

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 September 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 1-11152

INTERDIGITAL COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

Common Stock, par value \$.01 per share	52,605,944
Class	Outstanding at November 1, 2006

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES INDEX

	<u>PAGES</u>
Part I – Financial Information:	
Item 1. Condensed Consolidated Financial Statements (unaudited):	1
Condensed Consolidated Balance Sheets – September 30, 2006 and December 31, 2005	1
Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2006 and 2005	2
Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2006 and 2005	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
Part II – Other Information:	24
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 6. Exhibits	26
Signatures	27
Exhibit 10.85	
Exhibit 10.86	
Exhibit 10.87	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

Table of Contents

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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

GLOSSARY OF TERMS

2G

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

2.5G

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

3G

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

3GPP

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

Bandwidth

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

CDMA

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

cdmaOne

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

cdma2000®

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

Chip

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

Circuit

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

Digital

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

Table of Contents

Digital Cellular

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

EDGE

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

FDMA

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

Frequency

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

GPRS

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

GSM

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

HSDPA

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

Hertz

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

Internet

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

IPR

Intellectual Property Right.

ITC

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

Multiple Access

A methodology (e.g., FDMA, TDMA, CDMA) by which multiple users share access to a transmission channel. Most modern systems accomplish this through “demand assignment” where the specific parameter (frequency, time slot, or code) is automatically assigned when a subscriber requires it.

Standards

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

TDMA

“Time Division Multiple Access.” A method of digital wireless transmission that allows a multiplicity of users to share access (in a time ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.

Table of Contents

TIA/EIA-95

A 2G CDMA standard.

TIA

The Telecommunications Industry Association.

UMTS

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

WCDMA

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

Wideband

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

[Table of Contents](#)

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
PART I — FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>SEPTEMBER 30,</u>	<u>DECEMBER 31,</u>
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 221,591	\$ 27,877
Short-term investments	82,585	77,831
Accounts receivable	110,579	19,534
Deferred tax assets	26,690	42,103
Prepaid and other current assets	22,742	8,370
Total current assets	464,187	175,715
PROPERTY AND EQUIPMENT, NET	14,844	10,660
PATENTS, NET	67,109	59,516
DEFERRED TAX ASSETS	26,082	48,681
OTHER NON-CURRENT ASSETS	16,175	4,965
	124,210	123,822
TOTAL ASSETS	\$ 588,397	\$ 299,537
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 370	\$ 350
Accounts payable	15,962	7,163
Accrued compensation and related expenses	9,085	17,040
Deferred revenue	88,059	20,055
Taxes payable	15,806	160
Other accrued expenses	7,581	5,766
Total current liabilities	136,863	50,534
LONG-TERM DEBT	1,293	1,572
LONG-TERM DEFERRED REVENUE	156,097	71,193
OTHER LONG-TERM LIABILITIES	4,515	1,924
TOTAL LIABILITIES	298,768	125,223
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding	—	—
Common Stock, \$0.01 par value, 100,000 shares authorized, 63,994 and 60,537 shares issued and 52,253 and 54,031 shares outstanding	640	605
Additional paid-in capital	437,927	377,648
Retained Earnings (Accumulated Deficit)	95,120	(109,839)
Accumulated other comprehensive loss	(46)	(192)
	533,641	268,222
Treasury stock, 11,741 and 6,506 shares of common held at cost	244,012	93,908
Total shareholders' equity	289,629	174,314
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 588,397	\$ 299,537

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

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

The accompanying notes are an integral part of these statements.

Table of Contents

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

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

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(UNAUDITED)

1. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the financial position of InterDigital Communications Corporation (collectively with its subsidiaries referred to as "InterDigital," the "Company," "we," "us" and "our") as of September 30, 2006, and the results of our operations and cash flows for the three and nine months ended September 30, 2006 and 2005. The accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all of the detailed schedules, information and notes necessary to present fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (2005 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 14, 2006. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. We have one reportable segment.

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

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

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

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The Company adopted the accounting provisions of SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock - Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. We have elected to adopt the new rules using the modified-prospective method. Under the modified-prospective method, prior periods are not revised for comparative purposes. The adoption of SFAS No. 123(R) did not have a material impact on our statement of operations. As a result of the application of this standard, in our consolidated statement of cash flows for the nine months ended September 30, 2006, we classified a \$18.4 million tax benefit associated with the exercise of stock options within cash flows from financing activities. Prior to the adoption of SFAS No. 123(R) we classified such tax benefits, if any, within cash flows from operating activities.

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

On November 10, 2005, the FASB issued FASB Staff Position No. SFAS No. 123(R), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. Under this pronouncement, we have until December 2006 to elect, as provided in this pronouncement, an alternative transition method for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R). The alternative method provides a simplified computation to establish the

Table of Contents

beginning balance of the additional paid-in-capital pool (APIC pool) related to the tax effects of employee share-based compensation. Any positive balance in the APIC pool would be available to absorb tax shortfalls (which occur when tax deductions resulting from share-based compensation are less than the related book expense) recognized subsequent to the adoption of SFAS No. 123(R). We did not incur any net tax shortfalls in the nine months ended September 30, 2006.

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

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

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

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

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

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

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

Share-based compensation prior to January 1, 2006

Prior to the adoption of SFAS No. 123(R), we accounted for share-based employee compensation under the recognition and measurement principles of APB Opinion No. 25, and related interpretations. No stock-option-based employee compensation cost was reflected in net income, as all effected options had an exercise price equal to the market value of the underlying common stock on the date of grant. However, compensation expense was recognized related to restricted stock and RSU grants. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, to stock-option-based employee compensation for the three and nine months ended September 30, 2005 (in thousands, except per share data):

Table of Contents

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

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

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

New Accounting Pronouncements

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

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

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

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

2. SIGNIFICANT AGREEMENTS AND EVENTS:

Nokia Litigation and Legal Proceedings

In April 2006, InterDigital Communications Corporation (IDCC) and InterDigital Technology Corporation (ITC) entered into two principle agreements with Nokia Corporation (Nokia) which resolved certain legal proceedings between them. Specifically, in an Arbitration Settlement Agreement (Arbitration Settlement Agreement), the parties resolved their disputes arising out of the June 2005 International Court of Arbitration of the International Chamber of Commerce (ICC) Arbitration Tribunal Award, which related to the January 1999 Patent License Agreement (the Nokia License Agreement) between the parties. Pursuant to a second agreement (UK Settlement Agreement), Nokia dismissed

its claims under Claim No. HC04 C01952, a proceeding that Nokia instituted in June 2004 against ITC in the High Court of Justice of England and Wales, Chancery Division, Patents Court, seeking to challenge three of our TDMA-related patents.

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

Table of Contents

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

LG Electronics Inc.

In January 2006, IDCC's patent holding subsidiaries entered into a worldwide, non-transferable, non-exclusive, patent license agreement with LG Electronics Inc. (LG). The five-year patent license agreement, effective January 1, 2006, covers the sale, both prior to January 1, 2006 and during the five-year term, of terminal units compliant with all TDMA-based 2G standards (including TIA-136, GSM, GPRS, and EDGE) and all 3G standards (including WCDMA, TD-SCDMA and cdma2000[®] technology and its extensions), and infrastructure products compliant with cdma2000[®] technology and its extensions up to a limited threshold amount, under all patents owned by us prior to and during the term of the license. At the end of the five-year term, LG will receive a paid-up license to sell single-mode GSM/GPRS/EDGE terminal units under the patents included under the patent license agreement.

Under the terms of the patent license agreement, LG paid us the first of three equal installments of \$95 million in first quarter 2006. The remaining two installments are due in first quarter 2007 and 2008, respectively. We have recorded the second installment of \$95 million in both accounts receivable and deferred revenue at September 30, 2006, in accordance with our policy to recognize receivables that are due within twelve months. We are recognizing the revenue associated with this agreement on a straight-line basis from its inception through December 31, 2010.

Technology Solution Agreements

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

In December 2004, we entered into an agreement with General Dynamics C4 Systems (formerly known as, General Dynamics Decision Systems, Inc.) (General Dynamics), to serve as a subcontractor on the Mobile User Objective System (MUOS) program for the U.S. military. MUOS is an advanced tactical terrestrial and satellite communications system utilizing 3G commercial cellular technology to provide significantly improved high data rate and assured communications for U.S. warfighters. The Software License Agreement, as amended as of October 2006 (SLA) required us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. We have also provided product training under the SLA and will provide limited engineering support through September 2007.

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

Acquisition of Patents

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

3. INCOME TAXES:

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

Table of Contents

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

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

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

A more-than-50% cumulative change in ownership occurred in 1992. As a result of such change, approximately \$14 million of our NOL carryforwards were limited as of December 31, 2005. As a result of these limitations, we will not be able to utilize all of our NOL carryforwards to offset our U.S. federal tax liability in 2006. If we experience an additional more-than-50% cumulative ownership change, the full amount of the NOL carryforward may become subject to annual limitation under IRC Section 382.

Based on judgments associated with determining the annual limitation applicable to us under Internal Revenue Code Section 382, we did not include all NOL carryforwards in the computation of our gross deferred tax assets. We also excluded from this computation a portion of the federal research and experimental credits that may be available to us based upon estimates of the final credit that may be realized. Had we included all federal NOL carryforwards and research and experimental credits in the computation of gross deferred tax assets, our gross deferred tax assets at September 30, 2006 and December 31, 2005 would have been approximately \$10 million greater.

4. INCOME PER SHARE:

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

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

Table of Contents

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

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

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

5. LITIGATION AND LEGAL PROCEEDINGS :

Samsung

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

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

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

Table of Contents

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

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

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

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

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

Nokia

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

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

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

Nokia UK 3G Proceeding

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

Table of Contents

Nokia Delaware Proceeding

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

Federal

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

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

Prior to Federal's demand for arbitration, we had accrued a contingent liability of \$3.4 million related to the Agreement. We continue to evaluate this contingent liability and have maintained this accrual at September 30, 2006. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

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

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

Table of Contents

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

6. REPURCHASE OF COMMON STOCK :

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

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

7. SHARE – BASED COMPENSATION PLANS :

Stock Compensation Plans

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

Common Stock Option Plans

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

In 2002, the Board approved the 2002 Stock Award and Incentive Plan that allows for the granting of non-qualified options, as well as other securities to Company employees who are not subject to the reporting requirements of Section 16 of the Securities Act of 1934 or an “affiliate” for purposes of Rule 144 of the Securities Act of 1933. The 2002 Plan authorized the offer and issuance of up to 1.5 million shares of common stock. Under the terms of the 2002 Plan, the Board or the Compensation Committee of the Board determine the number of options to be granted and have the discretion to set the option price. Under all of these plans, options are generally exercisable for a period of 10 years from the date of grant and may vest on the grant date, another specified date or over a period of time. However, under plans that provide for both incentive and non-qualified stock options, grants most commonly vest in six semi-annual installments.

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

	Available For Grant	Outstanding Options		Weighted
		Number	Price Range	Average Exercise Price
BALANCE AT DECEMBER 31, 2005	913	7,926	\$ 0.01-39.00	\$ 13.93
Granted	—	—	\$ —	\$ —
Canceled	15	(15)	\$15.72-39.00	\$ 32.95
Exercised	—	(2,980)	\$ 4.38-31.81	\$ 11.82
BALANCE AT SEPTEMBER 30, 2006	928	4,931	\$ 0.01-39.00	\$ 15.15

Table of Contents

The following table summarizes information regarding the stock options outstanding at September 30, 2006 (in thousands, except for per share amounts):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life*	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.01 - 5.44	746	2.31	\$ 5.07	746	\$ 5.07
\$ 5.50 - 9.00	544	8.45	7.28	544	7.28
\$ 9.03 - 9.60	568	5.24	9.59	568	9.59
\$ 9.76 - 11.63	568	11.99	10.81	568	10.81
\$ 11.64 - 13.19	667	4.80	12.49	667	12.49
\$ 13.25 - 17.81	547	5.28	16.00	547	16.00
\$ 17.92 - 25.25	622	5.83	22.05	622	22.05
\$ 25.34 - 31.81	124	6.21	27.21	124	27.21
\$ 34.13 - 34.13	12	3.43	34.13	12	34.13
\$ 39.00 - 39.00	533	3.29	39.00	533	39.00
\$ 0.01 - 39.00	4,931	5.76	\$ 15.15	4,931	\$ 15.15

* We currently have approximately 228,000 options outstanding that have an indefinite contractual life. These options were granted between 1983 and 1986 under Pre-existing Plans. For purposes of this table, these options were assigned an original life in excess of 50 years. The majority of these options have an exercise price of between \$5.75 and \$11.63.

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

Common Stock Warrants

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

Restricted Stock

Under our 1999 Restricted Stock Plan, as amended (1999 Plan), we may issue up to 3.5 million shares of restricted common stock and restricted stock units to directors, employees, consultants and advisors. The restrictions on issued shares lapse over periods generally ranging from 1 to 3 years from the date of the grant. As of September 30, 2006 and December 31, 2005 we had issued 2.2 million and 2.0 million shares, respectively, of restricted stock and RSUs under the 1999 Plan. The related compensation expense is amortized over vesting periods that are generally from 1 to 5 years. At September 30, 2006 and December 31, 2005, we had unrecognized compensation cost related to share-based awards of \$ 5.0 million and \$5.8 million, respectively. We expect to amortize the unrecognized compensation cost at September 30, 2006 over a weighted average period of less than one year using an accelerated method.

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

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

Table of Contents

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

	Number of Unvested RSUs	Weighted Average Grant Date Fair Value
Balance at December 31, 2005	814	\$ 21.67
Granted *	207	20.37
Forfeited	(22)	19.93
Vested	(335)	19.42
Balance at September 30, 2006	<u>664</u>	<u>\$ 22.46</u>

* The numbers of RSUs presented as issued and canceled in this table do not reflect the impact of a third quarter exchange of 56,000 time-based RSUs for an equal number of performance-based RSUs.

8. COMPREHENSIVE INCOME :

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

	For the Three Months Ended September 30,	
	2006	2005
Net income	\$ 21,657	\$ 6,526
Unrealized gain (loss) on investments	137	(96)
Total comprehensive income	<u>\$ 21,794</u>	<u>\$ 6,430</u>
	For the Nine Months Ended September 30,	
	2006	2005
Net income	\$ 204,959	\$ 9,655
Unrealized gain (loss) on investments	146	(132)
Total comprehensive income	<u>\$ 205,105</u>	<u>\$ 9,523</u>

9. REPOSITIONING ACTIVITIES :

In third quarter 2005, we announced plans to close our Melbourne, Florida design facility. We ceased our development activity at this facility and relocated certain development efforts and personnel to other Company locations. On the date of the announced closing, there were thirty-three full or part-time employees at this facility, of which 5 accepted offers of continued employment elsewhere within our organization.

In connection with the closure, we recognized repositioning charges totaling approximately \$1.5 million, comprised of severance and relocation costs of \$1.0 million and facility closing costs of \$0.5 million. The facility closing costs included lease termination costs, fixed asset writeoffs and costs to wind down the facility. We recorded approximately \$0.8 million of this charge in third quarter 2005 and recorded the remaining charges in fourth quarter 2005. The third quarter charge was comprised of both severance and relocation costs (\$0.5 million) and facility closing costs (\$0.3 million). We had accrued a liability of approximately \$0.4 million at September 30, 2005, relating to the third quarter repositioning charge.

Table of Contents

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

The following discussion should be read in conjunction with the unaudited, condensed consolidated financial statements and notes thereto contained elsewhere in this document, in addition to InterDigital Communications Corporation's (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (2005 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 14, 2006, other reports filed with the SEC, and the "Statement Pursuant to the Private Securities Litigation Reform Act of 1995" below. Please refer to the Glossary of Terms located after the Table of Contents for a list and detailed description of the various technical, industry and other defined terms that are used in this Form 10-Q for the three and nine months ended September 30, 2006.

Samsung

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

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

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

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

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

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

Table of Contents

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

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

Nokia Litigation and Legal Proceedings

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

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

Of the \$253 million, we recognized \$228 million and \$12.5 million of revenue in second quarter 2006 and third quarter 2006, respectively. In addition, we will recognize the remaining \$12.5 million in fourth quarter 2006.

New Material Patent License Agreement

In January 2006, IDCC's patent holding subsidiaries entered into a worldwide, non-transferable, non-exclusive, patent license agreement with LG Electronics Inc. (LG). The five-year patent license agreement, effective January 1, 2006, covers the sale, both prior to January 1, 2006 and during the five-year term, of terminal units compliant with all TDMA-based 2G standards (including TIA-136, GSM, GPRS, and EDGE) and all 3G standards (including WCDMA, TD-SCDMA and cdma2000[®] technology and its extensions), and infrastructure products compliant with cdma2000[®] technology and its extensions, up to a limited threshold amount, under all patents owned by us prior to and during the term of the license. At the end of the five year term, LG will receive a paid-up license to sell single-mode GSM/GPRS/EDGE terminal units under the patents included in the patent license agreement.

Under the terms of the patent license agreement, LG paid us the first of three equal installments of \$95 million in first quarter 2006. The remaining two installments are due in first quarter 2007 and 2008, respectively. We are recognizing the revenue associated with this agreement on a straight-line basis from its inception through December 31, 2010.

Repurchase of Common Stock

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

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

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the *Notes to Consolidated Financial Statements* included in our 2005 Form 10-K. A discussion of our critical accounting policies, and the estimates related to them, are included in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2005 Form 10-K. There have been no material changes in our existing accounting policies from the disclosures included in our 2005 Form 10-K other than our adoption of SFAS No. 123(R).

Our license agreements include provisions for independent periodic audits of license royalties for compliance with terms of the agreement. As a result of such audits we will from time-to-time recognize additional revenue associated with a cumulative catch-up adjustment related to underreporting of royalties by our licensees. Our policy remains that we will only recognize such revenue after all elements of revenue recognition are met. We did not recognize any revenue in third quarter of 2006 or first nine months 2006 that was directly related to audit findings.

New Accounting Pronouncements

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

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

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

We generated positive cash flow from operating activities of \$315.8 million in the nine month period ended September 30, 2006 (first nine months 2006) compared to \$37.6 million in the nine month period ended September 30, 2005 (first nine months 2005). The positive operating cash flow in first nine months 2006 arose principally from receipts of approximately \$474.2 million related to 2G and 3G patent licensing agreements. These receipts included \$253 million from Nokia, \$95 million from LG, \$63.3 million of current royalty payments from existing licensees and \$62.9 million of new prepayments or fixed fee payments from existing licensees. The \$253 million received from Nokia pursuant to the Arbitration Settlement Agreement in 2006 represents the full amount due thereunder. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) of \$89.6 million, cash payments for foreign source withholding taxes of \$28.5 million, an estimated federal tax payment of \$23 million and changes in working capital during the first nine months of 2006. The positive operating cash flow in first nine months 2005 arose principally from receipts of approximately \$113.4 million from patent licensing agreements and \$8.5 million from technology solutions agreements. This included approximately \$27.9 million from Sony Ericsson, the majority of which represented a new prepayment under a 2003 patent license agreement, \$27.5 million from NEC Corporation of Japan (NEC), \$26.0 million from Sharp Corporation of Japan (Sharp), \$20.0 million from Kyocera Wireless Corporation (Kyocera) and approximately \$12 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) of \$91.0 million, and changes in working capital during the first nine months of 2005.

Our combined short-term and long-term deferred revenue balance at September 30, 2006 was \$244.2 million, a \$153.0 million increase from December 31, 2005. In first nine months 2006, we recorded gross increases in deferred revenue of \$301.0 million, \$190.0 million of

which related to payments either received or due from LG, \$50 million related to the portion of the Nokia payment associated with 2006 revenue, and \$54.6 million related to new prepayments from five other existing licensees. In first nine months 2006, we collected the first \$95 million payment from LG and recorded \$95 million in accounts receivable relating to LG's second payment obligation due in first quarter 2007. In accordance with our policy for recording long-term receivables from patent license agreements, we will defer recognition in accounts receivable of LG's third \$95 million payment obligation, which is due in first quarter 2008, until twelve months prior to its due date. The gross increases in deferred revenue were offset, in part, by first nine months 2006 deferred revenue recognition of \$110.1 million related to the amortization of fixed-fee royalty payments, \$37.6 million related to per-unit exhaustion of prepaid royalties (based upon royalty reports provided by our licensees) and the recognition of deferred revenue related to technology solutions agreements. We have no material obligations associated with our deferred revenue balances.

Table of Contents

Based on current license agreements, we expect the amortization of fixed-fee royalty payments and other non-recurring royalties in fourth quarter 2006 to reduce the September 30, 2006 deferred revenue balance of \$244.2 million by \$33.1 million. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against remaining prepaid balances.

In first nine months 2006, we used \$26.0 million in investing activities. In first nine months 2005, our investing activities provided \$18.3 million. We purchased \$4.7 million of short-term marketable securities, net of sales, in first nine months 2006. We sold \$42.9 million of short-term marketable securities, net of purchases, in first nine months 2005. This change resulted from the investment of large cash receipts from operating activities in first nine months 2006. Purchases of property and equipment increased to \$7.3 million in first nine months 2006 from \$4.0 million in the first nine months of 2005 due to continued investment in both development tools and related engineering network infrastructure and systems. Investment costs associated with patents increased from \$12.5 million in first nine months 2005 to \$14.1 million in first nine months 2006. This increase reflects a higher level of patenting activity over the past several years, combined with the lag effect between filing an initial patent application and the incurrence of costs to issue the patent in both the U.S. and foreign jurisdictions. In first nine months 2005, we also invested approximately \$8.1 million to acquire patents and intellectual property.

Net cash used in financing activities in first nine months 2006 was \$96.1 million compared to \$30.6 million in first nine months 2005. This increase was primarily due to our investment of \$150.1 million to repurchase outstanding shares of our common stock in first nine months 2006 compared to an investment of \$34.1 million for the same purpose in first nine months 2005. We received proceeds from option and warrant exercises of \$35.9 million and \$3.8 million in first nine months 2006 and 2005, respectively. In first nine months 2006, we recorded a tax benefit related to the exercise of options of \$18.4 million that reduces our federal income tax liability.

We had 4.4 million and 6.3 million options outstanding at September 30, 2006 and December 31, 2005, respectively, which had exercise prices less than the fair market value of the Company's stock at each balance sheet date. These options would have generated \$53.5 million and \$63.5 million of cash proceeds to the Company if they had been fully exercised.

As of September 30, 2006, we had \$304.2 million of cash, cash equivalents and short-term investments, compared to \$105.7 million at December 31, 2005. Our working capital (adjusted to exclude cash, cash equivalents, short-term investments, current maturities of debt and current deferred revenue) increased to \$111.6 million at September 30, 2006 from \$39.9 million at December 31, 2005. This \$71.7 million increase is primarily due to an increase in accounts receivable associated with the recognition of LG's second \$95 million payment obligation due first quarter 2007 under a January 2006 license agreement offset, in part, by other net changes in working capital. These other net changes included a \$14.4 million increase in prepaid and other current assets, an \$8.0 million decrease in accrued compensation and related expenses, a \$15.4 million decrease in current deferred tax assets, and increases of \$8.8 million and \$15.6 million in accounts payable and foreign and domestic taxes payable, respectively. Increases in prepaid and other current assets primarily relate to an anticipated partial refund of \$9.3 million of prior federal estimated tax payments due to tax elections that will defer taxable income to later periods. Accrued compensation and related expenses decreased due to payments of the 2005 year-end bonus and the 2004–2005 performance-based cash incentive under our long-term compensation program (LTCP). Current deferred tax assets decreased primarily due to recent tax policy elections that will defer taxable income to later periods. The increase in accounts payable was related primarily to amounts due under the Infineon agreement and the timing of vendor payments. Foreign and domestic taxes payable increased due to an accrual of foreign source withholding taxes, related to LG's above-noted \$95 million payment obligation.

In December 2005, we entered into a two-year \$60 million unsecured revolving credit facility (Credit Agreement). Borrowings under the Credit Agreement can be used for general corporate purposes including capital expenditures, working capital, letters of credit, certain permitted acquisitions and investments, cash dividends and stock repurchases. As of September 30, 2006, we had no amounts outstanding under the Credit Agreement. As of September 30, 2006, we were in compliance with our covenants under the Credit Agreement and continue to be through the date of this filing.

We are capable of supporting near-term cash expenses and capital requirements associated with executing our strategy, including \$10.5 million of payments due in fourth quarter 2006 related to a recent technology license with Infineon as well as the balance of our current share repurchase program of approximately \$50 million, through cash and short-term investments on hand, other operating funds such as patent license royalty payments or funds from the above-noted credit facility. An adverse

Table of Contents

resolution of the litigation involving Federal Insurance Company (See, *Litigation and Legal Proceedings, Federal*) should not prevent us from supporting our operating requirements in the near-term. At present, we do not anticipate the need to seek additional financing through additional bank facilities or the sale of debt or equity securities.

Off-Balance Sheet Arrangements

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

RESULTS OF OPERATIONS

Third Quarter 2006 Compared to Third Quarter 2005

Revenues

	Third Quarter 2006	Third Quarter 2005
Per-unit royalty revenue	\$ 32.9	\$ 24.1
Fixed-fee and amortized royalty revenue	20.6	9.7
Recurring patent licensing royalties	53.5	33.8
Past infringement and other non-recurring royalties	12.5	10.2
Total patent licensing royalties	66.0	44.0
Technology solution revenue	1.2	4.5
Total Revenue	<u>\$ 67.2</u>	<u>\$ 48.5</u>

In third quarter 2006, revenues increased to \$67.2 million from \$48.5 million in third quarter 2005. This increase was primarily driven by higher recurring royalties, related to a new agreement signed subsequent to third quarter 2005 with LG as well as new or higher contributions from other existing licensees, including Panasonic.

Technology solution revenue decreased in third quarter 2006 to \$1.2 million from \$4.5 million in third quarter 2005 as contributions from HSDPA technology programs with Philips Semiconductor B.V. (Philips) and Infineon partially offset the decrease associated with the first quarter 2006 completion of deliverables under an agreement with General Dynamics C4 Systems (formerly known as, General Dynamics Decision Systems, Inc.) (General Dynamics), supporting a program for the U.S. military.

In third quarter 2006, 19% of total revenue, or \$12.5 million, was associated with the partial recognition of the resolution of licensing matters with Nokia. Of the remaining 81%, or \$54.7 million, 61% was from companies that individually accounted for 10% or more of this amount and included LG (27%), NEC (17%) and Sharp (17%). In third quarter 2005, 21% of total revenue, or \$10.2 million, was associated with payments for past sales by Kyocera (\$10 million) and one other licensee. Of the remaining 79%, or \$38.3 million, 55% was from companies that individually accounted for 10% or more of this amount and included NEC (31%) and Sharp (24%).

Operating Expenses

Operating expenses decreased 4% to \$36.8 million in third quarter 2006 from \$38.4 million in third quarter 2005. The \$1.6 million decrease was due to net changes in expenses related to the following (in millions):

	<u>(Decrease)/Increase</u>
Patent litigation and arbitration	\$ (2.7)
Repositioning activities	(0.8)
Long-term cash incentive	(0.5)
Consulting services	1.2
Share-based compensation	0.5
Depreciation and amortization	0.5
Other	0.2
Total Decrease in Operating Expense	<u>\$ (1.6)</u>

Patent litigation and arbitration costs decreased from the prior year due to lower activity in third quarter 2006. Third quarter 2005 included a repositioning charge of \$0.8 million associated with the closure of our Melbourne, Florida design

Table of Contents

facility. The decrease in the long-term cash incentive reflects the absence of overlapping cycles in third quarter 2006 (i.e., third quarter 2005 expense included overlapping cycle costs, Cycle 1, which concluded December 31, 2005 and Cycle 2, which commenced in 2005 and concludes on December 31, 2008). These decreases in operating expenses were offset, in part, by increases in consulting services, share-based compensation and depreciation and amortization. Slightly more than half the increase in consulting services related to our development of a dual-mode terminal unit ASIC offering with the balance attributable primarily to ongoing maintenance costs of our patent portfolio. The increase in share-based compensation related to 2006 grants to non-management and a non-recurring charge of approximately \$1.0 million to correct our accounting related to share-based grants in 1998 to two non-employee, non-director consultants. The increase in share-based compensation is partly offset by lower LTCP costs associated with absence of overlapping cycles in third quarter 2006 (i.e., third quarter 2005 expense included overlapping cycle costs, Cycle 1, which concluded January 1, 2006 and Cycle 2, which commenced in 2005 and concludes on January 15, 2008). The increase in depreciation and amortization expense is associated with the higher carrying values of property and equipment, and patents, respectively.

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

	Third Quarter 2006	Third Quarter 2005	(Decrease) Increase	
Sales and marketing	\$ 1.7	\$ 1.8	\$ (0.1)	(7)%
General and administrative	5.0	5.5	(0.5)	(7)
Patents administration and licensing	13.3	14.7	(1.4)	(10)
Development	16.8	15.6	1.2	8
Repositioning	—	0.8	(0.8)	n/a
Total Operating Expense	<u>\$ 36.8</u>	<u>\$ 38.4</u>	<u>\$ (1.6)</u>	<u>(4)%</u>

Sales and Marketing Expense: A \$0.2 million decrease in LTCP costs was offset, in part, by increases in other personnel costs.

General and Administrative Expense: This decrease was attributable primarily to lower LTCP costs.

Patents Administration and Licensing Expense: The decrease reflects the net effect of the above-noted items related to patent arbitration and litigation costs, the non-recurring charge related to share-based grants from 1998 and patent maintenance and amortization expenses.

Development Expense: Approximately 75% of the increase in development costs is associated with increased consulting services related to our development of a dual-mode terminal unit ASIC offering. The remaining increase is primarily due to expenses associated with development software and research and development materials.

Interest and Investment Income, Net

Net interest and investment income of \$4.1 million in third quarter 2006 increased \$3.3 million or more than 400% from \$0.8 million in third quarter 2005. The increase resulted from both higher investment balances and higher rates of return in third quarter 2006.

Income Taxes

Our third quarter 2006 tax expense consisted of a 36 percent provision for federal income taxes due to permanent book-tax differences plus \$0.4 million related to the amortization of foreign deferred tax assets related to non-U.S. withholding taxes made in prior years. Third quarter 2005 tax expense of \$4.4 million included a federal tax provision of \$4.0 million and \$0.4 million related to non-U.S. withholding taxes.

First Nine Months 2006 Compared to First Nine Months 2005

Revenues

	First Nine Months 2006	First Nine Months 2005
Per-unit royalty revenue	\$ 97.4	\$ 72.8
Fixed-fee and amortized royalty revenue	60.6	24.9
Recurring patent licensing royalties	158.0	97.7
Past infringement and other non-recurring royalties	252.5	10.2
Total patent licensing royalties	410.5	107.9
Technology solution revenue	4.9	14.7
Total Revenue	<u>\$ 415.4</u>	<u>\$ 122.6</u>

Table of Contents

First nine months 2006 revenues increased to \$415.4 million from \$122.6 million in first nine months 2005. This increase was driven by both the recognition of \$240.5 million and \$12 million related to resolution of patent licensing matters with Nokia and Panasonic, respectively, and higher recurring patent license royalties. The increase in recurring patent license royalties was related to a new agreement signed subsequent to first nine months 2005 with LG, as well as new or higher contributions from other existing licensees, including Panasonic.

Technology solution revenue decreased in the first nine months of 2006 to \$4.9 million from \$14.7 million in the first nine months of 2005 as contributions from HSDPA technology programs with Philips and Infineon partially offset a decrease associated with the first quarter 2006 completion of deliverables under an agreement with General Dynamics supporting a program for the U.S. military.

In first nine months 2006, 61% of our total revenue, or \$252.5 million, was associated with the resolution of patent licensing matters with Nokia and Panasonic. Of the remaining 39%, or \$162.9 million, 62% was from companies that individually accounted for 10% or more of this amount and included LG (25%), NEC (20%) and Sharp (17%). In first nine months 2005, 8% of total revenue, or \$10.2 million, was associated with payments for past sales by Kyocera (\$10 million) and one other licensee. Of the remaining 92%, or \$112.4 million, 78% was from companies that individually accounted for 10% or more of this amount and included NEC (33%), Sharp (23%), General Dynamics (12%) and Sony Ericsson (10%).

Operating Expenses

Operating expenses decreased 1% to \$105.6 million in first nine months 2006 from \$107.1 million in first nine months 2005. The \$1.5 million decrease was due to net changes in expenses related to the following (in millions):

	<u>(Decrease)/Increase</u>
Patent litigation and arbitration	\$ (6.9)
Share-based compensation	(1.8)
Executive severance	(1.2)
Repositioning activities	(0.8)
Commissions	3.6
Consulting services	2.6
Depreciation and amortization	1.6
Long-term cash incentive	0.9
Other	0.5
Total Decrease in Operating Expense	<u>\$ (1.5)</u>

Patent litigation and arbitration costs decreased from the prior year due to lower activity in first nine months 2006. The decrease in share-based compensation reflects the absence of overlapping cycles in first nine months 2006 partly offset by 2006 grants to non-management personnel and a non-recurring charge of approximately \$1.0 million to correct our accounting related to share-based grants in 1998 to two non-employee, non-director consultants. First nine months 2005 included both severance costs of \$1.2 million associated with changes in our executive management and a repositioning charge of \$0.8 million related to with the closure of our Melbourne, Florida design facility. These decreases in operating expenses were offset, in part, by increases in commissions, consulting services, depreciation and amortization and long-term cash incentive costs. The increase in commissions was associated with elevated patent license royalty revenue. Slightly more than half the increase in consulting services related to our development of a dual-mode terminal unit ASIC offering with the balance attributable primarily to ongoing maintenance costs of our patent portfolio. The increase in depreciation and amortization expense is associated with the higher carrying values of property and equipment, and patents, respectively. The increase in the long-term cash incentive costs relates to a second quarter 2005 adjustment to reduce the long-term cash incentive accrual based on the expectations that existed at that time for a lower cash incentive payment.

Table of Contents

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

	First Nine Months 2006	First Nine Months 2005	(Decrease)	Increase
Sales and marketing	\$ 5.1	\$ 5.6	\$ (0.5)	(10)%
General and administrative	15.7	17.9	(2.2)	(12)
Patents administration and licensing	36.1	36.1	—	—
Development	48.7	46.7	2.0	4
Repositioning	—	0.8	(0.8)	n/a
Total Operating Expense	<u>\$ 105.6</u>	<u>\$ 107.1</u>	<u>\$ (1.5)</u>	<u>(1) %</u>

Sales and Marketing Expense: This decrease was attributable primarily to lower LTCP costs.

General and Administrative Expense: The decrease was due to executive severance in 2005 and approximately equal reductions in LTCP costs and directors and officers insurance premiums.

Patents Administration and Licensing Expense: The above-noted decrease in patent arbitration and litigation costs was offset by increases in commissions, the non-recurring charge related to share-based grants from 1998 and patent maintenance and amortization expenses.

Development Expense: Approximately one half of the increase in development costs is associated with increased consulting services related to our development of a dual-mode terminal unit ASIC offering. The remaining increase is due, in approximately equal parts, to development software expense and depreciation of development tools.

Interest and Investment Income, Net

Net interest and investment income of \$9.5 million in first nine months 2006 increased \$7.3 million or more than 300% from \$2.2 million in first nine months 2005. The increase resulted from higher investment balances and higher rates of return on our investments in first nine months 2006.

Income Taxes

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

Expected Trends

We will provide guidance on fourth quarter 2006 revenue shortly, after we receive and review the applicable royalty reports and update our forecasts on anticipated revenue from work associated with technology solution agreements. We currently anticipate that fourth quarter 2006 operating expenses, excluding patent arbitration or litigation costs, will grow by 7 percent to 12 percent sequentially compared to third quarter 2006, principally reflecting investments in outside services associated with meeting our schedule to have engineering samples of our 2G/3G ASIC by summer 2007. We also currently expect that our patent arbitration and litigation costs in fourth quarter 2006 will be between \$5 million and \$7 million as we continue to invest whatever is necessary for this critical activity. Lastly, we expect that our book tax rate for the fourth quarter of 2006 will approximate 35 percent to 37 percent.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

FORWARD-LOOKING STATEMENTS

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

Table of Contents

(i) the amortization of fixed-fee royalty payments over the remaining quarter of 2006 reducing our September 30, 2006 deferred revenue balance; (ii) additional reductions to deferred revenue; (iii) modest growth in operating cash needs in the remainder of 2006; (iv) our ability to support our near-term operating cash requirements; (v) the impact of any adverse resolution in our dispute with Federal on our ability to meet our near-term operating requirements; (vi) our needs and plans with respect to additional financing or the sale of debt or equity securities; (vii) our operating expenses (excluding patent arbitration and litigation costs), patent arbitration and litigation costs, and our book tax rate for fourth quarter 2006; (viii) the amounts of interest and future royalty obligations payable to us under the Final Award in the Samsung Arbitration.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2005 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

The Company’s Chief Executive Officer and its Chief Financial Officer, with the assistance of other members of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in their design to ensure that the information required to be disclosed by us in the reports that we file under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to ensure that the information required to be disclosed by us in the reports that we file under the Securities and Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Samsung

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

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

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

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

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

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

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

Table of Contents

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

Other

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

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

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

Item 1A. RISK FACTORS.

There have been no material changes in our risk factors as previously described in our 2005 Form 10-K with the exception of the following:

Samsung's action to oppose our motion to enforce the Final Award in the Samsung Arbitration, together with its cross-petition to vacate or modify the Final Award, and its filing of a new request for arbitration of the royalty rates determined in the Final Award subjects the Company to further litigation expense in connection with this dispute and renders uncertain the timing of receipt and amounts the Company ultimately will receive as royalty payments for certain Samsung products sold since 2002.

In addition, we have previously updated the Risk Factors disclosure set forth in our 2005 Form 10-K with updated disclosure set forth in our quarterly Report of Form 10-Q for the quarter ended September 30, 2006, to which your attention is directed, with respect to the following:

- (a) The Company's April 2005 resolution of a patent royalty dispute with Nokia Corporation; and
- (b) The impact of potential domestic patent reform legislation; USPTO reforms as well as imposed international patent rules on our patent prosecution and licensing strategy; and the impact of a recent U.S. Supreme Court ruling, clarifying the standard for granting injunctive relief in patent infringement cases, on our U.S. patents.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

- (c) Issuer Purchases of Equity Securities.

The following table provides information regarding the Company's purchases of its Common Stock, \$0.01 par value, during the third quarter of 2006:

Table of Contents

Period	Total Number of	Average Price paid Per	Total Number of	Maximum Number (or
	Shares (or Units)		Shares (or Units)	Approximate Dollar
	Purchased (1)	Share (or Unit)	Purchased as Part of	Value) of Shares (or
			Publicly Announced	Units) that May Yet Be
			Plans or Programs	Purchased Under the
				Plans or Programs
July 1, 2006 - July 31, 2006	1,782,500	\$ 26.99	1,782,500	\$ 51,896,447
August 1, 2006 - August 31, 2006	71,255	\$ 26.61	71,255	\$ 50,000,038
September 1, 2006 - September 30, 2006	—	\$ —	—	\$ 50,000,038(2)
Total	1,853,755	\$ 26.97	1,853,755	\$ 50,000,038(2)

- (1) In March 2006, we announced that our Board of Directors authorized the repurchase of up to \$100 million of our outstanding common stock from time-to-time through open-market purchases, prearranged plans or privately negotiated transactions (Repurchase Program). The amount and timing of purchases will be based on a variety of factors including share repurchase price, cash requirements, acquisition opportunities, strategic investments and other market and economic factors. In May 2006, we announced that the Board of Directors expanded the Repurchase Program, by an additional \$100 million, to a total of \$200 million.
- (2) Represents the maximum remaining investment to repurchase shares as of September 30, 2006. As of the date of this filing on Form 10-Q, we have repurchased 5.2 million shares of our common stock under the Repurchase Program, at a total cost of approximately \$150 million.

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

None

Item 6. EXHIBITS .

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

Exhibit Number	Exhibit Description
10.85*	Patent License Agreement by and between InterDigital Technology Corporation and Samsung Electronics Co., Ltd. Effective January 22, 1996
10.86†	Form of Interdigital Communications Corporation Restricted Stock Unit Award Agreement
10.87†	Interdigital Communications Corporation 2002 Stock Award and Incentive Plan (as amended through June 1, 2005)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William J. Merritt.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Richard J. Fagan.

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

† Management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2006

INTERDIGITAL COMMUNICATIONS CORPORATION

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

Date: November 9, 2006

/s/ R.J. FAGAN

Richard J. Fagan
Chief Financial Officer

PROPRIETARY INFORMATION

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

TDMA PATENT LICENSE AGREEMENT

BETWEEN

INTERDIGITAL TECHNOLOGY CORPORATION

AND

SAMSUNG ELECTRONICS CO., LTD.

PROPRIETARY INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1 - DEFINITIONS	1
1.1. Definitions	1
ARTICLE 2 - LICENSE GRANT	1
2.1. ITC License Grant	1
2.2. Limitations on License Grant	1
2.3. General Limitations on License Grants	2
ARTICLE 3 - WARRANTIES	2
3.1. Mutual Warranties	2
3.2. ITC Warranties	3
3.3. Limitation of Liability	3
3.4. Limitation of Warranties	3
ARTICLE 4 - ADDITIONAL COVERED STANDARDS	3
4.1. Right to Designate	3
4.2. Objection to Additional Designation	3
4.3. Royalty Rates	3
4.4. Effect on Advance Payment Amount	3
4.5. No Stacking of Royalties	4
ARTICLE 5 - TERM; TERMINATION	4
5.1. Term	4
5.2. Termination.	4
ARTICLE 6 - PAYMENT OF LICENSE FEES	4
6.1. Royalty Rate	4
6.2. Cap on Royalties.	5
6.3. [***]	5
6.4. No Stacking	6
6.5. Pending Applications	6
ARTICLE 7 - WIRELESS LOCAL LOOP SUBSCRIBER UNITS	6
7.1. ITC Option	6
7.2. Cross License	6
ARTICLE 8 - ADJUSTMENTS TO ROYALTIES	6
8.1. Adjustment Meeting	6

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

PROPRIETARY INFORMATION

8.2. Adjustment Effective Date	6
8.3. Effect on Advance Payment Amount	6
8.4. Manner of Application	7
8.5. Notice	7
ARTICLE 9 - PAYMENTS	8
9.1. Reports; Timing	8
9.2. No Set Off	8
ARTICLE 10 - CROSS-LICENSES	8
10.1. SEC License Grant	8
10.2. Additional Patent Licenses	8
ARTICLE 11 - ADVANCE PAYMENT	9
ARTICLE 12 - MISCELLANEOUS	9
12.1. Incorporation by Reference	9
12.2. Affixation	9
12.3. Limitation on Actions	10
12.4. Litigation	10
12.5. Reports Until Advance Payment Amount Exhausted	10

PROPRIETARY INFORMATION

Exhibit A List of Licensed Patents

Schedule 1 Application of Advance Payment

PROPRIETARY INFORMATION
PATENT LICENSE AGREEMENT

THIS AGREEMENT is entered into as of the date each party hereto has fully executed this Agreement, by and between InterDigital Technology Corporation, a Delaware corporation with offices at 900 Market Street, Second Floor, Wilmington, DE 19801 (“ITC”), and Samsung Electronics Co., Ltd., a corporation existing under the laws of the Republic of Korea with offices at Samsung Main Building, 250, 2-Ka, Taepyung-Ro, Chung-Ku, Seoul, Korea 100-742 (“SEC”).

Background

ITC owns an international portfolio of patents that relate to digital wireless communications systems. SEC is in the business of manufacturing and selling digital wireless communications systems and desire licenses under the ITC patents to make, use and sell digital wireless infrastructure equipment and subscriber units on the terms and conditions set forth herein. SEC and ITC, along with InterDigital Communications Corporation (“IDC” and, together with ITC, “InterDigital”), desire to enter into the other Related Agreements and in consideration of the terms and conditions contained herein and in the other Related Agreements, the parties hereto agree to the following terms and conditions:

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE 1 - DEFINITIONS

- 1.1. **Definitions**. As used herein, the “Master Agreement” means the agreement entitled “Master Agreement” between and among SEC, IDC and ITC of even date herewith, and the Related Agreements mean the agreements required to be executed pursuant to the Master Agreement. As used herein, the terms in Exhibit A of the Master Agreement, when used with initial capital letters in this Agreement, including any Exhibits, attachments or amendments, shall have the meanings described in Exhibit A of the Master Agreement.

ARTICLE 2 - LICENSE GRANT

- 2.1. **ITC License Grant**. ITC grants to the SEC Group a non-exclusive, worldwide, royalty bearing, perpetual license for the life of and under the Licensed Patents, including the Patents listed in Exhibit A hereto, to make, have made, use, sell, lease or otherwise dispose of Covered TDMA Subscriber Units, Covered TDMA Infrastructure Units and components and subassemblies intended for use with Covered TDMA Subscriber Units and/or Covered TDMA Infrastructure Units.

PROPRIETARY INFORMATION

- 2.2. Limitations on License Grant. The license grant of Paragraph 2.1 is subject to the following limitations:
- 2.2.1. Third party purchasers of Covered Subscriber or Covered Infrastructure Units purchased directly or indirectly from SEC shall have the right to use and sell such purchased products for their normal or expected uses without obligation under patents to ITC or its Affiliates.
 - 2.2.2. Notwithstanding the terms of Section 2.2.1, no license is granted by estoppel or implication to any third party customer of Covered Subscriber Units to make, use or sell Infrastructure Equipment, and no license is granted by estoppel or implication to any third party customer of Covered Infrastructure Units to make, use or sell Subscriber Units, and any claims that ITC may have against a third party manufacturer of Subscriber Units that the use of such Subscriber Units with Infrastructure Equipment licensed under this Agreement contributorily infringe or induce the infringement of any claims of any of the Licensed Patents are expressly reserved by ITC.
 - 2.2.3. Notwithstanding the terms of Section 2.2.2, in no event shall SEC be held liable for contributory infringement or inducing infringement (or under any similar theory of liability), based on the uses made of Covered Subscriber Units or Covered Infrastructure Units by direct or indirect purchasers, regardless of the manner in which such Covered Subscriber Units or Covered Infrastructure Units are sold, marketed or promoted by SEC.
- 2.3. General Limitations on License Grants. Nothing in this Agreement shall be construed as:
- (i) requiring the maintenance of the Licensed Patents;
 - (ii) a warranty as to the validity or scope of the Licensed Patents;
 - (iii) a warranty or representation that any product will be free from infringement of patents of third parties;
 - (iv) an agreement to bring or prosecute actions against third party infringers of the Licensed Patents provided, that ITC, in determining whether to bring or prosecute actions against third party infringers, shall act in a commercially reasonable manner in light of the parties' mutual interest in protecting the value of the Licensed Patents; or
 - (v) conferring any license or right under any patent other than the Licensed Patents.

ARTICLE 3 - WARRANTIES

- 3.1. Mutual Warranties. Each party represents and warrants that it has the right and authority to enter into this Agreement.

PROPRIETARY INFORMATION

- 3.2. ITC Warranties . ITC represents and warrants that:
- 3.2.1. it owns the patents that it is licensing hereunder; and
 - 3.2.2. it has the right and authority to convey the rights that it is granting hereunder.
- 3.3. Limitation of Liability . Neither of the parties hereto shall be liable to the other party in tort, contract or otherwise for any consequential, incidental, exemplary, punitive, indirect or special damages of any kind, including, but not by way of limitation, damages for loss of profit by ITC or SEC, even if the possibility of such damages was disclosed to, or could reasonably have been foreseen, by the injuring party.
- 3.4. Limitation of Warranties . THE PARTIES MAKE NO WARRANTIES EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, OTHER THAN THE WARRANTIES SET FORTH IN THIS ARTICLE .

ARTICLE 4 - ADDITIONAL COVERED STANDARDS

- 4.1. Right to Designate . ITC and SEC shall each have the right to designate additional standards (including, without limitation, SEC product architectures, even if such architectures are not the subject of an industry standard) as candidates for adoption as Covered Standards, by giving written notice to the other. Any such designation shall include a full description of the standard, and a list of those patent claims which are deemed to cover the use and operation of SEC's products in conformity with that standard.
- 4.2. Objection to Additional Designation . If candidates for adoption as additional Covered Standards are designated by ITC, SEC shall retain the right to object to such designation on the ground that such candidate is not a Covered Standard. If the parties are unable to reach agreement on this issue, this dispute will be resolved under the dispute resolution provisions of Article 5 of the Master Agreement.
- 4.3. Royalty Rates . If a candidate for adoption as an additional Covered Standard is adopted as such, either by agreement of the parties or through the dispute resolution process, the parties shall enter into good faith negotiations to determine an appropriate royalty applicable to Covered Subscriber Units or Covered Infrastructure Units which comply with such additional Covered Standard. Such negotiations shall take into consideration the Manufacturer's Average Selling Price of such product, the Licensed Patents covering such product and the royalty rates and terms contained herein.
- 4.4. Effect on Advance Payment Amount . In the event that an additional Covered Standard is adopted prior to the exhaustion of prepaid royalties, SEC shall have the option to apply prepaid royalties towards products compliant with such additional Covered Standard. Such prepaid royalties will be applied at a rate consistent with the ratio between the royalty rate applicable to already covered products and the royalty rate applicable to newly covered products.

PROPRIETARY INFORMATION

4.5. No Stacking of Royalties . [***] .

ARTICLE 5 - TERM; TERMINATION

5.1. Term . The term of this Agreement shall commence on the Effective Date and terminate upon the last-to-expire of the Licensed Patent applicable to any Covered Standard, unless sooner terminated as provided herein.

5.2. Termination .

- 5.2.1. Without limitation of the rights and remedies available to the invoking Party, this Agreement may be terminated for cause in accordance with the terms set forth in Section 8.5 of the Master Agreement.
- 5.2.2. After payment in full of all amounts due under Article 11 of this Agreement, this Agreement may thereafter be terminated without cause by SEC upon written notice to ITC on thirty (30) days prior written notice, or at any time after the expiration, unenforceability, determination by SEC of non-use, or invalidation of any of the Licensed Patents; provided, however, upon such termination, ITC shall have the right to take any action that it deems appropriate to collect royalties on products manufactured by SEC before termination but for which royalties hereunder were not paid.
- 5.2.3. Upon termination of this Agreement, SEC's licenses with respect to all of the Licensed Patents shall cease and SEC shall have no further right or license with respect to the Licensed Patents, except that so long as Section 3.3 of the UltraPhone Technology Transfer and Repurchase Agreement remains in effect SEC shall be deemed to hold a license to the Licensed Patents that is coextensive with the license granted by such Section 3.3.

ARTICLE 6 - PAYMENT OF LICENSE FEES

6.1. Royalty Rate . SEC shall pay royalties to ITC on each sale (exclusive of returns and credits) of a Covered Subscriber Unit or a Covered Infrastructure Unit as follows:

Cellular Unit handsets	Sold Prior to December 31, 1995 – [***];thereafter Sold Prior to December 31, 1996 – [***]; Sold thereafter – [***]
PHS/DCS Limited Units:	Sold Prior to December 31, 1995 – [***] Sold Prior to December 31, 1996 – [***] Sold thereafter – [***]
Covered Infrastructure Units:	[***] of Covered Infrastructure Equipment

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

PROPRIETARY INFORMATION

6.2. Cap on Royalties .

6.2.1. The royalty rates set forth in Section 6.1 above for Cellular Units and PHS/DCS Limited Units are not intended to exceed [***] for the applicable type of Covered Subscriber Units. SEC shall have the option of providing ITC with information sufficient to determine [***] for each model of Covered Subscriber Unit. If the royalty provided for under this Agreement exceeds [***] for a model of Covered Subscriber Unit, the royalty associated with such model of Covered Subscriber Units shall thereafter be reduced to [***] for such Covered Subscriber Units. In each succeeding year, SEC shall provide ITC with sufficient information to determine the [***] of any Covered Subscriber Units for which the royalty has been reduced as described in this section, and the royalty for such Covered Subscriber Units shall be adjusted to take into account any subsequent price changes, with such royalty always to be maintained at the [***]

6.2.2. If required for purposes of Section 6.2.1 above, SEC shall make sufficient information available to ITC to enable it to independently verify the [***]. If such information is not available, the parties shall jointly determine a temporary [***] to be used for one calendar quarter until an actual average [***] can be determined as provided for in this section. ITC shall hold in confidence all [***] supporting information provided under this Agreement.

6.3. [***] For purposes of the calculation of royalties under this Agreement, the manufacture, sale, lease and/or use of a Covered Subscriber Unit or Covered Infrastructure Unit shall apply only to the applicable running royalties of Section 6.1 and/or the application of the Advance Payment Amount under Article 11 if manufactured, used, sold or leased in [***]. At the adjustment meetings provided for in Section 8.1 hereof, if requested by SEC, the parties shall consider whether and which Covered Subscriber Units or Covered Infrastructure Units of Licensee are [***]. Nothing herein shall be construed as affecting in any manner the territorial scope of the license set forth in Article 2, above.

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

PROPRIETARY INFORMATION

- 6.4. No Stacking . [***] based on any Covered Subscriber Unit or Covered Infrastructure Unit. [***] a Covered Subscriber Unit or a Covered Infrastructure Unit [***]. In the event the relevant product is a Covered Subscriber Unit [***] for such Covered Subscriber Unit.
- 6.5. Pending Applications . Any royalties payable on a published application shall be paid [***].

ARTICLE 7 - WIRELESS LOCAL LOOP SUBSCRIBER UNITS

- 7.1. ITC Option . If SEC makes, uses or sells Covered Subscriber Units which are Wireless Local Loop Subscriber Units, ITC shall have the option of (1) treating such Wireless Local Loop Subscriber Units the same as other Covered Subscriber Units for royalty purposes or (2) imposing a royalty on such Wireless Local Loop Subscriber Units of [***] for each model of Wireless Local Loop Subscriber Unit.
- 7.2. Cross License . In the event that ITC elects to impose a royalty on Wireless Local Loop Subscriber Units (other than pursuant to the UltraPhone Technology Transfer and Repurchase Agreement) which is greater than the royalty which would otherwise be payable on such units as Covered Subscriber Units, SEC shall have the option of terminating the royalty-free license which is granted pursuant to 10.1 hereof. In such an event, the parties shall negotiate a cross-license, with or without royalties, as appropriate, for Wireless Local Loop Subscriber Units and UltraPhone products. Such cross-license may include a modification of the royalty rate which would be otherwise payable by SEC on Wireless Local Loop Subscriber Units (other than pursuant to the UltraPhone Technology Transfer and Repurchase Agreement), and may include the payment of royalties by ITC or its Affiliates on UltraPhone sales.

ARTICLE 8 - ADJUSTMENTS TO ROYALTIES

- 8.1. Adjustment Meeting . If requested by either party, the parties shall meet not more than annually during the term of this Agreement to discuss possible adjustments to royalties payable under this Agreement. Such adjustments may take the form of credits for additional units under the Advance Payment Amount, or an adjustment of the running royalty rate, or both. Adjustment meetings shall take place during the first calendar quarter of each year and shall alternate between Wilmington, Delaware, USA and Seoul, Korea.
- 8.2. Adjustment Effective Date . Any adjustment pursuant to this Article 8 shall be effective on the date of the event giving rise to the right to have such an adjustment.
- 8.3. Effect on Advance Payment Amount . If SEC is entitled to an adjustment of royalties as a result of the operation of this Article, and SEC has at the time of such

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

PROPRIETARY INFORMATION

entitlement not utilized all of the Advance Payment Amount, SEC shall receive a credit of additional Cellular Units and/or Covered Infrastructure Units which shall be determined pursuant to good faith negotiations between the parties. A credit under the Advance Payment Amount will not preclude an additional adjustment of the running royalty rate. A credit under the Advance Payment Amount will take into account a reasonable interest rate under the circumstances used for purposes of computing present value.

- 8.4. Manner of Application. Adjustments shall be made on a country by country and product by product basis under any of the following circumstances by the parties' agreement:
- 8.4.1. [***] a judgment of any court, arbitrator or government agency of competent jurisdiction. In such case, the difference between the royalty provided for herein or otherwise previously determined under this Agreement and the adjusted royalty shall be retained by SEC unless an appeal or settlement results in such a judgment being reversed or vacated. In such case, the amount held back by SEC shall be paid to ITC within forty five (45) days of receipt of notice together with substantiating material.
 - 8.4.2. [***] Licensed Patent.
 - 8.4.3. [***] of ITC's identification of such application as a Licensed Patent, or the issuance of a patent from such application with [***].
 - 8.4.4. In the event of the entry of any license, agreement, [***] pursuant to which a third party obtains the right [***] under Licensed Patents for the manufacture, use or sale of Covered Subscriber Units or Covered Infrastructure Units, the royalty rates under this Agreement shall be reduced by an amount appropriate [***] with said third party regarding the Licensed Patents with respect to [***]. In evaluating whether SEC is entitled to any reduction in royalty fees under these provisions for most favored licensee treatment, [***] will be taken into account. For purposes of this section, Covered Subscriber Units shall be deemed to be equivalent to products manufactured by third parties which are designed to operate in accordance with the same Covered Standards as particular Covered Subscriber Units. This section shall not apply to license agreements executed prior to the Effective Date. Any adjustment under this section will take into account the [***].
- 8.5. Notice. ITC shall be required to promptly inform SEC of any event which might give rise to an adjustment under this Article 8. Without limiting the foregoing, in the event of an agreement [***] or the like affecting the Licensed Patents, ITC shall

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

PROPRIETARY INFORMATION

promptly provide SEC (or, in the event disclosure to SEC is prohibited, SEC's outside counsel subject to suitable confidentiality requirements) with a copy of the applicable sections of the relevant documents.

ARTICLE 9 - PAYMENTS

- 9.1. **Reports; Timing.** SEC, on or before each March 1 and September 1, shall submit a written report setting forth the quantity of each type of Covered Subscriber Unit and Covered Infrastructure Unit sold during the six-month period ending on the preceding December 31 and June 30, respectively, together with such additional information as ITC may reasonably require to verify the calculation of royalties payable hereunder in respect of such six month period for units which are subject to royalty percentages. Such report shall be accompanied by payment in full of any royalties accruing in respect of the reporting period.
- 9.1.1. All reports required under this section will be certified to be complete and accurate by a senior financial officer of SEC.
- 9.1.2. All information contained in any reports furnished under this section shall be held in confidence by ITC.
- 9.2. **No Set Off.** SEC agrees and acknowledges that it has no right to, and shall not, attempt to set off amounts claimed to be owed based on any claim that it has or may have in the future against ITC or IDC or their respective Affiliates against amounts owed under this Agreement.

ARTICLE 10 - CROSS-LICENSES

- 10.1. **SEC License Grant.** SEC hereby grants to ITC and IDC a non-exclusive, worldwide, perpetual, royalty free, license under the SEC Group Patents, such license authorizing ITC and IDC to manufacture, use or sell any digital wireless telecommunications products [***].
- 10.2. **Additional Patent Licenses.** With respect to any patents relating to digital wireless telephone systems owned by SEC, ITC or IDC, or any of their respective Affiliates, which patents are not otherwise licensed under this Agreement, the owning party agrees to negotiate a reasonable license to make, have made, use, sell, lease and/or otherwise distribute Subscriber Units and Infrastructure Equipment on reasonable terms and conditions, taking into consideration the nature of the patent and the overall importance of the patent to the product.

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

PROPRIETARY INFORMATION

ARTICLE 11 - ADVANCE PAYMENT

- 11.1. SEC, as a material inducement for ITC to enter into this Agreement, the Master Agreement and the other Related Agreements, and to grant the license hereunder effective on and as of the Effective Date, shall on or before June 15, 1996, make an advance payment of royalties in an amount equal to Fourteen Million Dollars (\$14,000,000) (the "Advance Payment Amount"). The promise to pay the Advance Payment Amount shall be deemed an unconditional, irrevocable promise to pay for the license granted under Article 2 hereof, and shall be applied against SEC's royalty obligation hereunder in accordance with the table appearing as Schedule 1; in the event the gross amount reflected as per unit royalty obligation on Schedule 1 (e.g. "No advance") is reduced as a result of the operation of Section 6.2.1 of this Agreement, then all corresponding net amounts on Schedule 1 (e.g. calculated "with advance") shall be reduced pro-rata.
- 11.2. In the event SEC prior to the termination of this Agreement fails to apply the entire Advance Payment Amount as contemplated by this article, SEC shall be entitled to apply the remainder against royalties accruing pursuant to another Related Agreement on a dollar-for-dollar basis without discount or other reduction. In the event SEC prior to the termination of this Agreement has applied the entire Advance Payment Amount as contemplated by this article, the royalty rate shall revert to the full rate specified by Section 6.1 of this Agreement.
- 11.3. At SEC's request made before SEC has applied the full amount of the Advance Payment Amount as contemplated by this Article, the parties will negotiate in good faith the terms by which SEC shall be entitled to make a further advance payment, which negotiations shall determine the appropriate discount rate and interest rate in light of then-prevailing market conditions.

ARTICLE 12 - MISCELLANEOUS

- 12.1. Incorporation by Reference . All of the terms and conditions in the Master Agreement are hereby incorporated by reference.
- 12.2. Affixation . If SEC affixes a patent notice to any Covered TDMA Subscriber Units or Covered TDMA Infrastructure Units [***], it shall [***] affix to such Covered TDMA Subscriber Units or Covered TDMA Infrastructure Units a similar notice with respect to the Licensed Patents ([***]) as reasonably designated by ITC.

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

PROPRIETARY INFORMATION

- 12.3. Limitation on Actions . During the term of this Agreement, if the SEC Group institutes or actively participates as an adverse party in, or otherwise provides material support to, unless SEC is required by law to do so by any juridical or other governmental authority, any legal action anywhere in the world, the purpose of which is to invalidate or limit the validity or scope of the Licensed Patents, ITC shall have the right to consider such action as a material breach of this Agreement.
- 12.4. Litigation . SEC shall provide notice to ITC (including copies of relevant documents) of any discovery proceedings for which it receives a subpoena, voluntary discovery requests, interrogatories or deposition notice or similar notices or requests associated with litigation concerning the validity or scope of Licensed Patents (“Litigation Materials”). SEC shall consult and cooperate with ITC in formulating any response. If documents or oral statements similar in kind to those which would be produced under Litigation Materials are intended to be voluntarily provided to any party with an adverse interest to ITC, SEC shall first consult with ITC.
- 12.5. Reports Until Advance Payment Amount Exhausted . Until the exhaustion of the Advance Payment Amount, SEC shall provide to ITC an annual written report, setting forth the quantity of sales of each type of Covered Subscriber Unit and the number of Covered Infrastructure Units sold during such year, to the extent reasonably necessary for calculation of the amount of the prepayment applied to royalties under this Agreement.

PROPRIETARY INFORMATION

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

INTERDIGITAL TECHNOLOGY CORPORATION

By: /s/
Name: Howard E. Goldberg
Title: Attorney in Fact
Date: December 29, 1995

By: /s/
Name: William J. Burns
Title: Chief Executive Officer
Date:

SAMSUNG ELECTRONICS CO., LTD.

By: /s/
Name: Young Man Ji
Title: Senior Manager
Date: December 29, 1995

By: /s/
Name: Ki Tae Lee
Title: Executive Managing Director
Date: January 22, 1996

By: /s/
Name: Yong Bok Lee
Title: Executive Managing Director
Date: January 22, 1996

PROPRIETARY INFORMATION

InterDigital Communications Corporation hereby acknowledges, accepts and agrees to be bound by Section 7.2 and Article 10 hereof.

INTERDIGITAL COMMUNICATIONS CORPORATION

By: /s/
Name: Howard E. Goldberg
Title: Executive Vice President
Date: December 29, 1995

By: /s/
Name: William J. Burns
Title: Chief Executive Officer
Date: January 22, 1996

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement (this “Agreement”) is made as of August 14, 2006 (the “Date of Grant”) by InterDigital Communications Corporation (the “Company”) to _____ (“Grantee”) pursuant to the terms of the InterDigital Communications Corporation 1999 Restricted Stock Plan (the “Plan”), and is intended to constitute Performance RSUs, as that term is used in the voluntary RSU Exchange Offer Memorandum dated August 4, 2006.

1. Definitions. Capitalized terms shall have the meanings set forth below or in the Plan. As used herein:

(a) “Account” shall mean a bookkeeping account reflecting Grantee’s interest in restricted stock units.

(b) “Cause” means: (a) willful and repeated failure of Grantee to perform substantially his or her duties (other than any such failure resulting from incapacity due to physical or mental illness); (b) Grantee’s conviction of, or plea of guilty or nolo contendere to, a felony which is materially and demonstrably injurious to the Company or an Affiliate; (c) willful misconduct or gross negligence by Grantee in connection with his or her service to the Company; or (d) Grantee’s breach of any material obligation or duty owed to the Company or an affiliate.

(c) “Change in Control Event” means any transaction or series of transactions that constitutes both a Change of Control as defined in the Plan and a “change in the ownership” of the Company, a “change in effective control” of the Company, or a “change in the ownership of a substantial portion of the assets” of the Company for purposes of Code Section 409A and applicable IRS guidance promulgated thereunder.

(d) “Disability” a disability entitling Grantee to long-term disability benefits under the applicable long-term disability plan of the Company (or its Affiliate if Grantee is employed by such Affiliate); or (b) if Grantee is not covered by such a plan, a physical or mental condition or illness that renders Grantee incapable of performing his or her duties for a total of 180 days or more during any consecutive 12-month period.

(e) “Dividend Equivalent” means credits arising in respect of dividends paid on Shares, as described in Section 6 herein.

(f) “Fair Market Value” means the closing price of a Share on the exchange or on NASDAQ, as reported in The Wall Street Journal on the relevant valuation date or, if there is no trading on that date, on the next preceding trading date.

(g) “Restricted Period” means the period beginning on the Date of Grant and ending on the Vesting Date.

(h) “Restricted Stock Unit” means a right to receive _____ Shares issued pursuant to the Plan.

(i) "Retirement" means resignation by Grantee after attaining a combination of age plus years of service at the Company (and Affiliates) equal to 70 with the consent of the Company.

(j) "Vesting Date" means January 15, 2008, subject to the conditions set forth in Section 4 below.

2. Grant of Restricted Stock Units.

(a) Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to Grantee the Restricted Stock Units. The Company shall maintain an Account for Grantee reflecting the number of Restricted Stock Units credited to Grantee hereunder.

(b) All of the terms, conditions and other provisions of the Plan are hereby incorporated by reference into this Agreement. Capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the Plan. If there is any conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern. Grantee acknowledges receipt of the Plan, a copy of which is annexed hereto, represents that he/she is familiar with the terms and provisions thereof and hereby agrees to be bound by the Plan (as presently in effect or hereafter amended) and this Agreement, and by all decisions and determinations of the Committee thereunder. (For purposes of this provision and other provisions of this Agreement, references to the Committee include any persons or administrative body to whom the Committee has delegated authority.)

3. Restrictions on Restricted Stock Units. Subject to the terms and conditions set forth herein and in the Plan, Grantee shall not be permitted to sell, transfer, pledge or assign the Restricted Stock Units except by will or by the laws of descent and distribution. No such transfer occurring as a result of the Grantee's death shall be effective to bind the Company unless the Committee shall have been furnished with a copy of the applicable will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

4. Vesting and Forfeiture.

(a) Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) on the Vesting Date if all of the following conditions are met:

(i) Grantee remains continuously employed by the Company through that date; and

(ii) One or more of the Performance Target or Targets set forth in the Performance Target Schedule attached hereto as Exhibit A have been attained. Each Restricted Stock Unit credited under Section 6 in respect of Dividend Equivalents shall vest at the time of vesting of the Restricted Stock Unit that gives rise, directly or indirectly, to such Dividend Equivalent.

(iii) For purposes of this Section 4(b), the portion of the Restricted Stock Units granted hereunder that becomes vested on the Vesting Date shall be determined by reference

to the Performance Target Schedule, and any Restricted Stock Units that do not become vested as of the Vesting Date shall be immediately forfeited without regard to the Grantee's continued employment with the Company.

(b) If Grantee's service as a director and/or employee of the Company ends prior to the Vesting Date due to a termination for Cause or a resignation for any reason other than Grantee's death, Disability, Retirement, or termination by the Company without Cause, all Restricted Stock Units granted hereunder will be forfeited.

(c) If Grantee's service or employment with the Company ceases prior to the Vesting Date due to death, Disability, Retirement, or termination by the Company without Cause, Grantee will become vested in a pro-rata portion of his or her Restricted Stock Units. That pro-rata portion will be determined by multiplying the number of Restricted Stock Units by a fraction equal to the portion of the Restricted Period that has transpired prior to such cessation of service or employment. Settlement for Restricted Stock Units that become vested pursuant to this Section 4(c) will occur subject to the terms of the Plan on the first business day following the Vesting Date; provided, however, that in no event will settlement of Grantee's Restricted Stock Units be made before the date which is six months after the date of Grantee's termination of employment if Grantee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, or any successor provision.

5. Settlement and Election to Defer Settlement.

(a) Restricted Stock Units credited hereunder (including Restricted Stock Units credited in respect of Dividend Equivalents) will be settled by delivery of one share of the Company's Common Stock for each Restricted Stock Unit being settled. Subject to Section 4(c) of this Agreement, settlement will occur on the first business day following the applicable Vesting Date, unless Grantee has elected to defer settlement in accordance with Section 5(b).

(b) By completing, signing and returning Exhibit B to this Agreement within 30 days of the date of this Agreement, Grantee may elect to defer the date of settlement of Restricted Stock Units credited hereunder. If a Grantee elects to defer settlement, such deferred settlement must occur on or after January 15, 2009. Notwithstanding the foregoing, no deferral election made pursuant to this Section 5(b) will be effective until the first anniversary of the date on which such election was made.

6. Dividend Equivalents and Adjustments. Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited) in accordance with this Section 6:

(a) Cash Dividends. If the Company declares and pays a dividend or distribution on its Shares in the form of cash, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the amount of cash actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share as of such payment date.

(b) Non Cash Dividends. If the Company declares and pays a dividend or distribution on Shares in the form of property other than Shares, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the fair market value of such property actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share as of such payment date.

(c) Stock Dividends. If the Company declares and pays a dividend or distribution on Shares in the form of additional Shares, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution or split, multiplied by the number of additional Shares actually paid as a dividend or distribution or issued in such split in respect of each outstanding Share.

7. Other Terms Relating to Restricted Stock Units.

(a) The number of Restricted Stock Units credited to a Grantee's Account shall include fractional Restricted Stock Units calculated to at least three decimal places, unless otherwise determined by the Committee. Upon settlement of Restricted Stock Units, Grantee shall be paid, in cash, an amount equal to the value of any fractional Share that would have otherwise been deliverable in settlement of such Restricted Stock Units.

(b) It shall be a condition to the Company's obligation to issue and deliver Shares in settlement of the Restricted Stock Units that Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) pay to the Company, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold federal, state, or local income or other taxes. If the amount required is not paid, the Company may refuse to deliver the Shares in settlement of the Restricted Stock Units until such amount is paid. The Committee may, in its discretion, permit a Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) to pay all or a portion of the amount required by the Company for such tax withholding, at such time and in such manner as the Committee shall deem to be appropriate, including by authorizing the Company to withhold from the Shares to be delivered in settlement, or by agreeing to surrender to the Company on or about the date such tax liability is determinable, Shares having a Fair Market Value on such date equal to the amount of such tax liability or a specified portion of such tax liability.

8. Absence of Tax Gross-Up Payment. There shall be no tax gross-up on the Restricted Stock Units.

9. Notices. Any notice to the Company under this Agreement shall be made in care of the Committee to the office of the General Counsel, at the Company's main office in King of Prussia, Pennsylvania. All notices under this Agreement shall be deemed to have been given when hand-delivered or mailed, first class postage prepaid, and shall be irrevocable once given.

10. Securities Laws. The Committee may from time to time impose any conditions on the Restricted Stock Units (or the underlying Shares) as it deems necessary or advisable to comply with applicable securities laws.

11. Award Not to Affect Service. The award granted hereunder shall not confer upon Grantee any right to continue service as an employee and/or director of the Company.

12. Miscellaneous.

(a) The address for Grantee to which notice, demands and other communications to be given or delivered under or by reason of the provisions hereof shall be the Grantee's address as reflected in the Company's personnel records.

(b) Grantee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld by federal, state or local law in connection with this award.

(c) Any provision for distribution in settlement of Grantee's Account hereunder shall be by means of bookkeeping entries on the books of the Company and shall not create in Grantee or any person to whom ownership right may have passed any right to, or claim against any specific assets of the Company, nor result in the creation of any trust or escrow account for Grantee or any person to whom ownership rights may have passed. Grantee (or any other person entitled to a distribution hereunder) shall be a general creditor of the Company.

(d) To the extent not preempted by federal law, the validity, performance, construction and effect of this award shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

(e) To the extent Grantee elects to defer settlement of Restricted Stock Units pursuant to Section 5(b), this Agreement is intended to constitute part of a "top-hat" plan described in Section 201(2) of ERISA.

13. Claims Procedure.

(a) To initiate a claim with respect to the settlement of Restricted Stock Units deferred in accordance with Section 5(b), Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) (the "Claimant") must file a written request with the Company. Upon receipt of such claim, the Company will advise the Claimant within ninety (90) days of receipt of the claim whether the claim is denied. If special circumstances require more than ninety (90) days for processing, the Claimant will be notified in writing within ninety (90) days of filing the claims than the Company requires up to an additional ninety (90) days to reply. The notice will explain what special circumstances make an extension necessary and indicate the date a final decision is expected to be made.

(b) If the claim is denied in whole or in part, the Claimant will be provided a written opinion, in language calculated to be understood by the Claimant, setting forth (i) the specific reason(s) for the denial of the claim, or any part of it, (ii) specific reference(s) to pertinent provisions of the Plan or this award upon which such denial was based, (iii) a description of any

additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary, (iv) an explanation of the claim appeal procedure set forth in Section 13(c), below; and (v) a statement of the Claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination upon appeal.

(c) Within sixty (60) days after receiving a notice from the Company that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Company a written request for a review of the denial of the claim. The Claimant or his duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Company. If the Claimant does not request a review of the initial determination within such sixty (60) days period, the Claimant will be barred and estopped from challenging the determination.

(d) Within sixty (60) days after the Company's receipt of a request for review, it will review the initial determination. After considering all materials presented by the Claimant, without regard to whether such materials were submitted or considered in the initial review, the Company will render a written opinion. The manner and content of the final decision will include the same information described above in Section 13(b) with respect to the initial determination. If special circumstances require that the sixty (60) day time period be extended, the Company will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. The notice will explain what special circumstances make an extension necessary and indicate the date a final decision is expected to be made. Any decision on appeal will be final, conclusive and binding upon all parties.

IN WITNESS WHEREOF, the Company has caused this Restricted Stock Unit Award Agreement to be executed by its duly authorized officer, and Grantee has executed this Restricted Stock Unit Award Agreement, in each case as of the date first above written.

INTERDIGITAL COMMUNICATIONS
CORPORATION

By: _____
Name:

GRANTEE

By: _____
Name:

PERFORMANCE TARGET SCHEDULE

<u>Performance Target/Goal</u>	<u>Number of Restricted Stock Units Vested</u>
	_____ Units

**INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT DEFERRAL ELECTION FORM**

Grant Date: August 14, 2006

____ Restricted Stock Units

Check Only One:

____ I hereby elect to defer the settlement of my Restricted Stock Units until _____ [insert a date on or after the Vesting Date, (subject to accelerated settlement upon the consummation of a Change in Control Event* or my cessation of service as an employee or director of the Company).

____ I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director and/or employee of the Company (subject to accelerated settlement upon the consummation of a Change in Control Event*); provided, however, such settlement shall, to the extent required pursuant to Section 409A(a)(2)(B)(i) for a period of six months following such cessation of service.

* As defined in the Restricted Stock Unit Award Agreement pursuant to which the Restricted Stock Units were awarded to me.

[name]

Date

INTERDIGITAL COMMUNICATIONS CORPORATION

**2002 Stock Award and Incentive Plan
(as amended through June 1, 2005)**

1. Purpose. The purpose of this 2002 Stock Award and Incentive Plan (the "Plan") is to aid InterDigital Communications Corporation, a Pennsylvania corporation (the "Company"), in attracting, retaining, motivating and rewarding employees and other persons who provide services to the Company or its subsidiaries or affiliates, to provide for equitable and competitive compensation opportunities, to encourage long-term service, to recognize individual contributions and reward achievement of Company goals, and to promote the creation of long-term value for shareholders by closely aligning the interests of Participants with those of shareholders. The Plan authorizes stock-based and cash-based incentives for Participants.

2. Definitions. In addition to the terms defined in Section 1 above and elsewhere in the Plan, the following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) "Award" means any Non-qualified Stock Option, SAR, Restricted Stock, Deferred Stock, Stock granted as a bonus or in lieu of another award, Dividend Equivalent, Other Stock-Based Award, or Performance Award, together with any related right or interest, granted to a Participant under the Plan.

(b) "Beneficiary" means the legal representatives of the Participant's estate entitled by will or the laws of descent and distribution to receive the benefits under a Participant's Award upon a Participant's death, provided that, if and to the extent authorized by the Committee, a Participant may be permitted to designate a Beneficiary, in which case the "Beneficiary" instead shall be the person(s) (if any are then surviving), trust(s) or entity(ies) which have been designated by the Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Participant's Award upon such Participant's death.

(c) "Board" means the Company's Board of Directors.

(d) "Change in Control" and related terms have the meanings specified in Section 8.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Committee" means a committee of two or more directors designated by the Board to administer the Plan. The full Board may perform any function of the Committee hereunder, in which case the term "Committee" shall refer to the Board. Initially, the Compensation and Stock Option Committee of the Board of Directors will be designated as the "Committee" under the Plan.

(g) “Deferred Stock” means a right, granted to a Participant under Section 6(e), to receive Stock or other Awards or a combination thereof at the end of a specified deferral period.

(h) “Dividend Equivalent” means a right, granted to a Participant under Section 6(g), to receive cash, Stock, other Awards or other property equal in value to all or a specified portion of the dividends paid with respect to a specified number of shares of Stock.

(i) “Effective Date” means the effective date specified in Section 10(p).

(j) “Eligible Person” has the meaning specified in Section 5.

(k) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(l) “Fair Market Value” means the fair market value of Stock, Awards or other property as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock shall be the closing sale price reported on the composite tape of the principal stock exchange on which the Stock is listed on the day as of which such value is being determined or, if there is no sale on that day, then on the last previous day on which a sale was reported.

(m) “Non-qualified Stock Option” means an option to purchase Stock or other Awards pursuant to Section 6(b), which option is designated as a non-qualified stock option and is not intended to qualify as an incentive stock option within the meaning of Code Section 422.

(n) “Other Stock-Based Awards” means Awards granted to a Participant under Section 6(h).

(o) “Participant” means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(p) “Performance Award” means a conditional right, granted to a Participant under Section 6(i), to receive cash, Stock or other Awards or payments, as determined by the Committee, based upon performance criteria specified by the Committee.

(q) “Restricted Stock” means Stock granted to a Participant under Section 6(d) which is subject to certain restrictions and to a risk of forfeiture.

(r) “Stock” means the Company’s Common Stock, and any other equity securities of the Company that may be substituted or resubstituted for Stock pursuant to Section 10(c).

(s) “Stock Appreciation Rights” or “SAR” means a right granted to a Participant under Section 6(c).

3. Administration.

(a) Authority of the Committee. The Plan shall be administered by the Committee, which shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants; to grant Awards; to determine the type and number of Awards, the dates on which Awards may be exercised and on which the risk of forfeiture or deferral period relating to Awards shall lapse or terminate, the acceleration of any such dates, the expiration date of any Award, whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Stock, other Awards, or other property, and other terms and conditions of, and all other matters relating to, Awards; to prescribe documents evidencing or setting terms of Awards (such Award documents need not be identical for each Participant), amendments thereto, rules and regulations for the administration of the Plan and amendments thereto, and standardized terms and conditions of awards and amendments thereto (which, if so specified by the Committee, shall be deemed to be incorporated into and a part of this Plan); to construe and interpret the Plan and Award documents and correct defects, supply omissions or reconcile inconsistencies therein; and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. Decisions of the Committee with respect to the administration and interpretation of the Plan shall be final, conclusive, and binding upon all persons interested in the Plan, including Participants, Beneficiaries, transferees under Section 10(b) and other persons claiming rights from or through a Participant, and shareholders.

(b) Manner of Exercise of Committee Authority. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any subsidiary or affiliate, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions.

(c) Limitation of Liability. The Committee and each member thereof, and any person acting pursuant to authority delegated by the Committee, shall be entitled, in good faith, to rely or act upon any report or other information furnished by any executive officer, other officer or employee of the Company or a subsidiary or affiliate, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee, any person acting pursuant to authority delegated by the Committee, and any officer or employee of the Company or a subsidiary or affiliate acting at the direction or on behalf of the Committee or a delegate shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. Stock Subject to Plan.

(a) Overall Number of Shares Available for Delivery. Subject to adjustment as provided in Section 10(c), the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be one million five hundred thousand. Any shares of Stock delivered under the Plan shall consist of authorized and unissued shares or treasury shares.

(b) Share Counting Rules. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. Shares subject to an Award that is canceled, expired, forfeited, settled in cash or otherwise terminated without a delivery of shares to the Participant will again be available for Awards, and shares withheld in payment of the exercise price or taxes relating to an Award and shares equal to the number surrendered in payment of any exercise price or taxes relating to an Award shall be deemed to constitute shares not delivered to the Participant and shall be deemed again to be available for Awards under the Plan. In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a subsidiary or affiliate, shares issued or issuable in connection with such substitute Award shall not be counted against the number of shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business.

5. Eligibility. Awards may be granted under the Plan only to Eligible Persons. For purposes of the Plan, an "Eligible Person" means an employee of the Company or any subsidiary or affiliate, or a consultant or other person who provides substantial services to the Company or subsidiary or affiliate, but excluding any person who (i) is the Company's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division or function (such as sales, administration or finance), any other person who performs a policy-making function for the Company, (ii) is an officer of one or more of the Company's subsidiaries to the extent that he or she performs such policy-making functions identified in clause (i) for the Company, or (iii) is a member of the Board. The term "Eligible Person" shall also include any person who has been offered employment by the Company or a subsidiary or affiliate, provided that such prospective employee may not receive any payment or exercise any right relating to an Award until such person has commenced employment with the Company or a subsidiary or affiliate of the Company. An employee on leave of absence may be considered as still in the employ of the Company or a subsidiary or affiliate for purposes of eligibility for participation in the Plan, if so determined by the Committee. A joint venture in which the Company or a subsidiary has a substantial direct or indirect equity investment may be deemed an affiliate, if so determined by the Committee, but such determination shall be solely for purposes of this Plan.

6. Specific Terms of Awards.

(a) General. Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment or service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion with respect to any term or condition of an Award that is not mandatory under the Plan. The Committee may require payment of consideration for an Award, except as otherwise limited by the Plan.

(b) Non-qualified Stock Options. The Committee is authorized to grant Non-qualified Stock Options to Participants on the following terms and conditions:

(i) Exercise Price. The exercise price per share of Stock purchasable under a Non-qualified Stock Option shall be determined by the Committee, but such exercise price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such Non-qualified Stock Option, subject to Sections 6(f) and 8(a), unless the Committee finds there to exist extraordinary circumstances such that the grant of a Non-Qualified Stock Option with an exercise price less than such Fair Market Value is appropriate.

(ii) Option Term; Time and Method of Exercise. The Committee shall determine the term of each Non-qualified Stock Option. The Committee shall determine the time or times at which or the circumstances under which a Non-qualified Stock Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid and the form of such payment (subject to Section 10(k)), including, without limitation, cash, Stock, other Awards or awards granted under other plans of the Company or any subsidiary or affiliate, or other property (including notes and other contractual obligations of Participants to make payment on a deferred basis, such as through "cashless exercise" arrangements, to the extent permitted by applicable law), and the methods by or forms in which Stock will be delivered or deemed to be delivered in satisfaction of Non-qualified Stock Options to Participants (including deferred delivery of shares representing the Non-qualified Stock Option "profit," at the election of the Participant or as mandated by the Committee, with such deferred shares subject to any vesting, forfeiture or other terms as the Committee may specify).

(c) Stock Appreciation Rights. The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) Right to Payment. An SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise (or, in the case of a "Limited SAR," the Fair Market Value determined by reference to the Change in Control Price, as defined under Section 8(d) hereof) over (B) the grant price of the SAR as determined by the Committee.

(ii) Other Terms. The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, and whether or not a SAR shall be free-standing or in tandem or combination with any other Award. Limited SARs that may only be exercised in connection with a Change in Control or other event as specified by the Committee may be granted on such terms, not inconsistent with this Section 6(c), as the Committee may determine.

(d) Restricted Stock. The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) Grant and Restrictions. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise and under such other circumstances as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award document relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a shareholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee).

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) Certificates for Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) Dividends and Splits. As a condition to the grant of an Award of Restricted Stock, the Committee may require that any dividends paid on a share of Restricted Stock shall be either (A) paid with respect to such Restricted Stock at the dividend payment date in cash, in kind, or in a number of shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) automatically reinvested in additional Restricted Stock or held in kind, which shall be subject to the same terms as applied to the original Restricted Stock to which it relates, or (C) deferred as to payment, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in shares of Deferred Stock, other Awards or other investment vehicles, subject to such terms as the Committee shall determine or permit a Participant to elect. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(e) Deferred Stock. The Committee is authorized to grant Deferred Stock to Participants, which are rights to receive Stock, other Awards, or a combination thereof at the end of a specified deferral period, subject to the following terms and conditions:

(i) Award and Restrictions. Issuance of Stock will occur upon expiration of the deferral period specified for an Award of Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the date of grant or thereafter. Deferred Stock may be satisfied by delivery of Stock, other Awards, or a combination thereof (subject to Section 10(k)), as determined by the Committee at the date of grant or thereafter.

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award document evidencing the Deferred Stock), all Deferred Stock that is at that time subject to such forfeiture conditions shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) Dividend Equivalents. Unless otherwise determined by the Committee, Dividend Equivalents on the specified number of shares of Stock covered by an Award of Deferred Stock shall be either (A) paid with respect to such Deferred Stock at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles having a Fair Market Value equal to the amount of such dividends, as the Committee shall determine or permit a Participant to elect.

(f) Bonus Stock and Awards in Lieu of Obligations. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or a subsidiary or affiliate to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee.

(g) Dividend Equivalents. The Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equivalent to all or a portion of the dividends paid with respect to a specified number of shares of Stock. Dividend Equivalents may be awarded on a freestanding basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to restrictions on transferability, risks of forfeiture and such other terms as the Committee may specify.

(h) Other Stock-Based Awards. The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock or factors that may influence the value of Stock, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified subsidiaries or affiliates or other business units. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, notes, or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h).

(i) Performance Awards. The Committee is authorized to grant Performance Awards on the terms and conditions specified in this Section 6(i). Performance Awards may be denominated as a cash amount, number of shares of Stock, or specified number of other Awards (or a combination) which may be earned upon achievement or satisfaction of performance conditions specified by the Committee. In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the right of a Participant to exercise the Award or have it settled, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions.

7. Certain Provisions Applicable to Awards.

(a) Stand-Alone, Additional, Tandem, and Substitute Awards. Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any subsidiary or affiliate, or any business entity to be acquired by the Company or a subsidiary or affiliate, or any other right of a Participant to receive payment from the Company or any subsidiary or affiliate. Awards granted in addition to or in tandem with other Awards or awards may be granted either as of the same time as or a different time from the grant of such other Awards or awards. Subject to Section 10(k), the Committee may determine that, in granting a new Award, the in-the-money value of any surrendered Award or award may be applied to reduce the exercise price of any Non-qualified Stock Option, grant price of any SAR, or purchase price of any other Award.

(b) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee.

(c) Form and Timing of Payment under Awards; Deferrals . Subject to the terms of the Plan (including Section 10(k)) and any applicable Award document, payments to be made by the Company or a subsidiary or affiliate upon the exercise of a Non-qualified Stock Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (subject to Section 10(k)). Installment or deferred payments may be required by the Committee (subject to Section 10(e)) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

8. Change in Control .

(a) Effect of “Change in Control” on Non-Performance Based Awards . In the event of a “Change in Control,” the following provisions shall apply to non-performance based Awards, including Awards as to which performance conditions previously have been satisfied or are deemed satisfied under Section 8(b), unless otherwise provided by the Committee in the Award document:

(i) All deferral of settlement, forfeiture conditions and other restrictions applicable to Awards granted under the Plan shall lapse and such Awards shall be fully payable as of the time of the Change in Control without regard to deferral and vesting conditions, except to the extent of any waiver by the Participant or other express election to defer beyond a Change in Control and subject to applicable restrictions set forth in Section 10(a);

(ii) Any Award carrying a right to exercise that was not previously exercisable and vested shall become fully exercisable and vested as of the time of the Change in Control and shall remain exercisable and vested for the balance of the stated term of such Award without regard to any termination of employment or service by the Participant other than a termination for “cause” (as defined in any employment or severance agreement between the Company or a subsidiary or affiliate and the Participant then in effect or, if none, as defined by the Committee and in effect at the time of the Change in Control), subject only to applicable restrictions set forth in Section 10(a); and

(iii) The Committee may, in its discretion, determine to extend to any Participant who holds a Non-qualified Stock Option the right to elect, during the 60-day period immediately following the Change in Control, in lieu of acquiring the shares of Stock covered by such Non-qualified Stock Option, to receive in cash the excess of the Change in Control Price over the exercise price of such Non-qualified Stock Option, multiplied by the number of shares of Stock covered by such Non-qualified Stock Option, and to extend to any Participant who holds other types of Awards denominated in shares the right to elect, during the 60-day period immediately following the Change in Control, in lieu of receiving the shares of Stock covered by such Award, to receive in cash the Change in Control Price multiplied by the number of shares of Stock covered by such Award.

(b) Effect of “Change in Control” on Performance-Based Awards. In the event of a “Change in Control,” with respect to an outstanding Award subject to achievement of performance goals and conditions, such performance goals and conditions shall be deemed to be met or exceeded if and to the extent so provided by the Committee in the Award document governing such Award or other agreement with the Participant.

(c) Definition of “Change in Control.” A “Change in Control” shall be deemed to have occurred if, after the Effective Date, there shall have occurred any of the following:

(i) Any “person,” as such term is used in Section 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), acquires voting securities of the Company and immediately thereafter is a “50% Beneficial Owner.” For purposes of this provision, a “50% Beneficial Owner” shall mean a person who is the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then-outstanding voting securities;

(ii) During any period of two consecutive years commencing on or after the Effective Date, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person (as defined above) who has entered into an agreement with the Company to effect a transaction described in subsections (i), (iii), (iv) or (v) of this definition) whose election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved (the “Continuing Directors”) cease for any reason to constitute at least a majority thereof;

(iii) The shareholders of the Company have approved a merger, consolidation, recapitalization, or reorganization of the Company, or a reverse stock split of any class of voting securities of the Company, or the consummation of any such transaction if shareholder approval is not obtained, other than any such transaction which would result in at least 50% of the combined voting power of the voting securities of the Company or the surviving entity outstanding immediately after such transaction being beneficially owned by the persons who were shareholders of the Company immediately prior to the transaction in substantially the same proportion as their ownership of the voting power immediately prior to the transaction; provided that, for purposes of this Section 8(c)(iii), such continuity of ownership (and preservation of relative voting power) shall be deemed to be satisfied if the failure to meet such 50% threshold (or to substantially preserve such relative ownership of the voting securities) is due solely to the acquisition of voting securities by an employee benefit plan of the Company, such surviving entity or a subsidiary thereof; and provided further, that, if consummation of the corporate transaction referred to in this Section 8(c)(iii) is subject, at the time of such approval

by shareholders, to the consent of any government or governmental agency or approval of the shareholders of another entity or other material contingency, no Change in Control shall occur until such time as such consent and approval has been obtained and any other material contingency has been satisfied;

(iv) The shareholders of the Company accept shares in a share exchange in which the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than 50% of the combined voting power of the outstanding voting securities of the corporation resulting from or surviving such share exchange in substantially the same proportion as the ownership of the Voting Securities outstanding immediately before such share exchange;

(v) The shareholders of the Company have approved a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect); provided that, if consummation of the transaction referred to in this Section 8(c)(v) is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency or approval of the shareholders of another entity or other material contingency, no Change in Control shall occur until such time as such consent and approval has been obtained and any other material contingency has been satisfied; and

(vi) Any other event which the Board of Directors of the Company determines shall constitute a Change in Control for purposes of this Plan.

(d) Definition of "Change in Control Price." The "Change in Control Price" means an amount in cash equal to the higher of (i) the amount of cash and fair market value of property that is the highest price per share paid (including extraordinary dividends) in any transaction triggering the Change in Control or any liquidation of shares following a sale of substantially all assets of the Company, or (ii) the highest Fair Market Value per share at any time during the 60-day period preceding and 60-day period following the Change in Control.

9. Additional Award Forfeiture Provisions .

(a) Events Triggering Forfeiture . Notwithstanding any other provision of this Plan, the forfeitures specified in this Section 9(a) will be triggered if the Participant's employment or engagement is terminated by the Company and the Board makes a determination that the Participant, at any time during the Participant's employment with or engagement by the Company or a subsidiary or affiliate of the Company or at any time during the one-year period following such employment or engagement (i) has engaged in any type of disloyalty to the Company, including without limitation, insubordination, fraud, embezzlement, theft or dishonesty in the course of his employment or engagement, or (ii) has been convicted of a felony, or (iii) has disclosed any confidential or proprietary information without the consent of the Company or (iv) has breached the terms of any written confidentiality agreement or any non-competition agreement with the Company in any material respect. In the event of a termination and Board determination described in the preceding sentence, all unexercised Non-qualified Stock Options and unexercised or otherwise unsettled Awards held by the Participant shall terminate upon the earlier of the date of termination of employment or engagement or the date of the Board's determination.

(b) Committee Discretion. The Committee may, in its discretion, waive in whole or in part the Company's right to forfeiture under this Section, but no such waiver shall be effective unless evidenced by a writing signed by a duly authorized officer of the Company. In addition, the Committee may impose additional conditions on Awards by inclusion of appropriate provisions in the document evidencing or governing any such Award.

10. General Provisions.

(a) Compliance with Legal and Other Requirements. The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other securities of the Company are listed or quoted, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations. The foregoing notwithstanding, in connection with a Change in Control, the Company shall take or cause to be taken no action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the 90th day preceding the Change in Control.

(b) Limits on Transferability; Beneficiaries. No Award or other right or interest of a Participant under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party (other than the Company or a subsidiary or affiliate thereof), or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights may be transferred to one or more transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee, subject to any terms and conditions which the Committee may impose thereon (including limitations the Committee may deem appropriate in order that offers and sales under the Plan will meet applicable requirements of registration forms under the Securities Act of 1933 specified by the Securities and Exchange Commission). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award document applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) Adjustments. In the event that any large, special and non-recurring dividend or other distribution (whether in the form of cash or property other than Stock), recapitalization, forward or reverse split, stock dividend, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock such that an adjustment is determined by the Committee to be appropriate under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, (ii) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards and (iii) the exercise price, grant price or purchase price relating to any Award or, if deemed appropriate, the Committee may make provision for a payment of cash or property to the holder of an outstanding Non-qualified Stock Option (subject to Section 10(k)). In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals and any hypothetical funding pool relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence, as well as acquisitions and dispositions of businesses and assets) affecting the Company, any subsidiary or affiliate or other business unit, or the financial statements of the Company or any subsidiary or affiliate, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any subsidiary or affiliate or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant.

(d) Tax Provisions.

(i) Withholding. The Company and any subsidiary or affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's withholding obligations, either on a mandatory or elective basis in the discretion of the Committee. Other provisions of the Plan notwithstanding, only the minimum amount of Stock deliverable in connection with an Award necessary to satisfy statutory withholding requirements will be withheld.

(ii) Required Consent to and Notification of Code Section 83(b) Election. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made unless expressly permitted by the terms of the Award document or by action of the Committee in writing prior to the making of

such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

(e) Changes to the Plan. The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of shareholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's shareholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such shareholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other amendments to the Plan to shareholders for approval; and provided further, that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award. With regard to other terms of Awards, the Committee shall have no authority to waive or modify any such Award term after the Award has been granted to the extent the waived or modified term would be mandatory under the Plan for any Award newly granted at the date of the waiver or modification.

(f) Right of Setoff. The Company or any subsidiary or affiliate may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or a subsidiary or affiliate may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company, including but not limited to amounts owed under Section 10(a), although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 10(f).

(g) Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

(h) Nonexclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements, apart from the Plan, as it may deem desirable.

(i) Payments in the Event of Forfeitures; Fractional Shares. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) Certain Limitations Relating to Accounting Treatment of Awards. Other provisions of the Plan notwithstanding, the Committee's authority under the Plan (including under Sections 7(c), 10(c) and 10(d)) is limited to the extent necessary to ensure that any Non-qualified Stock Option or other Award of a type that the Committee has intended to be subject to fixed accounting with a measurement date at the date of grant or the date performance conditions are satisfied under APB 25 shall not become subject to "variable" accounting solely due to the existence of such authority.

(k) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award document shall be determined in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of laws, and applicable provisions of federal law.

(l) Awards to Participants Outside the United States. The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad shall be comparable to the value of such an Award to a Participant who is resident or primarily employed in the United States.

(m) Limitation on Rights Conferred under Plan. Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue to provide services to the Company or a subsidiary or affiliate, (ii) interfering in any way with the right of the Company or a subsidiary or affiliate to terminate the employment or engagement of any Eligible Person at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants, employees or service providers, or (iv) conferring on a Participant any of the rights of a shareholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award or a Non-qualified Stock Option is duly exercised. Except as expressly provided in the Plan and an Award document, neither the Plan nor any Award document shall confer on any person other than the Company and the Participant any rights or remedies thereunder.

(n) Severability; Entire Agreement. If any of the provisions of this Plan or any Award document is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such

invalidity, illegality or unenforceability, and the remaining provisions shall not be affected thereby; provided, that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award documents contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof.

(o) References to Legal and Regulatory Provisions. References in this Plan to any provision of law, including the Code and the Exchange Act, or rule or regulation (including accounting principles and interpretations) shall include subsequently adopted amendments and any successor provisions, rules or regulations.

(p) Plan Effective Date and Termination. The Plan shall become effective upon its adoption by the Board. Unless earlier terminated by action of the Board of Directors and subject to Section 6(a), the Plan will remain in effect until such time as no Stock remains available for delivery under the Plan and the Company has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan.

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
OF
INTERDIGITAL COMMUNICATIONS CORPORATION**

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

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

Date: November 9, 2006

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF
INTERDIGITAL COMMUNICATIONS CORPORATION**

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

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

Date: November 9, 2006

/s/ R.J. FAGAN

Richard J. Fagan
Chief Financial Officer

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Merritt, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2006

/s/ WILLIAM J. MERRITT

William J. Merritt
President and Chief Executive Officer

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2006

/s/ R. J. FAGAN

Richard J. Fagan
Chief Financial Officer