certificates representing such shares of Common Stock unless or until the party or parties requesting the issuance thereof shall have paid to the Corporation or the Conversion Agent the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(F) The Corporation covenants that it will reserve and keep available, free from preemptive rights, out of its authorized Common Stock, solely for the purpose of issuance upon conversion of shares of Convertible Preferred Stock as provided in this Section 9, the full number of shares of Common Stock issuable upon the conversion of all outstanding shares of Convertible Preferred Stock not theretofore converted. The Corporation covenants that all shares of Common Stock that shall be so issuable shall be, when issued, duly and validly issued and fully paid and nonassessable, free of all liens and charges and not subject to any preemptive rights. For purposes of this Section 9 (F), the number of shares of Common Stock that shall be issuable upon conversion shall be computed as if at the time of computation all outstanding shares of Convertible Preferred Stock were held by a single holder. The issuance of shares of Common Stock upon conversion of Convertible Preferred Stock as herein provided is authorized in all respects.

(G) In case of any (i) consolidation or merger of the Corporation with or into another entity (other than a consolidation or merger in which the Corporation is the surviving entity), (ii) sale or conveyance of all or substantially all of the assets of the Corporation, (iii) reclassification or change of the Corporation's Common Stock issuable upon conversion of shares of Convertible Preferred Stock (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination, but including any division of the Corporation's Common Stock into two or more classes or series), (iv) consolidation or merger of another entity into the Corporation in which the Corporation is the surviving entity and in which there is a reclassification or change of the Corporation's Common Stock (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination, but including any division of the Corporation's Common Stock into two or more classes or series), or (v) statutory exchange of securities with another entity (including any exchange effected in connection with a merger of a third entity into the Corporation), in each case while any shares of Convertible Preferred Stock remain outstanding, there shall be no adjustments of the Conversion Price but holders of outstanding shares of Convertible Preferred Stock shall have the right thereafter to convert such shares of Convertible Preferred Stock pursuant to Section 9(A) solely into the kind and amount of shares of stock or other securities, cash or other property, or any combination thereof receivable upon such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance, as if such shares of Convertible Preferred Stock had been converted into shares of Common Stock immediately prior to the effective date of such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance (assuming that the holders of such shares of Convertible Preferred Stock, as holders of Common Stock prior to such transaction, would not have exercised any rights of election as holders of Common Stock as to the kind or amount of stock or other securities, cash or other property receivable upon such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance; provided, that if the kind or amount of stock or other securities, cash or other property receivable upon such reclassification, change, statutory exchange, consolidation, merger, sale or conveyance is not the same for each non-electing share of Common Stock, then the kind and amount of stock or other securities, cash or other property receivable shall be deemed to be the kind and amount so receivable by a plurality of the non-electing shares).

(H) An adjustment made pursuant to Section 9(G) shall become effective immediately after the effective date in respect of the transaction giving rise to such adjustment. If, as a result of an adjustment made pursuant to Section 9(G), the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other Capital Stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine for accounting purposes the allocation of the Conversion Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock.

(I) The Corporation may, in its sole discretion, make any appropriate upward adjustment in the number of shares of Common Stock issuable upon conversion of shares of Convertible Preferred Stock pursuant to this Section 9 as the Corporation considers to be advisable in order that any event treated for Federal income tax purposes as a distribution of stock or stock rights with respect to the Common Stock will not be taxable to the holders of Common Stock.

(J) In the event that at any time as a result of an adjustment made pursuant to Section 9(G), the holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive any securities of the Corporation other than shares of Common Stock, thereafter the conversion rights with respect to such other securities shall be subject to readjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained herein.

In any case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth herein with respect to the rights and the interests thereafter of the holders of shares of Convertible Preferred Stock, to the end that the provisions set forth herein shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the conversion of shares of Convertible Preferred Stock pursuant to this Section 9.

The above provisions shall similarly apply to successive consolidations, mergers, reclassifications, changes, statutory exchanges, sales or conveyances.

(K) No Conversion Agent shall at any time be under any duty or responsibility to any holder of Convertible Preferred Stock to verify the Conversion Price or the method employed in determining the same. No Conversion Agent shall be accountable with respect to the validity or value (or the kind or amount) of any Common Stock or of any stock or other securities, cash or other property which may at any time be issued and delivered upon the conversion of any share of Convertible Preferred Stock, or make any representation with respect thereto. No Conversion Agent shall be responsible for any failure of the Corporation to make any cash payment or to issue, transfer or deliver any Common Stock or stock certificates or other securities or property upon the surrender of any share of Convertible Preferred Stock for the purpose of conversion or to comply with any of the covenants of the Corporation contained in this Section 9.

Section 10. Fractional Shares. In the event the holder of Convertible Preferred Stock shall be entitled to receive a fractional interest in a share of Convertible Preferred Stock or a fractional interest in a share of Common Stock, except as otherwise provided herein, the Corporation shall either, in the sole discretion of the Board of Directors, (i) round such fractional interest up to the next whole share of Convertible Preferred Stock or Common Stock, as the case may be, (ii) issue a fractional share of such stock, (iii) deliver cash in the amount of the fair market value of such fractional interest as herein provided, or (iv) issue scrip representing a fractional share of such stock entitling the holder to receive a full share of such stock upon the surrender of such scrip aggregating a full share of such stock.

Section 11. Elimination of Preemptive Rights. No holder of shares of Convertible Preferred Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new

or additional issues of securities of any class of the Corporation, whether now or hereafter authorized.

Section 12. Cash Dividend Election.

(A) Notwithstanding an election by the Corporation to pay a dividend in whole or in part in Common Stock, holders of Convertible Preferred Stock may elect to receive the dividend in cash in the following manner. If the Corporation declares a dividend payable in whole or in part in Common Stock, it shall provide written notice thereof to the holders of record entitled to the dividend. Such notice shall be accompanied by a form which must be completed, executed and returned to the Corporation by any holder of record electing to receive the dividend in cash. If and to the extent that it has funds legally available therefor, the Corporation shall pay the dividend in cash to any holder of record whose election form is received by the Corporation by the close of business on the 15th business day after the date of the Corporation's notice. If and to the extent that the Corporation does not have funds legally available for the payment of the cash dividends, the dividend shall be payable in Common Stock even to those holders of record who elect to receive cash.

(B) In addition to the foregoing provisions hereof, if any semi-annual dividend payable on the Convertible Preferred Stock is in arrears, thereafter and until (i) all accumulated and unpaid dividends, whether or not declared, on shares of Convertible Preferred Stock outstanding shall have been paid in full or (ii) all shares of Convertible Preferred Stock with respect to which dividends are in arrears shall have been converted into Common Stock pursuant to Penalty Conversion Rights or otherwise, the Corporation shall not declare or pay dividends on shares of Convertible Preferred Stock with respect to which no dividends are in arrears until no dividends are in arrears on any shares of Convertible Preferred Stock.

Sixth. Shareholder's cumulative voting rights for the election of directors are eliminated and denied.

Seventh. (a) The Directors, other than those who may be elected by the holders of any class or series of stock entitled to elect directors separately, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-laws of the Corporation, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1985, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1986, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1987, with each class to hold office until its successor is elected and qualified. At each annual meeting of the shareholders of the Corporation, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

(b) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock entitled to elect Directors separately, newly created directorships resulting from any increase in the number of Directors and separately, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the Directors in the manner provided in the By-laws of the Corporation, to hold office for the remainder of the full term of the class of Directors in which the new directorship was created or the vacancy occurred and until such Director's successor shall have been elected and qualified. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

(c) Except for the rights of any class or series of stock entitled to elect Directors separately, any Director may be removed from office, without assigning any cause, but only by the affirmative vote of the holders of 80 percent of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of Directors, voting together as a single class.

(d) Notwithstanding anything contained in the Articles of Incorporation or By-laws to the contrary, and subject to the rights of any class or series of stock entitled to elect Directors separately, the affirmative vote of the holders of at least 80 percent or more of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal this Article Seventh or to adopt any provision inconsistent herewith."

Eighth. (a) The holders of all the shares outstanding and entitled to vote may, by a majority vote, in the manner set forth in the By-laws, alter, amend or repeal the By-laws of the Corporation, provided, however, that the affirmative vote of the holders of 80 percent or more of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal Sections 3.1, 3.4, 3.11 or 8.1 of the By-laws of the Corporation, or to adopt any provision inconsistent therewith.

(b) The Board of Directors, by a majority vote of the members thereof, may make, alter, amend or repeal any provisions of the By-laws, in the manner set forth in the By-laws. The shareholders shall have the right to change such action by a majority vote of the shareholders entitled to vote thereon at any Annual Meeting duly convened after notice to the shareholders of such purpose, provided, however, that the vote of the holders of at least 80 percent of the combined voting power of all of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to change such action with respect to Sections 3.1, 3.4, 3.11 or 8.1.

(c) Notwithstanding anything contained in the Articles of Incorporation to the contrary, and subject to the rights of any class or series of stock entitled to elect Directors separately, the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal this Article Eighth or to adopt any provision inconsistent herewith.

Ninth. The vote of shareholders of the Corporation required to approve any Business Combination shall be as set forth in this Article Ninth. The term "Business Combination" shall have the meaning ascribed to it in (a)(B) of this Article; each other capitalized term used in this Article shall have the meaning ascribed to it in (c) of this Article.

(a)(A) In addition to any affirmative vote required by law or the Articles of Incorporation or any resolution adopted pursuant to Article Fifth of the Articles of Incorporation, and except as otherwise expressly provided in (b) of this Article Ninth, a Business Combination shall not be consummated without the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of stock of all classes and series of the Corporation entitled to vote generally in the election of Directors ("Voting Stock"), in each case voting together as a single class (it being understood that for purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article Fifth of the Article of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or by the Articles of Incorporation or any resolution or resolutions adopted pursuant to Article Fifth of the Articles of Incorporation or in any agreement with any national securities exchange or otherwise.

(B) The term "Business Combination" as used in this Article Ninth shall mean:

(1) any merger or consolidation of the Corporation or any Subsidiary with (i) any Interested Shareholder or (ii) any other corporation or entity (whether or not itself an Interested Shareholder) which is, or after each merger or consolidation would be, an Affiliate of an Interested Shareholder; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of all or a Substantial Part of the assets of the Corporation or any Subsidiary; or

(3) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof), other than the issuance of securities upon the conversion of convertible securities of the Corporation or any Subsidiary which were not acquired by such interested Shareholder (or such Affiliate) from the Corporation or a Subsidiary; or

(4) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(5) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an interested Shareholder) which in any such case has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of stock or securities convertible into stock of the Corporation or any Subsidiary which is directly or indirectly beneficially owned by any Interested Shareholder or any Affiliate of any Interested Shareholder;

(b) The provisions of (a) of this Article Ninth shall not be applicable to any Business Combination in respect of which all of the conditions specified in either of the following paragraphs A and B are met, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of the Articles of Incorporation and any resolution or resolutions of the Board of Directors adopted pursuant to Article Fifth of the Articles of Incorporation.

(A) Such Business Combination shall have been approved by a majority of the Disinterested Directors, or

(B) Each of the six conditions specified in the following clauses (1)

through (6) shall have been met:

(1) the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination (the "Consummation Date") of any consideration other than cash to be received by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of Common Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Shareholder, whichever is higher; or

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the Determination Date), whichever is higher; and

(2) the aggregate amount of the cash and the Fair Market Value as of the Consummation Date of any consideration other than cash to be received per share by holders of shares of any other class or series of Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this clause (B)(2) shall be required to be met with respect to every class and series of such outstanding Voting Stock, whether or not the Interested Shareholder beneficially owns any shares of a particular class or series of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class or series of Voting Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an interested Shareholder, whichever is higher;

(ii) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation; and

(iii) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or the Determination Date, whichever is higher; and

(3) the consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire beneficially shares of such class or series of Voting Stock that are beneficially owned by the Interested Shareholder and if the Interested Shareholder beneficially owns shares of any class or series of Voting Stock that were acquired with varying forms of consideration, the form of consideration to be received by holders of such class or series of Voting Stock shall be either cash or the form used to acquire beneficially the largest number of shares of such class or series of Voting Stock beneficially acquired by it prior to the Announcement Date; and

(4) after such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination:

(i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular dates therefor the full amount of any dividends (whether or not cumulative) payable on any class or series of stock having preference over the Common Stock as to dividends or upon liquidation;

(ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split) recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate was approved by a majority of the Disinterested Directors; and

(iii) such Interested Shareholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction in which it became an Interested Shareholder; and

(5) after such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise; and

(6) a proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(c) For the purposes of this Article Ninth:

(A) A "person" shall mean any individual, firm, corporation or other entity.

(B) "Interested Shareholder" shall mean any person (other than the Corporation or any Subsidiary) who or which:

(1) is the beneficial owner, directly or indirectly, of more than 20 percent of the combined voting power of the then outstanding shares of Voting Stock; or

(2) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 20 percent or more of the combined voting power of the then outstanding shares of Voting Stock; or

(3) is an assignee or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock that were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(C) A person shall be a "beneficial owner" of any Voting Stock:

(1) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(2) which such person or any of its Affiliates or Associates has

(a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(D) For the purposes of determining whether a person is an Interested Shareholder pursuant to (c)(B) of this Article Ninth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of (c)(C) of this Article but shall not include any other shares of Voting Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(E) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on May 25, 1984.

(F) "Subsidiary" means any corporation of which more than 50 percent of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors is owned, directly or indirectly, by the Corporation or by a Subsidiary or by the Corporation and one or more Subsidiaries; provided, however, that for the purposes of the definition of Interested Shareholder set forth in (c) (B) of this Article Ninth, the term "Subsidiary" shall mean only a corporation of which a majority of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors is owned, directly or indirectly, by the Corporation.

(G) "Disinterested Director" means any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, the Interested Shareholder and was a member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Shareholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(H) "Fair Market Value" means: (1) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of such stock during the 30-day period preceding the date in question as quoted by the National Association of Securities Dealers, Inc. Automated Quotations Systems or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (2) in the case of stock of any class or series which is not traded on any United States registered securities exchange nor in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors in good faith.

(I) In the event of any Business Combination in which the Corporation survives, the phrase "other consideration to be received" as used in (b)(B)(1) and (2) of this Article Ninth shall include the shares of the Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(J) "Announcement Date" means the date of first public announcement of the proposed Business Combination.

(K) "Determination Date" means the date on which the Interested Shareholder became an Interested Shareholder.

(L) "Substantial Part" means more than 50 percent of the book value of the total assets of the entity in question, as of the end of its most recent fiscal year ending period to the Consummation Date.

(d) A majority of the Disinterested Directors of the Corporation shall have the right and power to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Ninth, including, without limitation (A) whether a person is an Interested Shareholder, (B) the number of shares of Voting Stock beneficially owned by any person, (C) whether a person is an Affiliate or Associate of another person and (D) whether the requirements of (b) of this Article Ninth have been met with respect to any Business Combination. The good faith determination of a majority of the Disinterested Directors on such matters shall be conclusive and binding for all purposes of this Article Ninth.

(e) Nothing contained in this Article Ninth shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(f) Notwithstanding anything contained in the Articles of Incorporation to the contrary, the affirmative vote of the holders of at least 80 percent of the voting power of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article Ninth or to adopt any provision inconsistent herewith.

INTERDIGITAL COMMUNICATIONS CORPORATION

(a Pennsylvania corporation)

BY-LAWS

(as amended through April 23, 1998)

Section 1.1 Registered Office:

The Registered Office of the Corporation shall be at 781 Third Avenue, King of Prussia, Pennsylvania until otherwise changed by the Board of Directors.

Section 2.1 Place of Shareholders' Meetings:

Meetings of the shareholders shall be held at the Registered Office of the Corporation or at such other place within or without Pennsylvania as the Board of Directors may fix.

Section 2.2 Annual Meeting of Shareholders:

An Annual Meeting of shareholders shall be held in every calendar year at such time as the Board of Directors may fix. At the Annual Meeting of shareholders, directors shall be elected to serve for the ensuing year or until their successors shall be duly elected and qualified, and there shall be transacted such other business as may properly be brought before the Meeting.

A financial report of the Corporation's business as of the close of the preceding fiscal year shall be presented at the Annual Meeting, and shall be sent to shareholders.

Section 2.3 Special Meetings of Shareholders:

Special Meetings of shareholders may be called at any time by the Chairman of the Board, the President or the Board of Directors, or shareholders entitled to cast not less than one-fifth of the votes which all shareholders are entitled to cast at the particular meeting. At any time, upon written request of any person entitled to call a Special Meeting, it shall be the duty of the Secretary to fix the date of such Special Meeting to be held not less than five or more than sixty days after the receipt of the

request and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons making the request may do so.

Section 2.4 Notice of Shareholders' Meetings:

At least five days' written notice shall be given of any meeting of shareholders, unless a greater period of notice is required by law. Such notice shall specify the place, day and hour of the meeting, and in the case of a Special Meeting of shareholders, the general nature of the business to be transacted.

Section 2.5 Waiver of Notice of Shareholders' Meetings:

Whenever written notice is required to be given by law, by the Articles or these By-Laws, a written waiver thereof signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a Special Meeting of shareholders, neither the business to be transacted nor the purpose of the meeting need be specified in the Waiver of Notice of such Meeting.

Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.6 Quorum for Shareholders' Meetings:

The presence, in person or by proxy, of the shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on a matter to be voted upon at a meeting of shareholders shall constitute a quorum, and the acts of such quorum, at a duly organized meeting of shareholders, shall constitute the acts of all the shareholders. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.7 Conduct of Shareholders' Meetings:

Meetings of the shareholders shall be presided over by the Chairman of the Board, or if he is not present, by the President or, if he is not present, by a Vice-President or, if none of the Chairman of the Board or the President or Vice-President is present, by a Chairman to be chosen at the meeting. The Secretary of the Corporation, or in his absence, an Assistant Secretary or one temporarily designated as such shall act as Secretary of the meeting.

Section 2.8 Shareholders Participation by Telephone:

One or more shareholders may participate in any meeting of shareholders by means of conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

Section 2.9 Voting by Shareholders:

Except as otherwise provided by law or in the Articles, every shareholder of record shall have the right, at every shareholders' meeting, to one vote for every share standing in his name on the books of the Corporation. Every shareholder entitled to vote at a meeting of shareholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy.

All voting and elections shall be taken viva voce unless a vote by ballot shall be demanded by a shareholder before the voting or election begins, or unless otherwise required by law or by the Articles.

Section 2.10 Judges of Election:

In advance of any meeting of shareholders, the Board of Directors may appoint Judges of Election, who need not be shareholders, to act at such meeting or any adjournment thereof. If Judges of Election be not so appointed, the Chairman of the meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of Judges shall be one or three, and no candidate shall act as a Judge. On request of the Chairman of the meeting or of any shareholder or his proxy, the Judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them.

Section 2.11 Adjournment of Meetings:

Adjournment of any meeting may be taken, but any meeting at which Directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding fifteen days each, as may be directed by the holders of at least a majority of the shares entitled to be voted at an election of directors, until such Directors have been elected. When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat, other than by announcement at the meeting at which such adjournment is taken. In case of any meeting called for the election of Directors, those who attend the second of such adjourned meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors.

Section 3.1 Board of Directors, Number, Qualification, Elections, Term of Office and Compensation:

The business and affairs of the Corporation shall be managed by a Board of not less than five (5) nor more than fifteen (15) Directors, as may be fixed from time to time by the vote of a majority of the whole Board. Directors shall be of full age, but need not be residents of Pennsylvania or shareholders of the Corporation.

The directors, other than any who (i) may be elected by the holders of shares of any class or series of stock entitled to elect Directors separately pursuant to the terms of Article Fifth of the Articles of Incorporation or any resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors, or (ii) shall be nominated by the Board of Directors or any appropriately empowered committee thereof to serve for a term of one year (the "One Year Class"), shall be classified, with respect to the duration of the term for which they severally hold office into three classes as nearly equal as possible (each, individually a "Three Year Class", and collectively the "Three Year Classes"). Such Three Year Class which shall be elected at the Annual Meeting of Shareholders held in 1999 for a term expiring at the Annual Meeting of Shareholders to be held in 2002 shall be designated as "Class A"; the second Three Year Classes to be elected at the Annual Meeting of Shareholders in 2000 for a term expiring at the Annual Meeting of Shareholders to be held in 2003 shall be designated as "Class B"; and the third Three Year Class to be elected at the

Annual Meeting of Shareholders held in 1998 for a term expiring at the Annual Meeting of Shareholders to be held in 2001 shall be designated "Class C". The Board of Directors shall increase or decrease the number of Directors in one or more classes as may be appropriate whenever it increases or decreases the number of Directors pursuant to this Section 3.1, in order to ensure that the three Three Year Classes shall be as nearly equal in number of possible. At each Annual Meeting of Shareholders, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at that Annual Meeting of Shareholders held in the third year following the year of their election, except that the successors to the Directors in the One Year Class shall be elected to hold office for a term expiring at the Annual Meeting of Shareholders held in the next succeeding year."

The Board of Directors shall have the authority to fix the compensation of Directors for their services and to authorize payment for expenses of attendance at meetings. A Director may also be a salaried officer or employee of the Corporation.

The Board of Directors may elect a Chairman who shall, when present, preside at all meetings of the Board of Directors and at all meetings of shareholders. The Chairman may appoint another member of the Board to preside in his absence.

Section 3.2 Quorum for Directors' Meetings:

A majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business, and the acts of a majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. A Director who is present at a meeting shall be counted in determining the presence of a quorum even though a contract or transaction between the Corporation and such Director or another business in which such Director has a financial interest is authorized at the meeting.

Section 3.3 Directors' Consent in Lieu of Meeting:

Any action which may be taken at a meeting of the Board of Directors or of any Committee thereof may be taken without a meeting if a consent or consents in writing, setting forth the

action so taken, shall be signed by all of the Directors or the members of the Committee, as the case may be, and shall be filed with the Secretary of the Corporation. One or more Directors may participate in a meeting of the Board of Directors or a Committee thereof by means of a conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

Section 3.4 Vacancies in Board of Directors:

Except as otherwise provided for or fixed pursuant to the Articles of Incorporation of the Corporation, newly created directorships resulting from an increase in the number of Directors, and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the vote of a majority of the remaining members of the Board, even though less than a quorum. Any person so elected shall hold office for the remainder of the full term of the class of Directors in which the directorship was created or the vacancy occurred and until such Director's successor shall have been elected and qualified. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

Section 3.5 Place of Meeting of Board of Directors:

The meetings of the Board of Directors may be held at such place within Pennsylvania, or elsewhere, as a majority of the Directors may from time to time appoint or as may be designated in the notice calling the meeting.

Section 3.6 Organization Meeting of the Board of Directors:

After the election of Directors by the shareholders, the newly elected Board may meet for the purpose of organization or otherwise:

(a) Immediately following their election, or at such time and place as shall be fixed by vote of the shareholders at the Annual Meeting (and in either such case no notice of such meeting to the newly elected Directors shall be necessary in order legally to constitute the meeting, provided a majority of the whole Board shall be present); or

(b) At such time and place as may be fixed by consent in writing of all the Directors.

Section 3.7 Regular Meetings of the Board of Directors:

Regular Meetings of the Board of Directors shall be held at such time and place as shall be determined by a majority of the Board.

Section 3.8 Special Meetings of the Board of Directors:

Special Meetings of the Board of Directors may be called by the Chairman of the Board, President or Secretary on at least two days' notice to each Director, either personally or by mail or by facsimile transmission, of the time and place of such Special Meeting. At the written request of two Directors, Special Meetings shall be called by the Chairman of the Board or President or Secretary in like manner and on like notice.

Section 3.9 Adjournments of Meetings of the Board of Directors:

If a meeting of the Board of Directors is adjourned, it shall not be necessary to give any notice of the adjourned meeting, or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Section 3.10 Powers of Board of Directors:

A. Organizational Meeting: At the first meeting of the Board of Directors in each year (at which a quorum shall be present) held next after the Annual Meeting of shareholders, it shall be the duty of the Board of Directors to elect or appoint the officers of the Corporation.

B. General Powers: The Board of Directors shall have all the power and authority granted by law to Directors except as may be specifically excepted by the Articles or by these By-Laws.

C. Committees: The Board of Directors, by Resolution adopted by a majority thereof, may designate an Executive Committee

and one or more other committees, each of which shall consist of at least two Directors and such other Directors as shall be appointed by the Board of Directors to serve as alternate members of any such Committee to replace any absent or disqualified member at any Committee Meeting. In the event that any member of any such Committee shall be absent from or disqualified at such Meeting, the member or members thereof present at any such Meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the Meeting in the place of any such absent or disqualified member. Any such Committee shall have and exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation to the extent provided in the Resolution creating such Committee.

Section 3.11 Removal of Directors by Shareholders:

Subject to the right of any class or series of stock entitled to elect Directors separately, any Director may be removed from office, without assigning any cause, but only by the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of Directors, voting together as a single class.

Section 3.12 The Chairman of the Board - Powers and Duties:

The Chairman of the Board shall, when present, preside at all meetings of the Board of Directors and at all meetings of shareholders. Unless otherwise directed by the Board of Directors, the Chairman of the Board shall have full power and authority on behalf of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the corporation may hold stock, and at any such meeting he shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which the Corporation, as the owner thereof, might have possessed and exercised if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.1 Officers:

The Officers of the Corporation shall be a Chief Executive Officer, a President, a Secretary, and a Treasurer, all of whom shall be elected or appointed by the Board of Directors. The Board of Directors may also elect one or more Vice-Presidents, one or more Assistant Treasurers and one or more Assistant Secretaries. Any two or more offices may be held by the same person.

The Board of Directors may at any time also elect or appoint such other officers, assistant officers and agents as it shall deem necessary and as the needs of the Corporation may require. Such other officers, assistant officers and agents shall have such authority and shall perform such duties as from time to time may be prescribed by the Board of Directors.

The Officers shall be elected each year at the organization meeting of the Board of Directors, but if not so elected, they, and any assistant officers or agents the Board of Directors shall desire to appoint, may be elected from time to time during the year. It shall not be necessary for any officer of the Corporation to be a Director.

Section 4.2 The Chief Executive Officer - Powers and Duties:

The Chief Executive Officer shall have responsibility for general supervision and direction of the business of the Corporation, subject to the overall supervision of the Board of Directors. Unless otherwise directed by the Board of Directors, the Chief Executive Officer shall have full power and authority on behalf of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock, and at any such meeting he shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which the Corporation, as owner thereof, might have possessed and exercised if present. Further, unless otherwise directed by the Board of Directors, the Chief Executive Officer is authorized to execute in the name of the Corporation contracts and other documents requiring the signature of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.3 The President - Powers and Duties:

The President shall have responsibility for day-to-day supervision and direction of the regular business and operations of the Corporation, subject to the overall supervision of the Board of Directors and the Chief Executive Officer. Unless otherwise directed by the Board of Directors, the President shall have full power and authority on behalf of the shareholders of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock, and at any such meeting shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which the Corporation, as the owner thereof, might have possessed and exercised if present. Further, unless otherwise directed by the Board of Directors, the President is authorized to execute in the name of the Corporation contracts and other documents requiring the signature of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.4 The Vice-President - Powers and Duties:

A Vice-President or Vice-Presidents shall be elected by the Board of Directors, if the Board of Directors determines that such offices shall be created. The Vice-President (or, if there are more than one, then each Vice-President) shall have such powers and shall perform such duties as may from time to time be assigned to him or them by the Board of Directors or by the Chairman of the Board or by the President. Unless otherwise ordered by the Board of Directors, the Vice-President (or Vice-Presidents in order of their numbered designations) shall, in the case of death, resignation, absence or disability of the President, perform the duties of that Officer, until the return of the President, or until the disability shall have been removed or a new President shall have been elected.

Section 4.5 Treasurer - Powers and Duties:

The Treasurer shall have the custody of all the funds and securities of the Corporation which may come into his hands. When necessary or proper (unless otherwise ordered by the Board of Directors) he shall (a) endorse for collection on behalf of the Corporation, checks, notes and other obligations, (b) deposit the same to the credit of the Corporation in such banks or depositories

as the Board of Directors may designate and (c) sign all receipts and vouchers for payments made by the Corporation. He shall, at all reasonable times, exhibit his books and accounts to the Board of Directors of the Corporation upon the request of any Director, and he shall also, if so directed by the Board of Directors, annually prepare and submit to the Annual Meeting of the shareholders a full statement of the assets and liabilities of the Corporation and of its transactions during the preceding year, and he shall have such other powers and shall perform such other duties as may be assigned to him from time to time by the Board of Directors. He shall give such bond for the faithful performance of his duties as may be required by the Board of Directors.

Section 4.6 Assistant-Treasurer - Powers and Duties:

Each Assistant-Treasurer shall have such powers and perform such duties as may be assigned to him by the Board of Directors.

Section 4.7 Secretary - Powers and Duties:

Unless otherwise ordered by the Board of Directors, the Secretary shall keep the minutes of all meetings of the shareholders and of the Board of Directors in proper books to be kept for such purpose, and shall attend to the giving of all notices by the Corporation, including notices of meetings of shareholders and of the Board of Directors. He shall have charge of the share certificate books, transfer books, capital stock ledger and such other books and papers as the Board of Directors may direct. He shall in general perform all the duties incident to the office of Secretary and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors.

Section 4.8 Assistant Secretary - Powers and Duties:

Each Assistant Secretary shall have such powers and perform such duties as may be assigned to him or them by the Board of Directors.

Section 4.9 Removal and Vacancies:

The Board of Directors shall have power to remove any officer from office at any time and shall also have the power to fill any vacancies in any office occurring from whatever reason.

Such power shall be exercised by a majority vote of the Directors in office at the time of such removal or vacancy, although less than a quorum.

Section 5.1 Share Certificates:

Every shareholder of record shall be entitled to a share certificate representing the shares owned by him, provided that the shares represented thereby shall have been fully paid for. Such share certificate shall be signed by the Chairman of the Board, President, or a Vice-President, and by the Secretary or Treasurer except where such share certificate is signed by a transfer agent or a registrar, in which case the signature of any officer of the Corporation upon such share certificate may be a facsimile, engraved or printed.

Section 5.2 Transfer of Share Certificates:

The transfer of a share certificate and the shares represented thereby shall be made on the books of the Corporation only by the registered owner thereof or by his attorney duly authorized in writing to make such transfer, and only upon surrender of such share certificate, which shall be canceled at the time of transfer.

The Corporation shall be entitled to treat the holder of record of any share certificate or certificates and the shares represented thereby as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share certificate or certificates and shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law or by the Articles.

Section 5.3 Lost Share Certificate:

The holder of any certificate representing shares of stock of the Corporation shall immediately notify the Corporation of any mutilation, loss or destruction thereof, and the Board of Directors may, in its discretion, cause one or more new certificates for the same number of shares in the aggregate to be issued to such holder upon the surrender of the mutilated certificate, or in the case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction

and deposit of indemnity by bond or otherwise in such form and amount and with such surety or sureties as the Board of Directors may require to indemnify the Corporation against loss or liability by reason of the issuance of such new certificate, but the Board may, in its discretion, refuse to issue such new certificates save upon the order of some court having jurisdiction in such matters.

Section 6.1 Fiscal Year:

The fiscal year of the Corporation shall be established by the Board of Directors.

Section 7.1 Indemnification:

(a) The Corporation shall indemnify and hold harmless to the fullest extent permitted under the Pennsylvania Business Corporation Law, the Directors' Liability Act (the "DLA") and other applicable law, as such laws existed on the date this Section 7.1 was adopted by the Board Of Directors or, except as provided in Section 7.1(f) hereof, as such laws may thereafter be amended ("Pennsylvania Law"), any person who was or is a party or was or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation (collectively, for purposes of this

Section 7.1 and Section 7.2 hereof, "Proceeding"), by reason of the fact that he is or was or has agreed to become a director or officer of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director or officer of another corporation, or if a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in any such capacity, and may indemnify and hold harmless to the fullest extent permitted under Pennsylvania Law any person who was or is a party or was or is threatened to be made a party to such a Proceeding by reason of the fact that he is or was or has agreed to become an employee or agent of the Corporation, or, if any employee

or agent of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, liability and loss (including, without limitation, attorneys' fees and disbursements, punitive and other damages, judgments, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature) incurred by him in connection with such Proceeding and any appeal therefrom: provided, that such indemnification shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court in a final, binding adjudication to have constituted willful misconduct or recklessness.

(b) The Corporation may indemnify and hold harmless to the fullest extent permitted under Pennsylvania Law any person who was or is a party or was or is threatened to be made a party to any Proceeding, by reason of any of his actions in a non-official capacity while serving as a director, officer, employee or agent of the Corporation, against expenses, liability and loss including, without limitation, attorneys's fees and disbursements, punitive and other damages, judgements, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature incurred by him in connection with such Proceeding and any appeal therefrom: provided, that such indemnification shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court in a final, binding adjudication to have constituted willful misconduct or recklessness.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of guilty or nolo contendere, or its equivalent, shall not, of itself, create a presumption that the persons's conduct constituted willful misconduct or recklessness.

(d) Expenses incurred by a director or officer in defending a Proceeding shall be paid by the Corporation

in advance of the final disposition of the Proceeding, provided that, if Pennsylvania Law requires, the payment of such expenses shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as mandated in this

Section 7.1 or otherwise. Expenses incurred by other employees and agents may be so paid to the extent provided by the Board of Directors, upon receipt of the foregoing undertaking by or on behalf of the employee or agent.

(e) The indemnification provided by this Section 7.1 shall be in addition to and not exclusive of any other rights to which those seeking indemnification may be entitled under Pennsylvania Law, or under any By-Law, agreement executed by the Corporation, insurance policy, fund of any nature established by the Corporation, vote of shareholders or disinterested directors or otherwise. The indemnification so provided by this Section 7.1 or otherwise, may be granted whether or not the Corporation would have the power to indemnify such person under any provision of Pennsylvania Law other than the DLA.

(f) The indemnification provisions of this Section 7.1 shall constitute a contract between the Corporation and each of its directors, officers, employees and agents who are or may be entitled to indemnification hereunder and who serve in any such capacity at any time while such provisions are in effect. Any appeal or modification of the indemnification provisions of this Section 7.1 shall not limit any such person's rights to indemnification (including the advancement of expenses) then existing or arising out of events, acts or omissions occurring prior to such repeal or modification, including, without limitation, the right to indemnification with respect to Proceedings commenced after such repeal or modification based in whole or in part upon any such event, act or omission.

(g) The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise may secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this Section 7.1 or otherwise.

(h) The Corporation may purchase and maintain insurance to insure its indemnification obligations on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any expense, liability or loss asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section 7.1 or under any provision of Pennsylvania Law other than the DLA.

(i) The indemnification provided by this Section 7.1 shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(j) If Section 7.1 or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director or officer, and may indemnify each employee or agent of the Corporation, as to expenses, liability and loss (including, without limitation, attorneys' fees and disbursements, punitive and other damages, judgments, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature) incurred by him in connection with any Proceeding, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Section 7.1 that shall not have been invalidated and to the fullest extent permitted by applicable law.

Section 7.2 Limitation on Directors' Personal Liability:

(a) To the fullest extent permitted under the DLA, as it existed on the date this Section 7.2 was adopted

or, except as provided in subsection 7.2(e), as such law may thereafter be amended, a director of this Corporation shall not be personally liable for monetary damages as a result of any action or failure to act unless both: (1) the director has breached or failed to perform the duties of his office under Section 8363 of the DLA: and (2) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

(b) The provisions of this Section 7.2 shall not apply to: (1) the responsibility or liability of a director pursuant to any criminal statute: or (2) the liability of a director for the payment of taxes pursuant to local, state or federal law.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of guilty or nolo contendere, or its equivalent, shall not, of itself, create a presumption that the director breached or failed to perform the duties of his office under Section 8363 of the DLA and that the breach or failure to perform constituted self-dealing, willful misconduct or recklessness.

(d) Notwithstanding the date of adoption of this Section 7.2, the provisions of Section 7.2 shall apply to any action filed or breaches of performance of duty or any failure of performance of duty by any director on or after January 27, 1987.

(e) No amendment to or repeal of this Section 7.2 or the relevant provisions of the DLA shall reduce the limitation on directors' personal liability for or with respect to any events, acts or omissions of such director occurring prior to such amendment or repeal, including, without limitation, the limitation on personal liability with respect to any Proceedings commenced after such repeal or modification based in whole or in part upon any such event, act or omission.

Section 8.1 Amendments to By-Laws:

The holders of all the shares outstanding and entitled to vote may, by a majority vote, make, alter, amend or repeal any

provision of these By-Laws at any Annual or Special Meeting duly convened after notice to the shareholder of the meeting to be held for such purpose, provided, however, that the affirmative vote of the holders of at least 80 percent of the combined voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class shall be required to alter, amend or repeal Sections 3.1, 3.4, 3.11 or this Section 8.1, or to adopt any provision inconsistent therewith.

The Board of Directors, by a majority vote of the members thereof, may make, alter, amend or repeal any provisions of these By-Laws at any Regular or Special Meeting, duly convened after notice to the Directors of such purpose. The shareholders shall have the right to change such action by a majority vote of the shareholders entitled to vote thereon at any Annual Meeting which may be duly convened for the purpose of changing such action, after notice to the shareholders entitled to notice thereof, provided, however, that the vote of the holders of at least 80 percent of the combined voting power of all of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to change such action with respect to Sections 3.1, 3.4, 3.11 or this Section 8.1.

Section 9.1 Control-Share Acquisitions:

Subchapter G - "Control-Share Acquisitions" of Chapter 25 of Title 15 of the Pennsylvania Consolidated Statutes, as existing on July 18, 1990 or as may thereafter be amended, shall not be applicable to the Corporation.

Section 10.1 Disgorgement by Certain Controlling Shareholders:

Subchapter H - "Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control" of Chapter 25 of Title 15 of the Pennsylvania Consolidated Statutes, as existing on July 18, 1990 or as may thereafter be amended, shall not be applicable to the Corporation.

ARTICLE 5

EXHIBIT 27 INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES Financial Data Schedule (Unaudited)

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	JUN 30 1998
CASH	3,739
SECURITIES	47,805
RECEIVABLES	2,953
ALLOWANCES	933
INVENTORY	12,094
CURRENT ASSETS	73,137
PP&E	23,528
DEPRECIATION	13,227
TOTAL ASSETS	94,988
CURRENT LIABILITIES	25,761
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	484
OTHER SE	63,981
TOTAL LIABILITY AND EQUITY	94,988
SALES	3,762
TOTAL REVENUES	56,518
CGS	7,639
TOTAL COSTS	7,639
OTHER EXPENSES	7,703
LOSS PROVISION	42
INTEREST EXPENSE	199
INCOME PRETAX	30,310
INCOME TAX	4,906
INCOME CONTINUING	25,404
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	25,404
EPS PRIMARY	.52
EPS DILUTED	.52

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