INTERDIGITAL INC.

FORM 10-K
(Annual Report)

Filed 03/14/06 for the Period Ending 12/31/05

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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-K

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

For the fiscal year ended December 31, 2005

OR

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

For the fiscal year ended December 31, 2005 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, Pennsylvania** **(Address of principal executive offices)**	**19406-1409** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (Par Value $0.01 Per Share) Series B Junior Participating Preferred Stock Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not herein contained, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filed ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $ 924,173,320 as of June 30, 2005.

The number of shares outstanding of the registrant's common stock was 55,031,177 as of March 8, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2006 Annual Meeting of Shareholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III, Items 10, 11, 12, and 14 of this Annual Report. Such Definitive Proxy Statement will be filed not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2005.

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GLOSSARY OF TERMS

1xEV-DO

"First Evolution Data Optimized." An evolution of cdma2000.

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.

802.11

An IEEE standard for wireless LAN interoperability. Letter appendages (i.e., 802.11 a/b/g) identify various amendments to the standards which denote different features and capabilities.

Air Interface

The wireless interface between a terminal unit and the base station or between wireless devices in a communication system.

ANSI

"American National Standards Institute." The United States national standards accreditation and policy agency. ANSI monitors and provides oversight of all accredited U.S. Standards Development Organizations to insure they follow an open public process.

ASIC

"Application Specific Integrated Circuit." A computer chip developed for a specific purpose, and frequently designed using a mircoprocessor core and integrating other functions unique to the application in which the chip will be used. Many SOC designs are ASICs.

ATIS

"Alliance for Telecommunications Industry Solutions." An ANSI-accredited U.S.-based standards association which concentrates on developing and promoting technical/operational standards for the communications and information technology industries worldwide.

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.

Base Station

The central radio transmitter/receiver, or group of central radio transmitters/receivers, that maintains communications with subscriber equipment sets within a given range (typically, a cell site).

Category 10

The HSDPA standard contains different "categories," ranging from category 1 through category 10, to define specific configurations and performances. Category 10 is the fastest mode of HSDPA capable of achieving 14Mbps.

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.

Chip Rate

The rate at which information signal bits are transmitted as a sequence of chips. The chip rate is usually several times the information bit rate.

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.

Digital Cellular

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

Duplex

A characteristic of data transmission; either full duplex or half duplex. Full duplex permits simultaneous transmission in both directions of a communications channel. Half duplex means only one transmission at a time.

EDGE

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

ETSI

"European Telecommunications Standards Institute." The standards organization which drafts standards for Europe.

FDD

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

FDMA

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

Frequency

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

GHz

“Gigahertz.” One gigahertz is equal to one billion cycles per second.

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.

Hertz

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

HSDPA

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

HSUPA

“High Speed Uplink Packet Access.” An enhancement to WCDMA technology that improves the performance of the radio uplink to increase capacity and throughput, and to reduce delay.

iDEN ®

“Integrated Dispatch Enhanced Network.” A proprietary TDMA standards-based technology which allows access to phone calls, paging and data from a single device.

IEEE

“Institute of Electrical and Electronic Engineers.” A membership organization of engineers that among its activities produces data communications standards.

IEEE 802

A standards body within the IEEE that specifies communications protocols for both wired and wireless local area and wide area networks (LAN/WAN).

IC

“Integrated Circuit.” A multifunction circuit formed in or around a semiconductor base.

Internet

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

IPR

“Intellectual Property Right.”

ISO

“International Standards Organization.” An international organization, which sets international electrical and electronics standards. The U.S. member body is ANSI.

ITU

“International Telecommunication Union.” An international organization established by the United Nations with membership from virtually every government in the world. Publishes recommendations for engineers, designers, OEMs, and service providers through its three main activities: defining and adoption of telecommunications standards; regulating the use of the radio frequency spectrum; and furthering telecommunications development globally.

ITC

“InterDigital Technology Corporation,” one of our wholly-owned Delaware subsidiaries.

Kbps

“Kilobits per Second.” A measure of information-carrying capacity (i.e., the data transfer rate) of a circuit, in thousands of bits.

Km

“Kilometer.”

Know-How

Technical information, technical data and trade secrets that derive value from the fact that they are not generally known in the industry. Know-how can include, but not limited to, designs, drawings, prints, specifications, semiconductor masks, technical data, software, net lists, documentation and manufacturing information.

LAN

“Local Area Network.” A private data communications network linking a variety of data devices located in the same geographical area and which share files, programs and various devices.

MAC

“Media Access Control.” Part of the 802.3 (Ethernet LAN) standard which contains specifications and rules for accessing the physical portions of the network.

MAN

“Metropolitan Area Network.” A communication network which covers a geographic area such as a city or suburb.

Mbps

“Megabits per Second.” A measure of information – carrying capacity of a circuit; millions of bits per second.

Modem

A combination of the words modulator and demodulator, referring to a device that modifies a signal (such as sound or digital data) to allow it to be carried over a medium such as wire or radio.

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.

ODM

“Original Design Manufacturer.” Independent contractors that develop and manufacture equipment on behalf of another company using another company’s brand name on the product.

OEM

“Original Equipment Manufacturer.” A manufacturer of equipment (e.g., base stations, terminals) that sells to operators.

OSI Reference Model

A seven layer network architecture model developed by ISO and ITU. Each layer specifies particular network functions.

PCMCIA

“Personal Computer Memory Card International Association.” An international industry group that promotes standards for credit card-sized memory card hardware that fits into computing devices such as notebooks or laptops.

PDC

“Personal Digital Cellular.” The standard developed in Japan for TDMA digital cellular mobile radio communications systems.

PHS

“Personal Handyphone System.” A digital cordless telephone system and digital network based on TDMA. This low-mobility microcell standard was developed in Japan. Commonly known as PAS in China.

PHY

“Physical Layer.” The wires, cables, and interface hardware that connect devices on a wired or wireless network. It is the lowest layer of network processing that connects a device to a transmission medium.

Platform

A combination of hardware and software blocks implementing a complete set of functionalities that can be optimized to create an end product.

Protocol

A formal set of conventions governing the format and control of interaction among communicating functional units.

RF

“Radio Frequency.” The range of electomagnetic frequencies above the audio range and below visible light.

Smart Antenna

Antennas utilizing multiple elements with signal processing capabilities which enhance desired, or reduce undesired, transmission to or from wireless products.

SOC

“System-on-a-chip.” The embodiment on a single silicon chip of the essential components that comprise the operational core of a digital system.

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.

TDD

“Time Division Duplexing.” A duplex operation using a single frequency, divided by time, for transmission and reception.

TD/FDMA

“Time Division/Frequency Division Multiple Access.” A technique that combines TDMA and FDMA.

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.

TD-SCDMA

“Time Division Synchronous CDMA.” A form of TDD utilizing a low Chip Rate.

Terminal/Terminal Unit

Equipment at the end of a communications path. Often referred to as an end-user device or handset. Terminal units include mobile phone handsets, personal digital assistants, computer laptops and telephones.

TIA/EIA-54

The original TDMA digital cellular standard in the United States. Implemented in 1992 and then upgraded to the TIA/EIA-136 digital standard in 1996.

TIA/EIA-95

A 2G CDMA standard.

TIA/EIA-136

A United States standard for digital TDMA technology.

TIA (USA)

The Telecommunications Industry Association.

WAN

“Wide Area Network.” A data network that extends a LAN outside of its coverage area, via telephone common carrier lines, to link to other LANs.

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.

WiMAX

A commercial brand associated with products and services using IEEE 802.16 standard technologies for wide area networks broadband wireless.

Wireless

Radio-based systems that allow transmission of information without a physical connection, such as copper wire or optical fiber.

Wireless LAN (WLAN)

“Wireless Local Area Network.” A collection of devices (computers, networks, portables, mobile equipment, etc.) linked wirelessly over a limited local area.

WTDD

“Wideband TDD” or “Wideband Time Division Duplex.” A form of TDD utilizing a high Chip Rate.

PART I

Item 1 . BUSINESS

General

We design and develop advanced digital wireless technologies which we make available for license to semiconductor companies, handset manufacturers and other equipment producers. Our technology offerings include patented inventions, know-how and other technical data (e.g., software, designs and specifications) related to the design and operation of digital wireless products and systems. We have built our suite of offerings through independent development, joint development with other companies, and through selected acquisitions. We actively participate in the standard-setting process for digital wireless technologies, both cellular and non-cellular, contributing solutions that are regularly incorporated into the standards.

We generate revenues and cash flow primarily through royalties received under patent license agreements covering our customers' manufacture and sale of 2G and 3G mobile terminal units (e.g., handsets) and infrastructure. We also generate revenues and cash flow by licensing our technology solutions (e.g., HSDPA, WCDMA terminal unit protocol stack software, physical layer designs, etc.) and the provision of specialized engineering services. We are seeking to both expand revenues from the technology solution portion of our business and create synergies between our patent licensing and technology licensing businesses.

As an early participant in the digital wireless market, we developed pioneering solutions for the two primary cellular air interface technologies in use today: TDMA and CDMA. That early involvement, as well as our continued development of advanced digital wireless technologies, has created our significant worldwide portfolio of patents and patent applications in digital wireless communications. Included in that portfolio are a number of patented inventions which we believe are essential to products built to 2G and 3G cellular standards, and other standards such as WLAN and WiMAX. Accordingly, we believe that companies making, using or selling products compliant with these standards require a license under our patents. In conjunction with our participation in the standards bodies, we have filed declarations with the applicable standards bodies stating that we believe we have essential patents and that we agree to make those patents available for use and license on fair, reasonable and non-discriminatory terms or similar terms consistent with the requirements of the individual standards organizations.

Products incorporating our inventions include:

- Mobile terminal units, including cellular phones, wireless personal digital assistants and notebook computers, PCMCIA cards, and similar products
- Base stations and other wireless infrastructure equipment
- Components for wireless devices

We also incorporate our inventions into our own technology solutions consisting mainly of protocol stack software, ASIC reference designs and related know-how, which are principally targeted at the mobile terminal unit market. These solutions provide time-to-market, performance and cost advantages to our customers. While our solutions conform to applicable standards, they also include proprietary implementations for which we seek patent protection.

Our investments in the development of advanced digital wireless technologies and related products include sustaining a highly specialized engineering team and providing that team with the equipment and advanced software platforms necessary to support the development of technologies. Over each of the last three years, our cost of development has ranged between 43% and 54% of our total operating expenses. The largest portion of this cost has been personnel costs. As of December 31, 2005, we employed 202 engineers, 77% of whom hold advanced degrees, 30 of whom hold PhDs.

We incorporated in 1972 under the laws of the Commonwealth of Pennsylvania, and we conducted our initial public offering in November 1981. Our corporate headquarters and administrative offices are located in King of Prussia, Pennsylvania, USA. Our research and technology and product development teams are located in the following locations: King of Prussia, Pennsylvania, USA; Melville, New York, USA; and Montreal, Quebec, Canada.

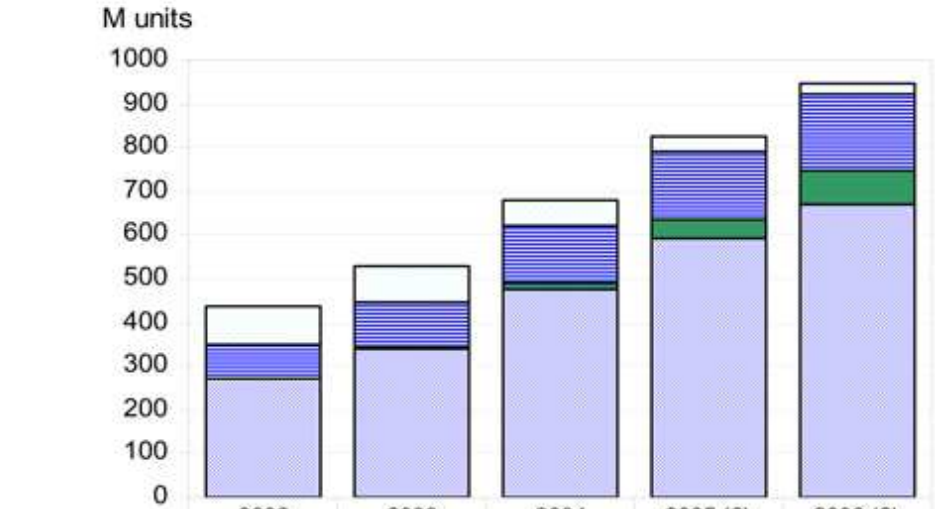
Our Internet address is *www.interdigital.com* . Where, in the "Investing" section , we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports required to be filed under the Securities Exchange Act of 1934, and all amendments to those reports as soon as reasonably practicable after such material is filed with the United States Securities and Exchange Commission (SEC). The information contained on or connected to our website is not incorporated by reference into this Form 10-K.

Wireless Communications Industry Overview

Participants in the wireless communications industry include original equipment manufacturers (OEMs), semiconductor manufacturers, original design manufacturers (ODMs), a variety of technology suppliers, applications developers, and operators that deliver communications products and services to consumers and businesses. In order to achieve economies of scale and allow for interoperability across geographic regions, the products for the wireless industry have typically been built to wireless standards. The cellular market initially focused on delivering voice-oriented services. Over the past five years, the industry transitioned from providing digital voice-oriented wireless products and services (commonly referred to as Second Generation or 2G), to also providing data services. Operators are now offering higher data rates and enhanced Internet access with the introduction of 3G technologies. Concurrently, non-cellular wireless technologies, such as IEEE 802.11, have emerged as a means to provide wireless Internet access for fixed and nomadic use. Industry participants anticipate a proliferation of converged devices that incorporate multiple air interface technologies and functionalities, and provide seamless operation. As an example, such converged devices could provide seamless operation between a 3G network and a WLAN network.

Over the course of the last ten years, the cellular communications industry has experienced rapid growth worldwide. Total worldwide cellular wireless communications subscribers rose from slightly more than 200 million at the end of 1997 to 1.7 billion at the end of 2005. In several countries, mobile telephones now outnumber fixed-line telephones. Market analysts expect that the aggregate number of global wireless subscribers could reach 3 billion in 2009 .

Global Handset Sales by Technology (1)



	2002	2003	2004	2005 (2)	2006 (2)
Other (3)	86	84	57	32	21
CDMA One, CDMA2000 1x, 1xEV	76	102	132	153	177
WCDMA	0	3	17	44	79
GSM, GPRS, EDGE	273	341	475	594	668
Total Handsets	435	530	681	823	945

(1) Source: Strategy Analytics, Inc. - January 2006.
(2) 2005 and 2006 data represents estimates of handset sales.
(3) Includes: Analog, iDEN, TDMA, PHS, PDC, TD-SCDMA.

The growth in new cellular subscribers, combined with existing customers choosing to replace their mobile phones, helped fuel the growth of mobile phone sales from approximately 115 million units in 1997 to over 820 million units in 2005. We believe the combination of a broad subscriber base, continued technological change, and the ever growing dependence on the Internet, e-mail and other digital media sets the stage for continued growth in the sales of wireless products and services through the balance of this decade. For those reasons, shipments of 3G-enabled phones (WCDMA, cdma2000, 1xEV-DO) which represented approximately 24% of the market in 2005, are predicted to increase to 49% of the market by 2009.

In addition to the advances in digital cellular technologies, the industry has also made significant advances in non-cellular wireless technologies. In particular, IEEE 802.11 WLAN has gained momentum in recent years as a wireless broadband solution in the home, office and in public areas. IEEE 802.11 technology offers high-speed data connectivity through unlicensed spectrum

within a relatively modest operating range. Since its introduction in 1998, semiconductor shipments of products built to the IEEE 802.11 standard have nearly doubled every year. While relatively small compared to the cellular market (117 million IEEE 802.11 wireless ICs shipped in 2005), the affordability and attractiveness of the technology has helped fuel rapid market growth . In addition, the IEEE wireless standards bodies are creating sets of standards to enable higher data rates, provide coverage over longer distances, and enable roaming.

Evolution of Wireless Standards

Wireless communications standards are formal guidelines for engineers, designers, manufacturers and service providers that regulate and define the use of the licensed radio frequency spectrum in conjunction with providing specifications for wireless communications products. A primary goal of the standards is to assure inter-operability of products from multiple OEM companies built to a common standard. A number of international and regional wireless Standards Development Organizations (SDOs), including the International Telecommunications Union (ITU), the European Telecommunications Standards Institute (ETSI), the Telecommunications Industry Association (TIA), the Alliance for Telecommunications Industry Solutions (ATIS), and the American National Standards Institute (ANSI), have responsibility for the development and administration of wireless communications standards. New standards are typically adopted with each new generation of products, are often compatible with previous generations of the standards, and are defined to ensure interoperability with other standards.

These SDOs ask participating companies to formally declare whether they believe they hold patents essential to a particular standard and whether they are willing to license those patents on either a royalty-bearing basis on fair, reasonable and nondiscriminatory terms or on a royalty-free basis. To manufacture, have made, sell, offer to sell, or use such products on a non-infringing basis, a manufacturer or other entity doing so must first obtain a license from the holder of those essential patent rights. The SDOs do not have enforcement authority against entities that fail to obtain required licenses, nor do they have the ability to protect the intellectual property rights of holders of essential patents.

Digital Cellular Standards

The principal standardized digital cellular wireless products in use today are based on TDMA and CDMA technologies. The standardized TDMA technologies include GSM, TIA/EIA 54/136 (commonly known as AMPS-D, United States-based TDMA), PDC, PHS, DECT and TETRA. Of the TDMA technologies, GSM is the most prevalent, having been deployed in Europe, Asia, Africa, the Middle East, the Americas and other regions. Approximately 72% of worldwide handset sales for 2005 conform to GSM standards. TIA/EIA 54/136 technology has been deployed primarily in North, Central and South America and is slowly being replaced by other technologies. PDC technology has been deployed in Japan, while PHS technologies are deployed primarily in Japan, the People’s Republic of China (under the name PAS) and Taiwan. DECT is a digital cordless telephone standard that operates primarily in Europe. TETRA is an open digital trunked radio standard widely deployed in Europe to meet the needs of professional mobile radio users such as railways and utilities.

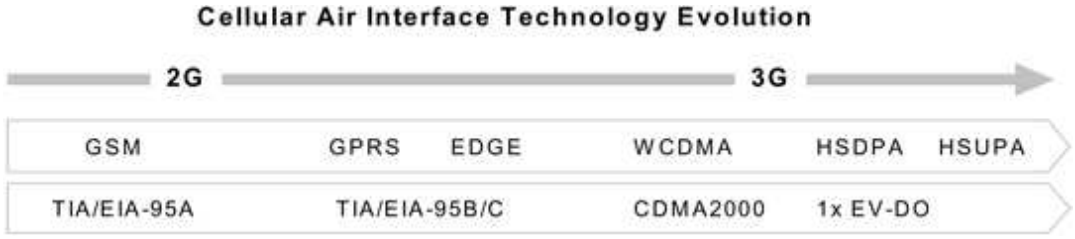
Standardized TDMA-based 2.5G systems were dominant in 2005, with GPRS reaching over 50% of global shipments and EDGE accelerating to almost 10% of all global shipments. 2.5G systems provide higher data rate services based on packet-data technology and, depending upon the generation of installed infrastructure, can be implemented without substantial additional infrastructure investment.

Narrowband CDMA-based technologies include TIA/EIA-95 (more commonly known as cdmaOne) and cdma2000 technologies and serve parts of the United States, Japan, South Korea and several other countries. In 2005, fewer than 20% of worldwide handset sales were based on these CDMA technologies.

Deployment of 3G services allows operators to take advantage of additional radio spectrum allocations and, through the use of even higher speeds than 2.5G, deliver additional voice and data-rich applications to their customers. The five specifications under the 3G standard include the following forms of CDMA technology: FDD, TDD, and Multichannel CDMA (cdma2000 technology). FDD and TDD collectively are referred to in the industry as WCDMA. In addition, TD-SCDMA, a variant of TDD technology, has been included in the standard’s specifications.

The capabilities of the various 3G technologies have continued to evolve within the SDOs. In particular, the development of faster and more efficient methods to carry packet data over the air has resulted in the ability to provide data rates substantially higher than were envisioned in the original 3G specifications. Chief among these emerging technologies are High Speed Downlink Packet Access and High Speed Uplink Packet Access (HSDPA/HSUPA), an evolution of WCDMA, and First Evolution Data Optimized (1xEV-DO), an evolution of cdma2000.

Depending upon their individual business plans, operators with existing GSM systems are deploying either GPRS-EDGE or WCDMA systems. Analysts expect that GSM operators will migrate to WCDMA. Operators that originally deployed TIA/EIA-95-based systems are generally deploying cdma2000 systems. Operators that originally deployed TIA/EIA-136 systems are generally deploying WCDMA systems. TD-SCDMA is being developed for potential deployment in the People’s Republic of China and for possible export outside of China. The chart below shows the anticipated technology evolution for the predominant cellular technologies in use today.



IEEE 802-Based Standards

The IEEE began to address the need for an interoperability standard among WLANs in 1990. The final standard, IEEE 802.11, was ratified in 1997. Since that time, the IEEE 802.11 Working Group has continued to update and expand the basic IEEE 802.11 standard to achieve higher data rates, accommodate additional operating frequencies and provide additional features. Equipment conforming to these standards (i.e., 802.11a/b/g) is in the marketplace today. Intended for short range applications, operating in unlicensed frequency bands and requiring little infrastructure, 802.11 standards-based equipment has seen substantial market growth, especially in consumer home networking applications. Similar to 3G, this standard also continues to evolve toward higher data rates and improved service capabilities.

The wide area network community has also established the IEEE 802.16 Working Group to define air interface standards for longer distance (2 to 50 km) Metropolitan Area and Wide Area Networks (MAN/WAN). The first 802.16 standard was published in 2002. Specifying operating frequencies from 10 to 66 GHz, it is primarily aimed toward very high speed wide area point to multipoint fixed applications. In 2003, an amendment to the 802.16 standard was published which added operation in the 2 to 11 GHz frequency bands. This addition made the standard much more suitable for providing wireless broadband high-speed Internet access for residential and small office applications. Analysts expect that equipment conforming to the 802.16-2004 fixed standard will be introduced in 2006. Concurrent with this revision of the fixed standard, the 802.16 Working Group embarked on defining a mobile version of the standard (referred to as 802.16e). The mobile version of the standard was completed and published in February 2006. More recently, the IEEE 802 community has begun to address the question of handover between the different IEEE 802 technologies, both wired and wireline, as well as handover to external non-802 networks, such as 3G. This new group, 802.21, entitled Media Independent Handover Services HS, anticipates that their initial standard will be available in late 2006.

InterDigital's Strategy

In recent years, the majority of our revenue has been derived from companies with which we have patent license agreements covering the manufacture and sale of 2G and 3G mobile terminal units and/or infrastructure. Our goal is to derive revenue on every 3G mobile terminal unit sold. As of March 2006, we have received royalties on approximately 35-40% of all 3G mobile terminal units sold worldwide.

Our strategy for achieving our goal is as follows:

- Continuing our successful program of licensing our patented technology to wireless equipment producers worldwide
- Offering our intellectual property rights and technology products in a coordinated fashion
- Enhancing our technology position by (i) continuing the development of leading edge wireless technologies, and (ii) acquiring legacy technologies (e.g., GSM) and other technologies and intellectual property to enhance the value of our product solutions
- Maintaining substantial involvement in key worldwide standards bodies to contribute to the ongoing definition of wireless standards and to incorporate our inventions into those standards

InterDigital's Technology Position

Cellular Technologies

We have a long history of developing cellular technologies including those related to CDMA and TDMA. We led the industry in establishing TDMA-based TIA/EIA-54 as a digital wireless U.S. standard in the 1980s, and created a substantial

portfolio of TDMA-based patented inventions. These inventions include or relate to fundamental elements of TDMA-based systems in use around the world. Some of our more central inventions are:

- The fundamental architecture of commercial Time Division/Frequency Division Multiple Access (TD/FDMA) systems
- Methods of synchronizing TD/FDMA systems
- A flexible approach to managing system capacity through the reassignment of online subscriber units to different time slots and/or frequencies in response to system conditions
- The design of a multi-component base station, utilizing distributed intelligence, that allows for more robust performance
- Initializing procedures that enable roaming

A number of our TDMA-based inventions are being used in all 2G and 2.5G wireless networks and mobile terminal devices.

We also have developed and patented innovative CDMA technology solutions. Today, we hold a significant worldwide portfolio of CDMA patents and patent applications. Similar to our TDMA inventions, we believe that a number of our CDMA inventions are essential to the implementation of CDMA systems in use today. Some of our more important CDMA inventions include or relate to:

- Global pilot: The use of a common pilot channel to synchronize sub-channels in a multiple access environment
- Bandwidth allocation: Techniques including multi-channel and multi-code mechanisms
- Power control: Highly efficient schemes for controlling the transmission output power of terminal and base station devices, a vital feature in a CDMA system
- Joint detection and interference cancellation techniques for reducing interference
- Soft handover enhancement techniques between designated cells
- Various sub-channel access and coding techniques
- Packet data
- Fast handoff
- Geo-location for calculating the position of terminal users
- Multi-user detection (MUD)
- High speed packet data channel coding
- High speed packet data delivery in a mobile environment

IEEE 802-based Wireless Technologies

With our strong wireless background, we have expanded our engineering and corporate development activities to focus on solutions that apply to other wireless market segments. These segments primarily fall within the ever increasing scope of the IEEE 802 family of standards. We are building a portfolio of technology related to the WLAN and cellular area that includes, for example, improvements to the 802.11 PHY and MAC to increase peak data rates (i.e., 802.11n), handover among radio access technologies, mesh networks, wireless network management, and wireless network security.

Business Activities

Patent Licensing

Our Patent Portfolio

As of December 31, 2005, our patent portfolio consisted of 524 U.S. patents (138 of which issued in 2005), and 1,483 non-U.S. patents (468 of which issued in 2005). We also have numerous patent applications pending worldwide. The patents and applications comprising our portfolio relate specifically to digital wireless radiotelephony technology (including, without limitation, TDMA and/or CDMA) and expire at differing times ranging from 2006 through 2025. A significant part of our TDMA patent portfolio expires during 2006. (See, " -*Risk Factors- Our Future Financial Condition and Operating Results Could Fluctuate Significantly* .").

The United States Patent and Trademark Office (USPTO) permits the filing of "provisional" applications for, among other reasons, protecting rights on an expedited basis. Typically, the filing of a provisional application is followed with the filing of a "non-provisional" application, a formal filing which may add content, such as claim language, to the provisional application, or may combine multiple provisional applications. The USPTO, along with other international patent offices, also permits the filing of "continuation" or "divisional" applications, which are based, in whole or in part, on a previously filed non-provisional patent application. Most of our foreign patent applications are single treaty application filings, which can produce patents in all of the countries that are parties to the treaty. During 2005, we filed 570 U.S. patent applications consisting of 177 first filed, U.S. non-provisional, non-continuation patent applications, 276 U.S. provisional applications, and 117 U.S. continuation applications. Each new U.S. non-provisional application corresponds to a later filed foreign treaty application.

Patent Licenses

Currently, numerous manufacturers supply digital cellular equipment conforming to 2G and 3G standards for which we hold patents we believe are essential. While some companies seek licenses before they commence manufacturing and/or selling devices that use our patented inventions, most do not. Consequently, we approach companies and seek to establish license agreements. We expend significant effort identifying potential users of our inventions and negotiating license agreements with companies that may be reluctant to do so. We are in active discussions with a number of companies on a worldwide basis regarding the licensing of our 2G and 3G-related patents. During negotiations, unlicensed companies may raise different defenses and arguments as to the need to enter into a patent license with us to which we respond. In the past year, these defenses and arguments have included positions by companies (i) as to the essential nature of our patents, (ii) that their products do not infringe our patents and/or that our patents are invalid, and (iii) relating to the impact on them of pending litigation between us and other third parties. If we believe that a third party is required to license our patents in order to manufacture and sell products, we might commence legal action against the third party if they will not enter into a license.

We offer non-exclusive, royalty-bearing patent licenses to companies that manufacture, use or sell, or intend to manufacture, use or sell, equipment that implements the inventions covered by our portfolio of patents. We have entered into numerous non-exclusive, non-transferable (with limited exceptions) license agreements with companies around the world. When we enter into a new patent license agreement, the licensee typically agrees to pay consideration for sales made prior to the effective date of the license agreement and also agrees to pay royalties or license fees on covered products that it will sell or anticipates selling during the term of the agreement. We expect that, for the most part, new license agreements will follow this model. In circumstances where we receive consideration for sales made prior to the effective date, we typically recognize revenue in the quarter in which the patent license agreement is signed. However, if the license agreement is reached as part of the settlement of patent infringement litigation, we recognize consideration for past sales as other income.

Our license agreements are structured on royalty-bearing basis, paid-up basis or a combination thereof. Most of our patent license agreements are royalty bearing. Most of these agreements provide for the payment of royalties on an ongoing basis based on sales of covered products built to a particular standard (convenience based licenses). Others provide for the payment of royalties on an ongoing basis if the manufacture, sale or use of the licensed product infringes one of our patents (infringement based licenses).

We recognize the revenue from per-unit royalties in the period when we receive royalty reports from licensees. Some of these agreements provide for the non-refundable prepayment of royalties which are usually made in exchange for prepayment discounts. As the licensee reports sales of covered products, the royalties due are calculated and either applied against any

prepayment, or paid in cash. Additionally, royalties on sales of covered products under the license agreement are payable or exhausted against prepayments based on the royalty formula applicable to the particular license agreement. These formulas include flat dollar rates per-unit, a percentage of sales, percentage of sales with a per-unit cap, and other similar measures. The formulas can also vary by other factors including territory, covered standards, quantity and dates sold.

Some of our patent licenses are paid-up, requiring no additional payments relating to designated sales under agreed upon conditions. Those conditions generally can include paid-up licenses for a period of time, for a class of products, under certain patents, or for sales in certain countries or a combination thereof. Licenses can become paid-up based on the payment of fixed amounts or after the payment of royalties for a term. We recognize revenues related to fixed amounts on a straight-line basis.

A number of our licenses contain "most favored licensee" (MFL) clauses which permit the licensee to elect to apply the terms of a subsequently executed license agreement with another party that are more favorable than those of the licensee's original agreement. The application of the MFL clause may affect, and generally acts to reduce, the amount of royalty obligations of the licensee. The application of an MFL clause can be complex, given the varying terms among patent license agreements. Currently our key license agreements which contain MFL clauses are those with Nokia Corporation (Nokia), NEC Corporation of Japan (NEC) and Samsung Electronics Co. Ltd. (Samsung).

For example, ITC is a party to a worldwide, generally nontransferable, royalty-bearing, patent license agreement with Nokia, which covers the sale of 2G and 3G terminal units and infrastructure. This agreement contains an MFL provision which provides that Nokia's royalty obligations for sales of covered products from January 1, 2002 through December 31, 2006 can be defined through direct negotiation, or by one or more patent license agreements with designated major competitors. In 2003, ITC entered into (i) a patent license agreement with Telefonakiebolaget LM Ericsson and Ericsson Inc. (collectively, Ericsson) covering the sale of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA infrastructure (Ericsson Agreement), and (ii) a patent license agreement with Sony Ericsson Mobile Communications AB (Sony Ericsson) covering the sale of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA terminal units (Sony Ericsson Agreement). In a subsequent arbitration to resolve a dispute over the applicability of the Ericsson Agreement and the Sony Ericsson Agreement under Nokia's MFL provision, in June 2005, an Arbitral Tribunal issued a Final Award, holding that (i) the Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5G infrastructure in the period from January 1, 2002 through December 31, 2006; and (ii) the Sony Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5G terminal units from January 1, 2002 through December 31, 2006. Based on the terms of the Ericsson Agreement and the Sony Ericsson Agreement, the Arbitral Tribunal established royalty rates that are applicable to Nokia's sales of covered 2G and 2.5 terminal units and infrastructure in that period. (See, " *Item 3 - Legal Proceedings, Nokia Arbitration* "). Upon payment of all amounts owed pursuant to the arbitral award, Nokia could, as of January 1, 2007, be deemed to have the same paid-up licenses that Ericsson and Sony Ericsson will have upon full performance under their respective license agreements with us. One or more additional license agreements with a designated major competitor will be necessary, in the absence of agreement between us and Nokia, to fully define the full scope of Nokia's obligations (including 3G) under this agreement. Except as described above, Nokia's patent license agreement terminates on December 31, 2006.

Expenditures relating to maintaining our current licenses (other than enforcement and arbitration proceedings) are not material, and are predominantly administrative in nature. Cash flows from patent license agreements have been used for general corporate purposes, including substantial reinvestment in standards contributions, technology development and productization. Revenues generated from royalties are subject to quarterly and annual fluctuations. (See, *"-Risk Factors, Our Future Financial Condition and Operating Results Could Fluctuate Significantly.").*

In 2005, 2004, and 2003, respectively, 68%, 77%, and 64% of our total revenue was derived from licensees based in Japan but generally covering products sold both within and outside of Japan. In 2005, revenues from our licensees NEC and Sharp Corporation of Japan (Sharp) were approximately 30% and 22% of our total revenues, respectively.

In addition to patent licensing, we have been actively engaged in the licensing of know-how both to companies with whom we have had strategic relationships (including alliance partners) and to other companies. (See, *"-Business Activities, Technology and Product Development.")* .

Patent Licensees Generating 2005 Revenues Exceeding 10% of Total Revenues

The loss of revenues and cash payments from any of the licensees discussed below (with the exception of the NEC 2G Agreement, for which all present and anticipated cash has been received) would adversely affect either our cash flow or results of operations and could affect our ability to achieve or sustain acceptable levels of profitability.

ITC is a party to a worldwide, non-exclusive, generally nontransferable, royalty-bearing, narrowband CDMA and 3G patent license agreement with NEC. Pursuant to its patent license agreement with ITC, NEC is obligated to pay royalties on a convenience basis on all sales of products covered under the license. We recognize revenue associated with this agreement in the periods we receive the related royalty reports. This patent license agreement expires upon the last to expire of the patents licensed under the agreement. NEC and ITC are also parties to a separate non-exclusive, worldwide, convenience-based, generally nontransferable, royalty-bearing TDMA patent license agreement (2G), which expires upon the last to expire of the patents licensed under the agreement. In 2002, the parties amended that agreement to provide for the payment by NEC to ITC of $53.0 million, in exchange for which royalty obligations for PHS and PDC products are considered paid-up. We recognize revenue associated with this $53.0 million payment on a straight-line basis from the January 2002 agreement date through February 2006, which was the expected period of use by NEC. It is unlikely that NEC would have any further royalty payment obligations under that agreement based on existing paid-up and other unique provisions. In 2005, we recorded revenues of $48.5 million from NEC of which approximately $12.9 million is attributable to our 2G patent license agreement and approximately $35.6 million is attributable to our narrowband CDMA and 3G patent license agreement.

ITC is a party to a worldwide, non-exclusive, generally nontransferable, royalty-bearing, convenience-based patent license agreement with Sharp (Sharp PHS/PDC Agreement) covering sales of terminal devices compliant with TDMA-based PHS and PDC standards. In second quarter

2003, ITC and Sharp extended the term of the Sharp PHS/PDC Agreement until April 2008. Under the extension, Sharp made a $17.5 million up-front payment consisting of a renewal fee of $2.0 million and a royalty prepayment of $15.5 million. The royalty prepayment was exhausted in 2004, and Sharp then became obligated to make additional royalty payments on sales of licensed products sold through early 2008 as covered products are sold. We recognize revenue associated with this agreement in the periods we receive the related royalty reports. The renewal fee is being amortized on a straight-line basis over the five-year term of the extension.

ITC and Sharp are also parties to a separate worldwide, non-exclusive, convenience-based, generally nontransferable, royalty-bearing patent license agreement (Sharp NCDMA/GSM/3G Agreement) covering sales of GSM, narrowband CDMA and 3G products that expires upon the last to expire of the patents licensed under the agreement. Under an amendment to that agreement executed in first quarter 2004 which affects certain payment terms and other obligations of the parties, Sharp made a royalty pre-payment of approximately $17.8 million in second quarter 2004, which was exhausted in the forth quarter of 2004. Sharp has since become obligated to make additional royalty payments on sales of licensed products. We recognize revenue associated with this agreement in the period that royalty reports are received. This license agreement expires upon the last to expire of the patents licensed under this agreement. In 2005, we recorded revenues of $36.3 million from Sharp of which approximately $9.4 million is attributable to the Sharp PHS/PDC Agreement and approximately $26.9 million is attributable to the Sharp NCDMA/GSM/3G Agreement.

2005 Patent License Activity

In fiscal 2005, we entered into non-exclusive, worldwide, royalty-bearing, convenience-based, patent license agreements with each of Quanta Computer Inc. and Arima Communications Corporation covering the sale of terminal units and infrastructure compliant with 2G, 2.5G, and 3G standards.

In third quarter 2005, we entered into a worldwide, non-exclusive, non-transferable, patent license agreement with Kyocera Wireless Corporation, and its parent corporation, Kyocera Corporation (collectively, "Kyocera"). The five-year 3G patent license agreement covers the sale of terminal units compliant with cdma2000 technology and its extensions commencing July 1, 2004. Under the terms of the patent license agreement and subject to a Kyocera option to convert the license to a royalty-bearing basis, Kyocera is obligated to pay a license fee of $50 million, which covers licensed product sales up to a specified threshold dollar amount. Kyocera made an initial payment of $20 million, which we received in third quarter 2005. Subject to Kyocera's right to exercise its option, Kyocera is obligated to pay three additional $10 million installments due no later than the third quarters of 2006, 2007, and 2008, respectively.

As part of the settlement of the patent infringement litigation between us and Lucent Technologies, Inc. (Lucent), we entered into a worldwide, royalty-bearing, convenience-based patent license agreement with Lucent. (See, *"Item 3. – Legal Proceedings, Lucent"*). The patent license covers the sale of infrastructure compliant with cdma2000 technology and its extensions. This license is limited to only those patents which were involved in the litigation. Under the terms of the agreement, Lucent is obligated to pay approximately $14 million over a period of approximately 5 years.

2006 Patent License Activity

In first quarter 2006, we entered into a worldwide, non-exclusive, royalty-bearing, convenience-based patent license agreement with LG Electronics Inc. (LG) covering the sale of (i) terminal units compliant with 2G and 2.5G TDMA-based and 3G standards, and (ii) infrastructure compliant with cdma2000 technology and its extensions up to a limited threshold amount. Under the terms of the patent license agreement, LG paid us $95 million in first quarter 2006, and is obligated to pay us two additional installments of $95 million each, in the first quarters of 2007 and 2008, respectively. The agreement expires at the end of 2010 upon which LG will receive a paid-up license to sell single-mode GSM/GPRS/EDGE terminal units under the patents included under the license. We are recognizing revenue associated with this agreement on a straight-line basis from the inception of the agreement until December 31, 2010.

Other Patent License Activity

Under a 2001 CDMA (including 3G) patent license agreement between ITC and Panasonic Mobile Communications Co., Ltd. (formerly known as, Matsushita Communications Industrial Co, Ltd.) (Panasonic), we received $19.5 million as an advance payment on royalties. Unlike many of our other patent license agreements which are convenience based, this patent license agreement provides for royalty obligations to be paid on an ongoing basis only if the manufacture, sale, lease or use of a licensed product infringes one or more of our licensed patents. The parties have disagreed as to whether such infringement exists and, therefore, we have not yet recognized any of the $19.5 million advance payment as revenue. In an attempt to resolve the dispute, the parties have been in discussions regarding the royalty payment provisions and other provisions of that patent license agreement.

Legal Proceedings

Patent Oppositions

In high technology fields characterized by rapid change and engineering distinctions, the validity and value of patents are sometimes subject to complex legal and factual challenges and other uncertainties. Accordingly, our patents are subject to uncertainties that are typical of patent enforcement generally. The validity of some of our key patents has been and continues to be challenged in patent opposition and revocation proceedings in a number of jurisdictions. While in a few cases, our patents have been invalidated or substantially narrowed, this has not impaired our patent license program because we generally license a broad portfolio of patents held worldwide, not a single patent or invention in a single jurisdiction. If a party successfully asserts that some of our patents are not valid, should be revoked or do not cover their products, or if products are implemented in a manner such that patents we believe to be commercially important are not infringed, we do not believe there would be a material adverse impact on our ongoing revenues from existing patent license agreements although there could be an adverse impact on our ability to generate new royalty streams. The cost of enforcing and protecting our patent portfolio is significant. (See, *"-Risk Factors, Our Revenue and Cash Flow Could Decline Depending Upon the Success of Our Licensing Program."*).

Patent Infringement and Declaratory Action Lawsuits

From time-to-time, if we believe that a third party is required to license our patents in order to manufacture and sell certain digital cellular products and such third party has not done so, we may institute legal action against the third party. These legal actions typically take the form of a patent infringement lawsuit. In a patent infringement lawsuit, we would typically seek damages for past infringement, and an injunction against future infringement. The response from the third party can come in the form of challenges to the validity, enforceability, and/or applicability of our patents to their products. In 2005, we entered into a settlement of such a patent infringement lawsuit with Lucent involving cdma2000 products. (See, *"-Item3–Legal Proceedings, Lucent"*). In addition, a third party might file a Declaratory Judgment action to seek a court's declaration that the patent holder's patents are invalid or not infringed by the third party's products. The response from the patent holder may include claims of infringement. In January 2005, Nokia filed in Delaware an action against us which included such a request for declaratory judgment, and which request was recently dismissed by the court. (See, *"- Item3 –Legal Proceedings, Nokia Delaware Proceeding"*). With either type of patent litigation, an adverse ruling could result in difficulty securing new licenses and the monetary cost can be significant. As part of a settlement of a lawsuit containing a claim against a third party for infringement, we could recover consideration for past infringement and we generally grant a license as to future sales for which we would be paid a license fee(s) and/or ongoing royalties. Court awards and settlements of patent infringement lawsuits can be substantial, but are uncertain, unpredictable and often of a non-recurring nature. If we recover amounts owed for past sales from the settlement of litigation (excluding contractual arbitration rulings) or pursuant to a litigation judgment, we recognize these amounts as other income.

Contractual Arbitration Proceedings

We and our licensees, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable license agreement. For example, we could have a disagreement with a licensee as to the amount of reported sales and royalties. Our license agreements typically provide for private arbitration as the mechanism for resolving disputes. Arbitration proceedings can be resolved through an award rendered by the arbitrators or by settlement between the parties. Awards and settlements of arbitration proceedings can be substantial, but are uncertain, unpredictable and often of a non-recurring nature. In circumstances where we receive consideration from the resolution of a disagreement or arbitration with a licensee over the terms of an existing agreement, whether by arbitrators' award or by settlement, we recognize the related consideration as revenue.

We are currently involved in legal proceedings with Nokia and Samsung relating to their license agreements with us. (See, *"-Item 3 –Legal Proceedings "*) for further discussion of proceedings relating to our patents.).

Technology and Product Development

We have designed, developed and placed into operation a variety of advanced digital wireless technologies, systems and products since our inception in the early 1970's. Historically, our strength has been our ability to explore emerging technologies and identify needs created by the development of advanced wireless systems.

Today, we are focusing our engineering efforts principally on the development of WCDMA technologies. In addition, we are seeking to license or acquire complementary software solutions that support our efforts to offer a complete solution to equipment manufacturers. While a number of other companies are also involved in such development, we are continuing our tradition of technology leadership by focusing much of our effort on advanced features of WCDMA, in particular HSDPA and HSUPA implementations. We are also involved in the development of advanced IEEE 802 wireless technologies, in particular convergence technologies and mesh technologies, an efficient way to dynamically route data, voice, and instructions in a peer network.

We recorded expenses of $63.1 million, $51.2 million, and $45.9 million during 2005, 2004, and 2003, respectively, related to our research and development efforts. These efforts foster inventions which are the basis of many of our patents. As a result of such patents and related patent license agreements, in 2005, 2004 and 2003, we recognized $144.1 million, $103.4 million, and $113.5 million of patent licensing revenue, respectively. In addition, in 2005, 2004, and 2003, we recognized technology solutions revenues totalling $19.0 million, $0.3 million, and $1.1 million, respectively.

FDD / WCDMA Technology Product Development

We have developed various technology blocks, upgrades, and platforms compliant with the 3GPP WCDMA/FDD standards. The standard used for initial system deployment was identified as Release 99 or Release 4. Subsequent releases, identified as Release 5, Release 6, etc., add various advanced feature and functions. For example, Release 5 HSDPA is an upgrade to WCDMA included as an optional feature in the 3GPP FDD Release 5 standard that provides high speed data capabilities, theoretically up to 14 Mbps, from the network to mobile handsets. We have developed technology blocks that can upgrade an existing FDD modem to HSDPA capabilities. Our Release 5 development effort includes a complete 3G modem comprising a physical layer and protocol stack with HSDPA and non-HSDPA channels. This allows us to offer customers a complete Release 5 FDD modem solution, as well as smaller blocks that augment their existing technology. These blocks include advanced receiver technology that can support the highest rate HSDPA mode, Category 10, and can be scaled to lower categories and data rates depending on customer requirements. In first quarter 2006, we successfully demonstrated Category 10 performance with throughput in excess of 10Mbps at 3GSM World Congress in Barcelona, Spain. We have designed, tested and implemented an ASIC that incorporates HSDPA technology. This co-processor, or a customized version of it, is available to customers to provide an upgrade path for their Release 99 or Release 4 FDD modems. The co-processor can be provided as a stand-alone ASIC or as IP blocks for integration on a single die with other modem functions.

Release 6 of the FDD standard introduces HSUPA. HSUPA increases the uplink rate to a theoretical maximum of 5.8 Mbps. Release 6, which includes both HSDPA and HSUPA, is poised to support high speed data in both the uplink and downlink, reduce the latency in data transmission, and increase overall network capacity. In addition to HSUPA, Release 6 adds MBMS (Multimedia Broadcast Multicast Service) functionality which is a means to provide subscription and non-subscription based broadcast services in 3G cellular networks. Our current efforts include upgrading our Release 5 technology to Release 6, phasing the additional features into product offerings according to projected market acceptance.

Recognizing the need to continue to improve data rates, coverage and capacity, work is underway within 3GPP on further evolution of the standards. Release 7 is expected to address incremental performance improvements. In addition, a longer term initiative known as Evolved UTRA/UTRAN (UMTS Terrestrial Radio Access/ UMTS Terrestrial Radio Access Network) is underway. The objectives of this initiative are more ambitious, targeting peak data rates of 100 Mbps in the downlink and 50 Mbps in the uplink, improved spectrum efficiency, significantly reduced data latency, and scaleable bandwidths from as low as 1.25 MHz to as high as 15 MHz. We are participating in Release 7 and evolved UTRA/UTRAN standards activities and have launched internal projects to develop the technology necessary for the new performance requirements.

TDD / WCDMA Technology Product Development

Our TDD technology development work developed and validated a fully standards compliant WTDD technology solution. We delivered TDD technology building blocks to Nokia for use in 3G wireless products for which they paid an aggregate amount of approximately $58.0 million, concluding the effort in 2003. A number of the TDD capabilities and inventions are applicable to the TD-SCDMA technology specification that is being developed for use in the People’s Republic of China. We will continue to monitor market developments regarding TDD.

Wireless LAN and Mobility

As part of our broader technology development activities, we are developing solutions addressing WLAN technology and mobility between WLAN and cellular networks. These projects support activities within the IEEE 802 and 3GPP network architecture working groups. These technology areas include improvements to the 802.11 PHY and MAC to increase peak data rates (i.e., 802.11n), handover among radio access technologies, mesh networks, wireless network management, and wireless network security.

FDD / WCDMA Technology Product Customers and Partners

Infineon Technologies AG

We jointly developed and continue to support an FDD / WCDMA protocol stack for use in terminal units under our 2001 cooperative development, sales and alliance agreement with Infineon Technologies AG (Infineon). This FDD / WCDMA protocol stack interfaces with existing GSM/GPRS hardware and software to provide dual-mode (2G/3G) protocol stack functionality, supports Infineon's 3G baseband processor, and is portable to other baseband processors. Together with Infineon, we completed the full dual-mode FDD protocol stack in 2003, and conducted a successful public demonstration of the protocol stack operating in a fully functional 3G handset in 2004. The FDD protocol stack solution is being offered to 3G mobile phone and semiconductor producers. We have supported Infineon with interoperability testing and continue to support product launch and certification with field support, software support and lab testing. In fourth quarter 2005, we extended our 3G protocol stack relationship with Infineon to include the joint development and commercialization of upgraded, standards-compliant Release 5 protocol stacks with HSDPA functionality.

Also in fourth quarter 2005, we entered into a new agreement with Infineon permitting us to independently offer a complete dual-mode GSM/GPRS/EDGE and FDD / WCDMA integrated protocol stack to the market. Under the agreement, we have licensed Infineon's legacy GCF-certified GSM/GPRS/EDGE protocol stack, which we are now able to license to customers in combination with our evolving 3G protocol stack and baseband offering. This provides us with the ability to offer a comprehensive standards-compliant FDD / WCDMA Release 5 dual-mode protocol stack, as well as a complete 3G physical to application layer modem solution. In addition to GCF certification, the GSM/GPRS/EGDE protocol stack has 75 type approvals and has completed interoperability testing with more than 80 operators in 40 countries worldwide.

We and Infineon also have cross-licensed to each other a limited set of patents for specified purposes. We also have agreed to a framework for determining royalties applicable to other 2G and 3G products.

General Dynamics C4 Systems

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 (SLA) requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our original agreement with Infineon, for incorporation into handheld terminals. The SLA provided for the payment of $18.5 million in exchange for delivery of, and a limited license to, our commercial technology solution for use within the U.S. government's MUOS and Joint Tactical Radio System programs. Maintenance and product training are also covered by this amount. A majority of our MUOS program deliverables and related payments occurred during 2005. In addition to the deliverables specifically identified in the SLA, we have agreed to provide support services for a period of three years and additional future services as requested by General Dynamics. The SLA may be terminated for convenience if the U.S. Government terminates, for convenience, that portion of the MUOS program that includes General Dynamics.

Philips Semiconductors B.V.

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 chipsets. 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.

Future Technology Partnerships and Acquisitions

In addition to our internal research and development programs, we pursue a number of channels to investigate and develop new architectures and technologies for wireless systems. For example, national and international university relationships have provided us additional opportunities to explore new technologies and license intellectual property advancements that we sponsor.

We maintain an active corporate development program that seeks further investment opportunities in technologies that can enhance the attractiveness and profitability of our technology solutions. We have also engaged in selective acquisitions to enhance our intellectual property portfolio and/or accelerate our time-to-market. For example, in July 2003, when we acquired substantially all the assets of Windshift Holdings, Inc. (formerly known as Tantivy Communications, Inc., "Windshift") we acquired patents, patent applications, know-how, and other assets related to cdma2000, smart antenna, wireless LAN and other wireless communications technologies.

In addition, in first quarter 2005, we acquired, selected patents, intellectual property blocks and related assets which are designed to improve the range, throughput and reliability of wireless LAN and other wireless technology systems.

Repositioning Activities

In fiscal 2005, we closed our Melbourne, Florida design center. Of the thirty-three full or part-time employees at this facility, five accepted offers of continued employment elsewhere within our organization. In first quarter 2006, we terminated our lease obligations associated with this facility. We estimate that the repositioning will result in annual pre-tax cost savings of $6.0 million.

Competition

We compete in a wireless communications market which is characterized by rapid technological change, frequent product introductions, evolving industry standards and, in many products, price erosion which may become even more severe in future years as competitive pressures increase when growth rates begin to slow in the cellular industry. Further, many current and potential competitors may have advantages over us, including (a) existing royalty-free cross-licenses to competing and emerging technologies; (b) longer operating histories and presence in key markets; (c) greater name recognition; (d) access to larger customer bases; and (e) greater financial, sales and marketing, manufacturing, distribution channels, technical and other resources. These competitors also may have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect third parties' decisions to purchase products or license technology from us. (See, *"-Risk Factors, We Face Substantial Competition From Companies With Greater Resources."*).

Both development cycles and acceptance of technologies in the marketplace can take years. Our future success will depend on (i) our ability to continue to develop, introduce and sell new products, technology and enhancements on a timely and consistent basis (See, *"-Risk Factors, Our Industry is Subject to Rapid Technological Change, Uncertainty, and Shifting Market Windows."*), and (ii) our ability to keep pace with technological developments, satisfy varying customer requirements, price our products competitively and achieve market acceptance. Moreover, during this time frame alternative, competitive solutions often surface. Such alternative solutions may be made available to potential customers at a lower cost or a competitor may offer a more comprehensive solution. (See, *"-Risk Factors, Our Technologies May Not Be Adopted by the Market or Widely Deployed."*). Our products and services face competition from existing companies developing product and technology offerings comparable to ours for the same standardized air interface (e.g., a number of companies offer FDD protocol stack solutions). The number of competitors varies by product and technology market, but the competitive landscape can generally be characterized as consisting of a relatively small number of firms who deliver technology and products to wireless semiconductor and wireless device manufacturers. We are well positioned in this market to deliver competitive products because of our broad systems capability; the depth of our experience in developing physical layer, protocol stack and component design solutions; the depth of our technology and intellectual property portfolio; our financial strength and our ability to deliver time-to-market and cost advantages to our customers. We also face competition from the in-house development teams at the semiconductor and wireless device manufacturing companies whom we seek as customers. It is also possible that new competitors may enter the market. In particular, as a greater proportion of wireless 3G devices incorporate traditional computing applications and IEEE wireless technologies (e.g., 802.11, 802.15, 802.16), semiconductor companies that have traditionally focused on providing chipsets to these industries may enter the 3G market with baseband solutions as well.

We also face competition in the licensing of our patent portfolio. We believe that licenses under a number of our patents are required to manufacture and sell 2G and 3G products. However, numerous companies also claim that they hold essential 2G and 3G patents. To the extent that multiple parties all seek royalties on the same product, the manufacturers may have difficulty in meeting the financial requirements of each patent holder. In response, certain manufacturers have sought antitrust exemptions to act collectively, on a voluntary basis, and impose agreed aggregate 3G licensing fees or rates for essential patents among the collaborating parties. (See, *" - Risk Factors, Royalty Rates Could Decrease ."*).

Employees

As of December 31, 2005, we employed 315 full-time individuals consisting of approximately 218 engineering and product development personnel, 15 patent administration and licensing personnel and 82 other personnel, as well as 8 part-time employees. None of our employees are represented by a collective bargaining unit.

Executive Officers

The information regarding our executive officers is included pursuant to Part III, Item 10 of this Annual Report on Form 10-K as follows:

NAME	AGE	POSITION
William J. Merritt	47	President and Chief Executive Officer and President of InterDigital Technology Corporation
Richard J. Fagan	49	Chief Financial Officer
Bruce G. Bernstein	40	General Patent Counsel
Mark A. Lemmo	48	Senior Business Development and Product Management Officer
Brian G. Kiernan	59	Chief Strategic Standards Officer
William C. Miller	51	Senior Engineering and Programs Officer
Lawrence F. Shay	47	General Counsel and Government Affairs

William J. Merritt was promoted to Chief Executive Officer and President and appointed as a Director of the Company in May, 2005. Mr. Merritt held the position of General Patent Counsel of the Company from July 2001 to May 2005, and he has also served as President of ITC since July 2001. Mr. Merritt held the position of Executive Vice President of the Company from September 1999 to January 2004. The title distinctions among Vice Presidents at the executive level were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Executive Vice President was deleted from Mr. Merritt's title. Prior to that, Mr. Merritt held the positions of Senior Vice President, General Counsel and Secretary since October 1998 and Vice President Legal and Assistant Secretary since January 1996.

Richard J. Fagan joined InterDigital as a Senior Vice President and Chief Financial Officer in November 1998, and was promoted to Executive Vice President in September 1999. The title distinctions among Vice Presidents at the executive level, were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Executive Vice President was deleted from Mr. Fagan's title. Prior to joining InterDigital, Mr. Fagan served as Controller and Treasurer of Quaker Chemical Corporation, a Pennsylvania corporation, since 1994.

Bruce G. Bernstein joined InterDigital as General Patent Counsel in June 2005. Before joining InterDigital, Mr. Bernstein served as Vice President, Head of Patents with BTG International Inc., a subsidiary of BTG plc (LSE: BGC), a multi-national, publicly held technology transfer and licensing company headquartered in the United Kingdom, from April 2002 to June 2005 and as Vice President, Legal and Patents from January 1997 to April 2002. Prior to joining BTG, Mr. Bernstein worked in private practice in Washington, DC as a registered patent attorney.

Mark A. Lemmo was named Executive Vice President, Product Management and Business Development in April 2000. The title distinctions among Vice Presidents at the executive level were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Mr. Lemmo's title was changed to Senior Business Development and Product Management Officer. Prior to that, Mr. Lemmo held the position of Executive Vice President, Engineering and Product Operations since October 1996 and Vice President, Sales and Marketing since June 1994.

Brian G. Kiernan was promoted to Senior Vice President, Standards in July 1997. The title distinctions among Vice Presidents at the executive level were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Mr. Kiernan's title was changed to Chief Strategic Standards Officer. Prior to that, Mr. Kiernan held the position of Vice President, Marketing Support since January 1993.

William C. Miller joined InterDigital as Senior Vice President, Programs and Engineering in July 2000. The title distinctions among Vice Presidents at the executive level were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Mr. Miller's title was changed to Senior Programs and Engineering Officer. Before joining InterDigital, Mr. Miller served as Vice President, Programs with Telephonics Corporation, an aircraft and mass transit communications systems corporation located in Farmingdale, New York, since 1993.

Lawrence F. Shay joined InterDigital as Vice President and General Counsel in November 2001 and served as Corporate Secretary from November 2001 to September 2004. The title distinctions among Vice Presidents at the executive level were eliminated and the title nomenclature of all such individuals was revised effective January 1, 2004 without a change to responsibilities. As a result, Vice President was deleted from Mr. Shay's title. Mr. Shay has served as the executive responsible for the Company's Government Affairs since May 2005. Before joining InterDigital, Mr. Shay served as General Counsel and Corporate Secretary with U.S. Interactive, Inc., a multi-national publicly held Internet professional services corporation, from June 1999 to June 2001 and held the title of Executive Vice President as of June 2001. Prior to June 1999, Mr. Shay was a partner in the corporate group of Dilworth Paxson LLP, a major Philadelphia law firm, where he practiced law from 1985 until 1999.

InterDigital's executive officers are elected to the offices set forth above to hold office until their successors are duly elected and have qualified. All of such persons are parties to agreements that provide for severance pay and continuation of designated benefits. The executives' agreements generally provide for the payment of severance up to a maximum of one year's salary and up to a maximum of one year's continuation of medical and dental benefits. In addition, with respect to all of these agreements, in the event of a termination or resignation within one year following a change of control, which is generally defined as the acquisition (including by mergers or consolidations, or by the issuance by InterDigital of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of InterDigital, the executive would generally receive two years of salary and the immediate vesting of all restricted stock and stock options, as applicable.

Item 1A. RISK FACTORS .

We face a variety of risks that may affect our business, financial condition, operating results or any combination thereof. Although many of the risks discussed below are driven by factors that we cannot control or predict, you should carefully consider the identified risks before making an investment decision with respect to our common stock. In addition to the risks and uncertainties identified elsewhere in this Form 10-K as well as other information contained herein, each of the following risk factors should be considered in evaluating our business and prospects. If any of the following risks or uncertainties occur or develop, our business, results of operations and financial condition could change. In such an event, the market price of our common stock could decline and you could lose all or part of your investment. The following discussion addresses those risks that management believes are the most significant and which may affect our business, financial condition or operating results, although there are other risks that could arise, or may become more significant than anticipated. The following risk factors are not listed in any order of importance or priority:

The Price of Our Common Stock Could Continue to be Volatile .

Historically, we have had large fluctuations in the price of our common stock and such fluctuations could continue. From January 1, 2003 to December 31, 2005, our common stock has traded as low as $11.65 per share and as high as $27.95 per share. Factors that may contribute to fluctuations in our stock price include general market conditions for the wireless communications industry, changes in market share of significant licensees, announcements concerning litigation, arbitration and other legal proceedings in which we are involved, announcements concerning licensing matters, and our operating results.

Our Revenue and Cash Flow Could Decline Depending Upon the Success of Our Licensing Program.

Our ability to collect revenue and generate cash flow from licensing is subject to a number of risks:

Results of Nokia Disputes

We are engaged in a number of disputes with Nokia. While these disputes cover a number of matters, if we are unsuccessful in some or all of these matters, the following results could occur: (i) inability to collect or delay in collecting royalties on sales of

Nokia's 2G and/or 3G products; (ii) difficulties entering into new patent license agreements due to adverse rulings regarding our patents; (iii) adverse impact on our ability to collect royalties from the sale of Samsung's 2G and 3G products; and (iv) significant adverse judgment or fee requirements imposed on us in those certain matters where such recovery is possible.

Results of Samsung Arbitration

We believe that our license agreements with Ericsson and Sony Ericsson establish the financial terms necessary to define the royalty obligations of Samsung on 2G GSM/TDMA and 2.5G GSM/GPRS/TDMA products under its existing patent licensing agreement with ITC. If we are unsuccessful in this matter, the following results could occur: (i) inability to collect or delay in collecting royalties on sales of Samsung's 2G and/or 3G products; and (ii) difficulties entering into new patent license agreements due to adverse rulings regarding our patents.

Challenges to Existing License Agreements

Revenue and cash flow from existing and potential licensees may also be affected by challenges to our interpretation of provisions of license agreements. Such challenges could result in rejection or modification of license agreements and the termination, reduction, and suspension of payments.

Ability to Enter into New License Agreements

We face challenges in entering into new patent license agreements. During discussions with unlicensed companies, significant negotiation issues arise from time to time. For example, manufacturers and sellers of 2G products can be reluctant to enter into a license agreement because such companies might be required to make a significant lump sum payment for unlicensed past sales. Also, certain of the inventions we believe will be employed in 3G products are the subject of our patent applications where no patent has been issued yet by the relevant patent reviewing authorities. Certain prospective licensees are unwilling to license patent rights prior to a patent's issuance. Additionally, in the ordinary course of negotiations, in response to our demand that they enter into a license agreement, manufacturers raise different defenses and arguments including defenses and arguments (i) challenging the essential nature of our patents, (ii) claiming that their products do not infringe our patents and/or that our patents are invalid, and (iii) relating to the impact on them of litigation or arbitration in which we are involved. We can not be assured that all prospective licensees will be persuaded during negotiations to enter into a patent license agreement with us, either at all or on terms acceptable to us.

Defending and Enforcing Patent Rights

Major telecommunications equipment manufacturers have challenged, and we expect will continue to challenge the validity of our patents. In some instances, certain of our patent claims have been declared invalid or substantially narrowed. We cannot assure that the validity of these patents will be maintained or that any of the key patents will be determined to be applicable to any 2G or 3G product. Any significant adverse finding as to the validity or scope of our key patents could result in the loss of patent licensing revenue from existing licensees and could substantially impair our ability to secure new patent licensing arrangements.

In addition, the cost of defending our intellectual property has been and may continue to be significant. Litigation may be required to enforce our intellectual property rights, protect our trade secrets, enforce confidentiality agreements, or determine the validity and scope of proprietary rights of others. In addition, third parties could commence litigation against us seeking to invalidate our patents and/or have determined that our patents are unenforceable. As a result of any such litigation, we could lose our proprietary rights and/or incur substantial unexpected operating costs. Any action we take to protect our intellectual property rights could be costly and could require significant amounts of time by key members of executive management and other personnel, that in turn, could negatively affect our results of operations. Moreover, third parties could circumvent our patents not considered essential to the standards through design changes. Any of these events could adversely affect our prospects for realizing future revenue.

Our Future Financial Condition and Operating Results Could Fluctuate Significantly.

Our financial condition and operating results have fluctuated significantly in the past and might fluctuate significantly in the future. Many of the factors causing such quarterly and/or annual fluctuations are not within our control. Our financial condition and operating results could continue to fluctuate because (i) our licensing revenues are currently dependent on sales by our licensees which are outside of our control and which could be negatively impacted by a variety of factors including global economic conditions, buying patterns of end users, competition for our licensees' products, and any decline in the sale prices our licensees receive for their covered products; (ii) the strength of our patent portfolio could be weakened through patents being declared invalid, our claims being narrowed, changes to the standards and patent laws and regulations, and adverse court or arbitration decisions; (iii) it is difficult to predict the timing and amount of licensing revenue associated with past infringement and new licenses, and the timing, nature or amount of revenues associated with strategic partnerships; (iv) we may not be able to enter into additional or expanded strategic partnerships or license agreements, either at all or on acceptable terms; and (v) our markets are subject to increased competition from other products and technologies. In addition, our operating results also could be affected by (i) general economic and other conditions that cause a downturn in the market for the customers of our products or technologies; and (ii) increased expenses which could result from factors such as increased litigation and arbitration costs, actions designed to keep pace with technology and product market targets, and strategic investments. Further, due to the fact that our expenses are relatively fixed, variations in revenue from a small number of customers could cause our operating results to vary from quarter to quarter. The foregoing factors are difficult to forecast and could adversely affect both our quarterly and annual operating results and financial condition.

Additionally, over time, our 2G licensing revenue is expected to be impacted negatively by the decline of the 2G market coupled with the expiration of ongoing royalty obligations and revenue recognition starting in 2006. As examples, the amortization of $53 million of royalty payments associated with our 2G patent license agreement with NEC was completed in February 2006. In addition Ericsson's and Sony Ericsson's obligations to pay royalties under their respective 2G/2.5G patent license agreements will end on December 31, 2006.

Further, through December 31, 2005, we recognized $16.2 million of the $18.5 million relating to our deliverables under the Mobile User Objective System (MOUS) program for the U.S. military under our agreement with General Dynamics. We expect to only recognize an additional $0.3 million in 2006 related to final deliverables, and will amortize the $2 million related to maintenance services from 2006 until 2008.

Our revenue and cash flow also could be affected by: (i) the unwillingness of any licensee to satisfy all of their royalty obligations on the terms we expect or a decline in the financial condition of any licensee; and (ii) the failure of 2G/2.5G and 3G sales to meet market forecasts due to global economic conditions, political instability, competitive technologies, or otherwise.

Our Revenues Are Derived Primarily from a Small Number of Patent Licensees.

Over the past several years, a majority of our royalty revenues have been generated by a small number of licensees. For example, revenues from patent license agreements with NEC and Sharp accounted for approximately 52% and 67% of our revenues in 2005 and 2004, respectively. In the event either of these licensees fail to meet their payment and/or reporting obligations under their respective license agreements (with the exception of the NEC 2G Agreement for which all currently anticipated cash has been received), our future revenue and cash flow could be materially adversely impacted. Additionally, many of our licensees (accounting for approximately 68% of our 2005 revenues) are based in Japan, and future level of revenue and/or cash flow from these companies could be affected by general economic conditions in Japan and each company's respective success in selling covered products in markets both inside and outside of Japan.

Royalty Rates Could Decrease.

A number of companies have made claims as to the essential nature of their patents with respect to products for the 3G market. Additionally, certain licensees and others in the wireless industry, individually and collectively, are demanding that royalty rates for 3G patents be lower than historic royalty rates, and in some cases, that the aggregate royalty rates for 3G products be capped. For example, certain members of the European Telecommunications Standards Institute (ETSI) are seeking to require all members that hold essential patents to agree upon a predetermined cumulative cap for royalties on the cost of all components of the next version of the 3GPP-based radio standard commonly referred to as "Long-Term Evolution" or "LTE." These members are also trying to eliminate the possibility of any new royalty claims pertaining to LTE equipment being lodged in the future. Both the increasing number of patent holders of 3G technology and the efforts by certain industry members and groups to reduce and/or place caps on royalty rates could cause a decrease in the royalty rates we receive for use of our patented inventions, thereby causing future revenue and cash flow to be lower than we anticipate.

Changes to Our Current Calculation of Tax Liabilities

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to compliance reviews by the Internal Revenue Service ("IRS") and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings. Certain tax contingencies are recognized when they are determined to be both probable and reasonably estimable. We believe we have adequately accrued for tax contingencies that have met both criteria. As of December 31, 2005 and 2004, there are certain tax contingencies that either are not considered probable or are not reasonably estimable by us at this time. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have a material adverse effect on our consolidated financial condition or results of operations.

The Impact of Potential Domesti c Patent Reform Legislation, US PTO Reforms as well as Imposed International Patent Rules May Impact Our Patent Prosecution and Licensing Strategies.

Changes to domestic patent laws and regulations may occur in the future. Specifically, the USPTO has proposed modifications to the current U.S. patent rules such that it could change, in addition to other topics, the patent application continuation practice, which may impact patent costs and the potential scope of future patent coverage. The U.S. Congress is also reviewing select patent laws which may require us to re-

evaluate and modify our patent prosecution strategies in the future. Changes to foreign patent practice have also been imposed by the European Patent Office which also may limit our ability to file divisional applications. We continue to monitor and evaluate our prosecution and licensing strategies with regard to these proposals and changes.

Due to the Nature of Our Business, We Could Be Involved in a Number of Litigation and Arbitration Matters.

While some companies seek licenses before they commence manufacturing and/or selling devices that use our patented inventions, most do not. Consequently, we approach companies and seek to establish license agreements for using our inventions. We expend significant effort identifying potential users of our inventions and negotiating license agreements with companies that may be reluctant to do so. However, if we believe that a third party is required to license our patents in order to manufacture, sell, or use products, we might commence legal action against the third party if they will not enter into a license. As a result of enforcing our IPR, we could be subject to significant legal fees and costs, including the costs and fees of opposing counsel in certain jurisdictions if we are unsuccessful. In 2005, we spent nearly $28 million on patent arbitration and litigation fees and costs. In addition, litigation and arbitration proceedings require significant key employee involvement for significant periods of time which could distract such employees from other business activities.

Our Technologies May Not Be Adopted By the Market or Widely Deployed.

We invest significant engineering resources in the development of advanced wireless technology and related products. These investments may not be recoverable or not result in meaningful revenue if products based on the technologies in which we invest are not widely deployed. Competing digital wireless technologies could reduce the opportunities for deployment of technologies we develop. If the technologies in which we invest are not adopted in the mainstream markets or in time periods we expect or we are unable to secure partner support for our technologies, our business, financial condition and operating results could be adversely affected. For example, our ability to capitalize on our investments in WCDMA solutions depends upon market interest in such technologies. There are emerging wireless technologies, such as WiMAX, that may compete with WCDMA. If deployments of such other competing technologies obtained significant market share, the market size for WCDMA products could be reduced. All of these competing technologies also could impair multi-vendor and operator support for WCDMA, key factors in defining opportunities in the wireless market. Similarly, changes or delays in the implementation of new wireless standards could limit our opportunities in the wireless market.

Our Industry is Subject to Rapid Technological Change, Uncertainty, and Shifting Market Windows.

Our market success depends, in part, on our ability to keep pace with changes in industry standards, technological developments, and varying customer requirements. Changes in industry standards and needs could adversely affect the development of, and demand for, our technology, rendering our products and technology currently under development obsolete and unmarketable. If we fail to anticipate or respond adequately to these shifts we could miss a critical market window, reducing or eliminating our ability to capitalize on our technology, products, or both.

The Markets for Our Technologies and Our Products May Fail to Materialize in the Manner We Expect.

We are positioning our current development projects for the evolving advanced digital wireless markets. Certain of the these markets, in particular the 3G market, may continue to develop at a slower rate or pace than we expect and may be of a smaller size than we expect. Additionally, the development projects that target only the emerging 3G market do not have direct bearing on the 2.5G or any other market which has developed or might develop after the 2G market, but prior to the development of the 3G market. For example, the potential exists for 3G market reduction due to the success of current or future 2.5G solutions and WLAN. In addition, there could be fewer applications for our technology and products than we expect. The development of the 3G and other advanced wireless markets also could be impacted by general economic conditions, customer buying patterns, timeliness of equipment development, pricing of 3G infrastructure and mobile devices, rate of growth in telecommunications services that would be delivered on 3G devices, and the availability of capital for, and the high cost of, radio frequency licenses and infrastructure improvements. Failure of the markets for our technologies and/or our products to materialize to the extent or at the rate we expect could reduce our opportunities for sales and licensing and could materially adversely affect our longer-term business, financial condition and operating results.

Our Technology and Product Development Activities May Experience Delays.

We may experience technical, financial, resource or other difficulties or delays related to the further development of our technologies and products. Delays may have adverse financial effects and may allow competitors with comparable technology and/or product offerings to gain a commercial advantage over us. There can be no assurance that we have adequate staffing or that our development efforts will ultimately be successful. Further, if such development efforts are not successful or delays are serious, strategic relationships could suffer and strategic partners could be hampered in their marketing efforts of products containing our technologies. As a result we could experience reduced revenues or we could miss critical market windows. Moreover, our technologies have not been fully tested in commercial use. It is possible that they may not perform as expected. In such case, our business, financial condition and operating results could be adversely affected and our ability to secure new customers and other business opportunities could be diminished.

We Face Substantial Competition From Companies with Greater Resources.

Competition in the wireless telecommunications industry is intense. We face competition from companies developing other technologies including existing companies with in-house development teams and new competitors to the market. (See, *"-Our Technologies May Not Be Adopted By the Market or Widely Deployed."*) Many current and potential competitors may have advantages over us, including: (a) existing royalty-free cross-licenses to competing and emerging technologies; (b) longer operating histories and presence in key markets; (c) greater name recognition; (d) access to larger customer bases; and (e) greater financial, sales and marketing, manufacturing, distribution channels, technical and other resources. In particular, our more limited resources and capabilities may adversely impact our competitive position if the market were to move towards the provision of an existing complete technology platform solution which larger equipment manufacturers have the ability to provide.

We Rely on Relationships with Third Parties to Develop and Deploy Products.

The successful execution of our strategic plan is partially dependent on the establishment and success of relationships with equipment producers and other industry participants. With respect to FDD products for example, our plan contemplates that these third parties will permit us to have access to product capability, markets, and additional libraries of technology. We currently have one semiconductor partner, Infineon, in our FDD technology development effort. Delays or failure to enter into additional partnering relationships to facilitate other technology development efforts could impair our ability to introduce into the market, portions of our technology and resulting products, or cause us to miss critical market windows.

We Face Claims by Third Parties That We Infringe Their Intellectual Property.

A number of third parties publicly have claimed that they own patents essential to various wireless standards. Certain of our products are designed to comply with such standards. If any of our products are found to infringe the intellectual property rights of a third party, we could be required to redesign such products, take a license from such third party, and/or pay damages to the third party. If we are not able to negotiate a license and/or if we cannot economically redesign such products, we could be prohibited from marketing such products. In such case, our prospects for realizing future revenue could be adversely affected. If we are required to obtain licenses and/or pay royalties to one or more patent holders, this could have an adverse effect on the commercial implementation of our wireless products. In addition, the associated costs to defend such claims could be significant and could divert the attention of key executive management and other personnel.

Our License Agreements Contain Provisions which Could Impair Our Ability to Realize Licensing Revenues.

Certain of our licenses contain provisions that could cause the licensee's obligation to pay royalties to be reduced or suspended for an indefinite period, with or without the accrual of the royalty obligation. For example, some of the existing license agreements may be renegotiated or restructured based on MFL or other provisions contained in the applicable license agreement. The assertion or validity of such provisions under the existing agreements could affect our cash flow and/or the timing and amount of future recurring licensing revenue.

We Face Risks From Doing Business in Global Markets.

A significant portion of our business opportunities exists in a number of international markets. Accordingly, we could be subject to the effects of a variety of uncontrollable and changing factors, including: difficulty in protecting our intellectual property and enforcing contractual commitments in foreign jurisdictions; government regulations, tariffs and other applicable trade barriers; currency control regulations; political instability; natural disasters, acts of terrorism and war; potentially adverse tax consequences; and general delays in remittance and difficulties of collecting non-U.S. payments. In addition, we also are subject to risks specific to the individual countries in which our customers, our licensees and we do business.

Consolidations in the Wireless Communications Industry Could Adversely Affect Our Business.

The wireless communications industry has experienced consolidation of participants and this trend may continue. Any concentration within the wireless industry might reduce the number of licensing opportunities and, in some instances, result in the loss or elimination of existing royalty obligations. Further, if wireless carriers consolidate with companies that utilize technologies competitive with our technologies, we could lose market opportunities.

We Depend on Key Senior Management, Engineering and Licensing Resources.

Competition exists for qualified individuals with expertise in licensing and with significant engineering experience in emerging technologies such as WCDMA. Our ability to attract and retain qualified personnel could be affected by any adverse decisions in any litigation or arbitration and by our ability to offer competitive cash and equity compensation and work environment conditions. The failure to attract and retain such persons with relevant and appropriate experience could interfere with our ability to enter into new license agreements and undertake additional technology and product development efforts, as well as our ability to meet our strategic objectives.

Market Projections are Forward-Looking in Nature.

Our strategy is based on our own projections and on analyst, industry observer and expert projections, which are forward-looking in nature and are inherently subject to risks and uncertainties. The validity of their and our assumptions, the timing and scope of the 3G market, economic conditions, customer buying patterns, timeliness of equipment development, pricing of 3G products, growth in wireless telecommunications services that would be delivered on 3G devices, and availability of capital for infrastructure improvements could affect these predictions. The inaccuracy of any of these projections could adversely affect our operating results and financial condition.

Unauthorized Use or Disclosure of Our Confidential Information Could Adversely Affect Our Business.

We enter into contractual relationships governing the protection of our confidential and proprietary information with our employees, consultants, and prospective and existing customers and strategic partners. If we are unable to timely detect the unauthorized use or disclosure of our proprietary or other confidential information or we are unable to enforce our rights under such agreements, the misappropriation of such information could harm our business.

If Wireless Handsets Pose Health and Safety Risks, Demand for Products of Our Licensees and Customers Could Decrease.

Media reports and certain studies have suggested that radio frequency emissions from wireless handsets may be linked to health concerns, such as brain tumors, other malignancies and genetic damage to blood, and may interfere with electronic medical devices, such as pacemakers, telemetry and delicate medical equipment. If concerns over radio frequency emissions grow, this could discourage the use of wireless handsets and could cause a decrease in demand for the products of our licensees and customers. In addition, concerns over safety risks posed by the use of wireless handsets while driving and the effect of any resulting legislation could reduce demand for the products of our licensees and customers.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

We own one facility, subject to a mortgage, for approximately 52,000 square feet, in King of Prussia, Pennsylvania. We are also a party to a lease expiring in 2007, for approximately 56,125 square feet of space in Melville, New York. We intend to either extend this lease or obtain other comparable premises in the area if the current lease is not extended. In addition, we are also a party to a lease for approximately 11,918 square feet of space in Montreal, Canada expiring June 2011. These facilities are the principal locations for our technology development activities. We were a party to a lease which was to expire in July 2006 for approximately 20,660 square feet of space in Melbourne, Florida. In January 2006, we entered into a Lease Termination Agreement whereby the lease for the Melbourne, Florida facility was terminated in February 2006 and releasing us from any further obligations thereunder.

Item 3. LEGAL PROCEEDINGS .

Nokia

Nokia Arbitration

In July 2003, Nokia filed a Request for Arbitration against InterDigital Communications Corporation (IDCC) and ITC, regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement (Nokia License Agreement) with ITC (Nokia Arbitration). The arbitration proceeding related to ITC's claim that the patent license agreement ITC signed with Telefonakiebolaget LM Ericsson and Ericsson Inc. (collectively, Ericsson) (Ericsson Agreement) and the patent license agreement ITC signed with Sony Ericsson Mobile Communications AB (Sony Ericsson) (Sony Ericsson Agreement) in March 2003 triggered Nokia's obligation to pay royalties on its worldwide sales of covered 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units and infrastructure commencing January 1, 2002.

An evidentiary hearing was conducted in January 2005 by an arbitral tribunal (Arbitral Tribunal) operating under the auspices of the International Court of Arbitration of the International Chamber of Commerce (ICC). In June 2005, the Arbitral Tribunal rendered a Final Award, holding that (i) the Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5G infrastructure in the period from January 1, 2002 through December 31, 2006; and (ii) the Sony Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5 terminal units in period from January 1, 2002 through December 31, 2006. Based on the terms of the Ericsson Agreement and the Sony Ericsson Agreement, the Arbitral Tribunal established royalty rates that are applicable to Nokia's sales of covered 2G and 2.5 terminal units and infrastructure in that period.

In July 2005, IDCC and ITC filed in the United States District Court for the Southern District of New York a petition to confirm the Final Award. In December 2005, the presiding District Judge issued an order confirming the Final Award in its entirety. In January 2006, Nokia filed a Notice of Appeal of that order to the United States Court of Appeals for the Second Circuit (Second Circuit). On March 13, 2006, the Second Circuit ordered that the oral arguement of the appeal will be heard no earlier than the week of July 10, 2006. We intend to vigorously oppose Nokia's efforts to appeal.

Also in December 2005, IDCC and ITC took action to utilize the dispute resolution process in accordance with the terms of their patent license agreement with Nokia and a related master agreement between the parties. This dispute resolution process involves a timetable for discussions, senior representative meetings and any future initiation of arbitration, if necessary, and seeks to address issues raised by Nokia's failure to abide by the Final Award. IDCC and ITC are pursuing the dispute resolution process in order to accelerate the resolution of several issues including, without limitation, total amounts to be paid pursuant to the Final Award, including interest, and Nokia's failure to submit royalty reports and refusal to permit an audit of Nokia's books and records to determine amounts due. IDCC and ITC seek to resolve any and all unresolved issues that may impact a determination of the amount to be paid under the Final Award.

Nokia Texas and North Carolina Proceedings

In July 2003, Nokia filed in the United States District Court for the Northern District of Texas (District Court) a motion to intervene and to gain access to documents previously sealed by the District Court in the now-settled litigation between IDCC and ITC and Ericsson, Inc. (Ericsson Litigation). We filed a response opposing the request to intervene and opposing the request for access to the documents. The District Court granted Nokia's motion to intervene in the Ericsson Litigation and provided Nokia with document access on a limited basis. Nokia subsequently filed a motion to reinstate certain orders that were vacated in the Ericsson Litigation, which motion was granted by the trial court. We appealed that ruling to the U.S. Court of Appeals for the Federal Circuit (Circuit Court). On August 2005, the Circuit Court ruled in favor of IDCC and ITC and reversed the District Court's order, finding that the District Court had committed error in permitting Nokia to intervene. The Circuit Court reversed the District Court's decisions which had both granted intervention and reinstated the prior vacated orders, which orders had been vacated as part of the settlement of the Ericsson Litigation.

In late 2004, Nokia sought to enforce two subpoenas issued by the Arbitral Tribunal in the above described arbitration proceeding to Ericsson and Sony Ericsson seeking certain documents. Those enforcement actions were commenced in the Federal District Court for the Northern District of Texas and the Federal District Court for the Eastern District of North Carolina. In February 2005, Nokia withdrew both enforcement actions.

Nokia UK Proceedings

In June 2004, Nokia commenced a patent revocation proceeding in the English High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's UK patents declared invalid (UK Revocation Proceeding). Nokia also seeks a Declaration that manufacture and sale of GSM mobiles and infrastructure equipment compliant with the ETSI GSM Standard (Release 4) without license from ITC does not require infringement of the 3 UK patents, so that none of the patents are essential IPR for that standard. The hearing on this matter commenced early November 2005 and after several recesses concluded at the end of January 2006, with a decision to be issued thereafter by the High Court.

In July 2005, Nokia filed a claim in the English High Court of Justice, Chancery Division, Patents Court against ITC. Nokia's claim seeks a Declaration that thirty-one of ITC's UMTS European Patents registered in the UK are not essential IPR for the 3GPP standard. We intend to vigorously defend our position and are contesting Nokia's claim of jurisdiction in the High Court.

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.

Samsung

In 2002, during an arbitration proceeding, Samsung Electronics Co. Ltd. (Samsung) elected, under an MFL clause its 1996 patent license agreement with ITC (Samsung Agreement), to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the Nokia License agreement, including its most favored licensee (MFL) provision. By notice in March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of the Ericsson Agreement (for infrastructure products) and the Sony Ericsson Agreement (for terminal unit products) 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 against IDCC and ITC regarding Samsung's royalty payment obligations to ITC for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration). This arbitration proceeding relates to ITC's claim that the Ericsson Agreement and the Sony Ericsson Agreement defined the financial terms under which Samsung is required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002 through December 31, 2006. We also seek a declaration that the parties' rights and obligations are governed by the Samsung Agreement, and that the Nokia License Agreement dictates only Samsung's royalty obligations and most favored licensee rights for those TDMA products licensed under the Samsung Agreement. Samsung is seeking a determination that Samsung's obligations are not defined by the Ericsson Agreement, the Sony Ericsson Agreement, or the Final Award in the Nokia arbitration. In the alternative, Samsung seeks to determine the amount of the appropriate royalty to be paid, which is substantially less than the amount that we believe is owed. Samsung is also seeking a determination that it has succeeded to all of Nokia's CDMA license rights, including its 3G license. If the arbitration panel were to agree with Samsung's position on Nokia's CDMA rights, Samsung would be licensed to sell 3G products on the same terms as Nokia.

In January 2006, an evidentiary hearing was conducted. Absent a resolution by the parties to this dispute, the presiding ICC Arbitral Tribunal will render a decision.

Lucent

In March 2004, Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000 infrastructure equipment. The case was originally based on our assertions of infringement by Lucent of nine of Tantivy's U.S. patents. The lawsuit sought damages for past infringement and an injunction against future infringement, as well as interest, costs and attorneys' fees. Lucent responded to the lawsuit denying any infringement, and sought a declaration of non-infringement and alleged that the patents were invalid and requested attorneys' fees and costs.

In November 2005, Tantivy and Lucent agreed to dismiss the patent infringement litigation between them and, together with IDCC, entered into a combined patent license and technology agreement. Under the terms of the agreement, Lucent is obligated to pay approximately $14 million over a period of approximately 5 years. Tantivy granted a patent license to Lucent under only those patents which were involved in the litigation being dismissed covering Lucent's cdma2000 infrastructure products. In addition, IDCC and Lucent agreed to cooperate on advanced technology programs.

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 their determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement (Agreement) requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. Additionally, under certain circumstances, Federal may seek to recover interest on its claim. In November 2003, the Company filed an action in United States District Court for the Eastern District of Pennsylvania (the Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement was found to be valid and enforceable, the Company was seeking a declaratory judgment that Federal would have been 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 December 31, 2005. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

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

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

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

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

During the fourth quarter of fiscal year ended December 31, 2005, no matters were submitted to a vote of our security holders.

PART II

Item 5. MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the range of the high and low sales prices of our common stock for the years 2005 and 2004, as reported by The Nasdaq Stock Market.

	High	Low
2005		
First Quarter	$22.44	$15.14
Second Quarter	19.00	13.81
Third Quarter	20.15	16.68
Fourth Quarter	20.58	17.25

	High	Low
2004		
First Quarter	$27.87	$15.81
Second Quarter	19.50	15.00
Third Quarter	19.46	13.89
Fourth Quarter	23.50	15.34

As of March 1, 2006, there were approximately 1,514 holders of record of our common stock.

We have not paid cash dividends on our common stock since inception. It is anticipated that in the foreseeable future, without regard to any cash proceeds we may receive from any settlement or resolution of outstanding arbitrations or litigations, no cash dividends will be paid on our common stock and any cash otherwise available for such dividends will be reinvested in our business or used to repurchase our common stock. The payment of cash dividends will depend on our earnings, any dividend requirements on Preferred Stock if issued in the future, our capital requirements and other factors considered relevant by our Board of Directors.

We did not make any purchases of our common stock during fourth quarter 2005.

Item 6. SELECTED FINANCIAL DATA

(in thousands, except per share data)

Consolidated Statements of Operations Data:	2005	2004	2003	2002	2001
Revenues: *(**a**)*	$163,125	$103,685	$114,574	$ 87,895	$ 52,562
Income (loss) from operations	$ 17,087	$ (6,292)	$ 29,541	$ 9,240	$ (20,943)
Other Income **(** *b* **)**	$ —	$ —	$ 10,580	$ —	$ —
Income tax benefit (provision) **(** *c* **)**	$ 34,434	$ 4,704	$ (7,269)	$ (8,748)	$ (3,418)
Net income (loss) applicable to common shareholders	$ 54,685	$ 89	$ 34,332	$ 2,375	$ (19,421)
Net income (loss) per common share – basic	$ 1.01	$ —	$ 0.62	$ 0.04	$ (0.36)
Net income (loss) per common share – diluted	$ 0.96	$ —	$ 0.58	$ 0.04	$ (0.36)
Weighted average number of common shares outstanding – basic	54,058	55,264	55,271	52,981	53,446
Weighted average number of common shares outstanding – diluted	57,161	59,075	59,691	56,099	53,446
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 27,877	$ 15,737	$ 20,877	$ 22,337	$ 17,892
Short-term investments	77,831	116,081	85,050	65,229	72,471
Working capital	125,181	106,784	112,325	111,845	87,696
Total assets	299,537	241,920	205,165	191,178	148,381
Total debt	1,922	1,884	1,970	2,159	2,342
Total shareholders' equity	$174,314	$115,659	$ 97,485	$ 78,791	$ 60,274

(*a*) *In third quarter 2004, we transitioned to reporting per-unit royalties in the period in which we receive our licensees' royalty reports rather than in the period in which our licensees' sales of covered products occur. As a result of this transition, our results for 2004 include only three quarters of per-unit royalties.*

(*b*) *In 2003, we recognized, as other income, $14 million from the settlement of our litigation with Ericsson, net of an estimated $3.4 million associated with a claim under an insurance agreement.*

(*c*) *Our income tax provision in 2005 included a benefit of approximately $43.7 million, primarily related to the fourth quarter 2005 reversal of our Federal deferred tax asset valuation allowance.*

Our income tax provision in 2004 included a benefit of approximately $17 million related to the third quarter 2004 partial reversal of our federal deferred tax asset valuation allowance. For the years 2000 through 2003, our income tax provision was comprised primarily of non-U.S. withholding taxes and Alternative Minimum Tax. The volatility in our income tax provision, prior to recognizing increases in the value of our deferred tax assets, was primarily due to changes in the level of royalty revenue subject to non-U.S. withholding tax.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The following discussion should be read in conjunction with the Selected Financial Data, the Consolidated Financial Statements and the notes thereto, contained in this document. Please refer to the Glossary of Terms immediately following the Table of Contents for a listing and detailed description of the various technical, industry and other defined terms that are used in this Form 10-K.

Business

We design and develop advanced digital wireless technologies which we make available for license to semiconductor companies, handset manufacturers and other equipment producers. Our technology offerings include patented inventions, know-how and other technical data (e.g., software, designs and specifications) related to the design and operation of digital wireless products and systems. We have built our suite of offerings through independent development, joint development with other companies and selected acquisitions. We actively participate in the standard-setting process for digital wireless technologies, both cellular and non-cellular, contributing solutions that are regularly incorporated into the standards.

To date, the majority of our revenue has been derived from companies with which we have patent license agreements covering the manufacture and sale of 2G and 3G mobile terminal units and/or infrastructure products. Our goal is to derive revenue on every 3G mobile terminal unit sold. As of March 2006, we have received royalties on approximately 35-40% of all 3G mobile terminal units sold worldwide.

Royalties from companies with patent license agreements covering their sales of 2G and 3G handsets and infrastructure products generate a significant portion of our cash flow and revenues. We also generate revenues and cash flow by licensing technology solutions (e.g., HSDPA, WCDMA terminal unit protocol stack software, physical layer designs, etc.) and the provision of specialized engineering services.

Over the last three years, we have signed fourteen new or amended patent license agreements with both new and existing customers, including ten license agreements covering 3G technologies. Over the same period, quarterly recurring patent license royalties have more than doubled, from $17.0 million in first quarter 2003 to $36.2 million in fourth quarter 2005. This increase resulted from both an increase in the number of licensees and higher royalties from existing licensees, based on increased sales of covered 2G and 3G products. In 2005, 63% of our recurring patent license royalties were generated from patent license agreements that included 3G standards-compliant products. Due to anticipated growth in 3G product sales, we expect that our 2G/3G royalty mix will continue to shift to a higher percentage of 3G royalties as the decade unfolds.

New Material Patent License Agreement

On January 18, 2006, we 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 Second Generation (2G) standards (including TIA-136, GSM, GPRS, and EDGE) and all Third Generation (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 the first quarters of 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.

Expiring 2G Patent License and Technology Solutions Revenue

The amortization of $53 million of royalty payments associated with our 2G patent license agreement with NEC Corporation of Japan (NEC) was completed in February 2006. Telefonaktiebolaget LM Ericsson and Ericsson Inc. (Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) obligations to pay royalties under their respective 2G/2.5G patent

license agreements will end on December 31, 2006. We will recognize revenue related to Ericsson ($1.5 million per quarter) and Sony Ericsson (based on reported sales of covered product) through December 31, 2006 and March 31, 2007, respectively. Together, these three licensees contributed approximately $34.6 million or 21% of our revenue in 2005. In addition, on December 31, 2005, we completed amortization of deferred revenue related to other 2G agreements, which collectively, contributed $3.0 million or 2% of our revenue in 2005.

Through December 31, 2005, we also recognized $16.2 million of the $18.5 million related to our deliverables under the Mobile User Objective System (MUOS) program for the U.S. military pursuant to our agreement with General Dynamics C4 Systems (formerly known as, General Dynamics Decision Systems, Inc.) (General Dynamics). We expect to recognize an additional $0.3 million in 2006 related to final deliverables and will amortize the $2 million related to maintenance services under that agreement over a three year period beginning January 1, 2006.

We continue to place substantial focus on both expanding our base of patent licensees and resolving outstanding patent license arbitrations and litigations. We also continue to seek customers for our technology solutions. As a result, we concluded a number of agreements over the last twelve months that will contribute revenue that will more than offset the reductions noted above. For example, as discussed above, in first quarter 2006, we signed a 2G/3G patent license agreement with LG and in third quarter 2005 we signed a 3G patent license agreement with Kyocera Wireless Corporation, and its parent corporation, Kyocera Corporation, (collectively, "Kyocera"), which covers the sale of terminal units compliant with cdma2000 technologies and its extensions. These two agreements will contribute approximately $65 million in revenue in 2006. In addition, in 2005 we also signed 2G/3G patent license agreements with Arima Communications, Quanta Computer Inc., and Lucent Technologies Inc. (Lucent), as well as technology solutions agreements with Philips Semiconductors B.V. (Philips) and Infineon Technologies AG (Infineon) that will provide revenue contributions in 2006.

Repurchase of Common Stock

On March 8, 2006, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock through open market purchases, pre-arranged trading plans or privately negotiated purchases. Under previous repurchase programs in 2005, 2004 and 2003, we repurchased 2 million, 1 million and 2 million shares of common stock for $34.1 million, $17.1 million and $34.7 million, respectively.

Intellectual Property Rights Enforcement

From time-to-time, if we believe that a third party is required to license our patents in order to manufacture and sell certain digital cellular products and such third party has not done so, we might institute legal action against the third party. These legal actions typically take the form of a patent infringement lawsuit. In addition, we and our licensees, in the normal course of business, might seek to resolve disagreements between the parties with respect to the rights and obligations of the parties under the applicable license agreement through arbitration or litigation.

In 2005, our patent administration and licensing costs increased $19.0 million, principally due to a $13.8 million increase in patent enforcement costs. These costs relate to an arbitration with Nokia Corporation (Nokia) that concluded in 2005, litigation with Nokia (that remains outstanding), litigation with Lucent that was settled in 2005 and preparation for an arbitration with Samsung that took place in January 2006. Enforcement costs will likely continue to be a significant expense for us.

Development

Our investments in the development of advanced digital wireless technologies and related products include sustaining a highly specialized engineering team and providing that team with the equipment and advanced software platforms necessary to support the development of technologies. Over each of the last three years, our cost of development has ranged between 43% and 54% of our total operating expenses. The largest portion of our cost of development has been personnel costs. As of December 31, 2005, we employed 202 engineers, 77% of whom hold advanced degrees, 30 of whom hold PhDs.

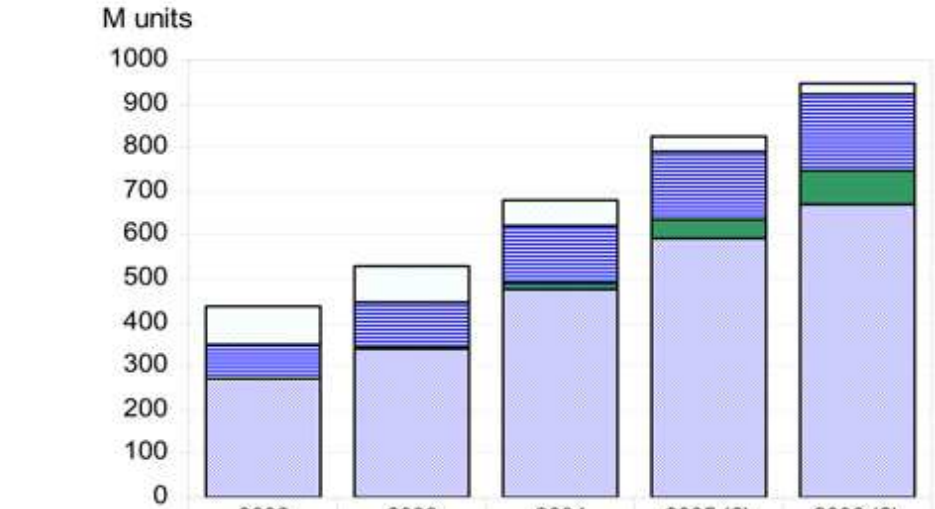
Taxes

In 2005, we determined that our current expectations to generate future taxable income indicated that it was more likely than not that we would utilize our remaining Federal deferred tax assets. Accordingly, in fourth quarter 2005, we recognized an increase in the value of our deferred tax assets of approximately $66.7 million through a reversal of the valuation allowance previously held against our Federal deferred tax assets. Of the $66.7 million benefit, $46.4 million was recognized as income in our Statement of Operations and $20.3 million was credited directly to additional paid-in capital. In addition, we increased the value of our deferred tax assets by $2.4 million as a result of a 1% change in the estimated tax rate we expect will apply when these deferred tax assets reverse in future years. Of the $2.4 million benefit, $1.4 million was recognized as income in our Statement of Operations and $1.0 million was credited directly to additional paid-in capital.

Industry Overview

Our revenue and cash flows are dependent, in large part, on our licensees' sales of wireless products. Over the course of the last ten years, the cellular communications industry has experienced rapid growth worldwide. Total worldwide cellular wireless communications subscribers rose from slightly more than 200 million at the end of 1997 to 1.7 billion at the end of 2005. In several countries, mobile telephones now outnumber fixed-line telephones. Market analysts expect that the aggregate number of global wireless subscribers could reach 3 billion in 2009 .

Global Handset Sales by Technology (1)



	2002	2003	2004	2005 (2)	2006 (2)
Other (3)	86	84	57	32	21
CDMA One, CDMA2000 1x, 1xEV	76	102	132	153	177
WCDMA	0	3	17	44	79
GSM, GPRS, EDGE	273	341	475	594	668
Total Handsets	435	530	681	823	945

(1) Source: Strategy Analytics, Inc. - January 2006.
(2) 2005 and 2006 data represents estimates of handset sales.
(3) Includes: Analog, iDEN, TDMA, PHS, PDC, TD-SCDMA.

The growth in new cellular subscribers, combined with existing customers choosing to replace their mobile phones, helped fuel the growth of mobile phone sales from approximately 115 million units in 1997 to over 820 million units in 2005. We believe the combination of a broad subscriber base, continued technological change, and the ever growing dependence on the Internet, e-mail and other digital media sets the stage for growth in the sales of wireless products and services through the balance of this decade. For those reasons, shipments of 3G-enabled phones (WCDMA, cdma2000, 1xEV-DO) which represented approximately 24% of the market in 2005, are predicted to increase to 49% of the market by 2009.

In addition to the advances in digital cellular technologies, the industry has made significant advances in non-cellular wireless technologies. In particular, IEEE 802.11 WLAN has gained momentum in recent years as a wireless broadband solution in the home, office and in public areas. IEEE 802.11 technology offers high-speed data connectivity through unlicensed spectrum within a relatively modest operating range. Since its introduction in 1998, semiconductor shipments of products built to the IEEE 802.11 standard have nearly doubled every year. While relatively small compared to the cellular market (117 million IEEE 802.11 wireless ICs shipped in 2005), the affordability and attractiveness of the technology has helped fuel rapid market growth . In addition, the IEEE wireless standards bodies are creating sets of standards to enable higher data rates, provide coverage over longer distances and enable roaming.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on the selection and application of accounting principles, generally accepted in the United States of America, which require us to make estimates and assumptions that affect the amounts reported in both our consolidated financial statements and the accompanying notes thereto. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from these estimates, and any such differences may be material to the financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements, and are included in Item 8 of the Form 10-K. We believe the accounting policies that are of particular importance to the portrayal of our financial condition and results, and that may involve a higher degree of complexity and judgment in their application compared to others, are those relating to patents, contingencies, revenue recognition, compensation, and income taxes. If different assumptions were made or different conditions had existed, our financial results could have been materially different.

Patents

We capitalize external costs, such as filing fees and associated attorney fees, incurred to obtain issued patents and patent license rights. We expense costs associated with maintaining and defending patents subsequent to their issuance. We amortize capitalized patent costs on a straight-line basis over the estimated useful lives of the patents. Ten years represents our best estimate of the average useful life of our patents relating to technology developed directly by us. The ten year estimated life of internally generated patents is based on our assessment of such factors as the integrated nature of the portfolios being licensed, the overall makeup of the portfolio over time and the length of license agreements for such patents. The estimated useful lives of acquired patents and patent rights, however, are and will continue to be based on a separate analysis related to each acquisition and may differ from the estimated useful lives of internally generated patents. We assess the potential impairment to all capitalized net patent costs when there is evidence that events or changes in circumstances indicate that the carrying amount of these patents may not be recoverable. Amortization expense related to capitalized patent costs was $6.3 million, $4.4 million and $3.3 million in 2005, 2004 and 2003, respectively. As of December 31, 2005 and 2004, we had capitalized gross patent costs of $87.3 million and $62.5 million, respectively, which were offset by accumulated amortization of $27.8 million and $21.5 million, respectively. Our capitalized gross patent costs in 2005, 2004 and 2003 increased $8.1 million, $0 and $11.3 million, respectively, as a result of patents acquired from third parties in those years. The weighted average estimated useful life of our capitalized patent costs at December 31, 2005 and 2004 was 11.4 years and 11.2 years, respectively.

Contingencies

We recognize contingent assets and liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 5 *Accounting for Contingencies* .

In first quarter 2003, we accrued a $3.4 million liability related to an insurance reimbursement agreement. Our insurance carrier has demanded arbitration, claiming that our obligation under the agreement is approximately $28.0 million. At this time, it is impossible to predict the outcome of current or prospective legal proceedings with regard to this matter. Therefore, we have not adjusted our original accrual of $3.4 million. (See, *"-Litigation and Legal Proceedings, Federal."*).

Revenue Recognition

In 2005, we derived 88% of our revenue from patent licensing. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Such agreements are often complex and multi-faceted. These agreements can include, without limitation, elements related to the settlement of past patent infringement liabilities, up-front and non-refundable license fees for the use of patents and/or know-how, patent and/or know-how licensing royalties on covered products sold by licensees, cross licensing terms between us and other parties, the compensation structure and ownership of intellectual property rights associated with contractual technology development arrangements, and advanced payments and fees for service arrangements. Due to the combined nature of some agreements and the inherent difficulty in establishing reliable, verifiable and objectively determinable evidence of the fair value of the separate elements of these agreements, the total revenue resulting from such agreements may sometimes be recognized over the combined performance period. In other circumstances, such as those agreements involving consideration for past and expected future patent royalty obligations, the determining factors necessary to allocate revenue across past, current, and future years may be difficult to establish. In such instances, after consideration of the particular facts and circumstances, the appropriate recording of revenue between periods may require the use of judgment. Generally, we will not recognize revenue or establish a receivable related to payments that are due greater than twelve months from the balance sheet date. In all cases, revenue is only recognized after all of the following criteria are met: (1) written agreements have been executed; (2) delivery of technology or intellectual property rights has occurred or services have been rendered; (3) fees are fixed or determinable; and (4) collectibility of fees is reasonably assured.

Patent License Agreements

Upon signing a patent license agreement, we provide the licensee permission to use our patented inventions in specific applications. We have no material future obligations associated with such licenses, other than, in some instances, to provide such licensees with notification of future license agreements pursuant to most favored licensee rights. Under our patent license agreements, we typically receive one or a combination of the following forms of payment as consideration for permitting our licensees to use our patented inventions in their applications and products:

- Consideration for Prior Sales: Consideration related to a licensee's product sales from prior periods. Such consideration may result from a negotiated agreement with a licensee that utilized our patented inventions prior to signing a patent license agreement with us or from the resolution of a disagreement or arbitration with a licensee over the specific terms of an existing license agreement. In each of these cases, we record the consideration as revenue. We may also receive consideration from the settlement of patent infringement litigation where there was no prior patent license agreement. We record the consideration related to such litigation as other income.
- Fixed Fee Royalty Payments: Up-front, non-refundable royalty payments that fulfill the licensee's obligations to us under a patent license agreement, for a specified time period or for the term of the agreement.
- Prepayments: Up-front, non-refundable royalty payments towards a licensee's future obligations to us related to its expected sales of covered products in future periods. Our licensees' obligations to pay royalties extend beyond the exhaustion of their Prepayment balance. Once a licensee exhausts its Prepayment balance, we may provide them with the opportunity to make another Prepayment toward future sales or it will be required to make Current Royalty Payments.
- Current Royalty Payments: Royalty payments covering a licensee's obligations to us related to its sales of covered products in the current contractual reporting period.

We recognize revenues related to Consideration for Prior Sales when we have obtained a signed agreement, identified a fixed and determinable price and determined that collectibility is reasonably assured. We recognize revenues related to Fixed Fee Royalty Payments on a straight-line basis over the effective term of the license. We utilize the straight-line method because we have no future obligations under these licenses and we cannot reliably predict in which periods, within the term of a license, the licensee will benefit from the use of our patented inventions.

Licensees that either owe us Current Royalty Payments or have Prepayment balances provide us with quarterly or semi-annual royalty reports that summarize their sales of covered products and their related royalty obligations to us. We typically receive these royalty reports subsequent to the period in which our licensees' underlying sales occurred. Consideration for Prior Sales, the exhaustion of Prepayments and Current Royalty Payments are often calculated based on related per-unit sales of covered products.

In third quarter 2004, we transitioned to recognizing these per-unit royalties in the period when we receive royalty reports from licensees, rather than in the period in which our licensees' underlying sales occur. This transition was necessary because we could no longer wait to receive royalty reports from our licensees and file our financial statements on a timely basis. Without royalty reports, our visibility into our licensees sales is very limited. We are not involved in the supply or sale of their products and industry analysts do not provide information either detailed or timely enough to give us sufficient visibility to make reasonably accurate revenue estimates for our most significant licensees. As such, it is unlikely that we could arrive at revenue estimates for our most significant licensees that would be objective and supportable.

Previously, we recognized revenue related to per-unit sales of covered products in the period the sales occurred, and when we did not receive the royalty reports prior to the issuance of our financial statements, we accrued the related royalty revenue if reasonable estimates could be made. Such estimates, which were limited to a small number of licensees and never exceeded 5% of our revenue in any period presented, were based on the historical royalty data of the licensees involved, third party forecasts of royalty related product sales in the applicable market available at the time and, if available, information provided by the licensee. When our licensees formally reported royalties for which we had previously accrued revenues based on estimates, or when they reported updates to prior royalty reports, we adjusted revenue in the period in which the final reports were received. In cases where we receive objective, verifiable evidence that a licensee has discontinued sales of covered products, we recognize any remaining deferred revenue balance related to unexhausted Prepayments in the period that we receive such evidence.

Technology Solutions Revenue

Technology solutions revenue consists primarily of revenue from software licenses and engineering services. Software license revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2 "Software Revenue Recognition" and SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition." When the arrangement with the customer includes significant production, modification or customization of the software, we recognize the related revenue using the percentage-of-completion method in accordance with SOP 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Under this method, revenue and profit are recognized throughout the term of the contract, based on actual labor costs incurred to date as a percentage of the total estimated labor costs related for the contract. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When such estimates indicate that costs will exceed future revenues and a loss on the contract exists, a provision for the entire loss is recognized at that time.

We recognize revenues associated with engineering service arrangements that are outside the scope of SOP 81-1 on a straight-line basis under Staff Accounting Bulletin No 104 "Revenue Recognition," unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. When recognizing revenue based on our proportional performance, we measure the progress of our performance based on the relationship between incurred contract costs and total estimated contract costs. Our most significant cost has been labor and we believe labor cost provides a measure of the progress of our services. The effect of changes to total estimated contract costs is recognized in the period such changes are determined. Estimated losses, if any, are recorded when the loss first becomes probable and reasonably estimable.

Deferred Charges

From time-to-time, we use sales agents to assist us in our licensing activities. We often pay a commission related to successfully negotiated license agreements. The commission rate varies from agreement to agreement. Commissions are normally paid shortly after our receipt of cash payments associated with the patent license agreements.

We defer recognition of commission expense related to both Prepayments and Fixed Fee Royalty Payments and amortize these expenses in proportion to the recognition of the related revenue. In 2005, 2004 and 2003, we paid cash commissions of approximately $3.1 million, $7.5 million and $2.9 million and recognized commission expense of $4.5 million, $3.5 million, and $3.4 million,

respectively, as part of patent administration and licensing expense. At December 31, 2005 and 2004 we had approximately $5.8 million and $7.2 million, respectively, of deferred commission expense included within prepaid and other current assets and other non-current assets.

Compensation Programs

We use a variety of compensation programs to both attract and retain engineers and other key employees, as well as more closely align employee compensation with Company performance. These programs include, but are not limited to, an annual bonus tied to performance goals, cash awards to inventors for filed patent applications and patent issuances, restricted stock unit (RSU) awards to non-managers and a long-term compensation program ("LTCP"), covering managers, that includes RSUs and a performance-based cash incentive component. The LTCP was originally designed to include three year cycles that overlap by one year. The first cycle under the program covered the period from April 1, 2004 through January 1, 2006 ("Cycle 1"). The second cycle originally covered the period from January 1, 2005 through January 1, 2008 ("Cycle 2"). In second quarter 2005, the Compensation Committee of our Board of Directors amended the LTCP to revise the performance-based cash award portion of Cycle 2 to cover a 3 1/2 year period from July 1, 2005 through January 1, 2009, and authorized a pro-rated interim payment, of approximately $0.9 million, related to first half 2005.

In 2005, we recognized $6.5 million and $7.6 million of compensation expense related to the performance-based cash incentive and RSUs, respectively. In 2004, we recognized $3.0 million and $4.1 million of compensation expense related to the performance-based cash incentive and RSUs, respectively. We amortize the expense associated with RSUs using an accelerated method. At December 31, 2005, accrued compensation expenses associated with the performance-based cash incentive were based on a known 102.5% payout for Cycle 1 and an estimated 100% payout for Cycle 2.

Under the program, 100% achievement of the goals set by the Compensation Committee of the Board of Directors results in a 100% payout of the performance-based cash incentive target amounts. For each 1% change above or below 100% achievement, the payout is adjusted by 2.5% with a maximum payout of 225% and a zero performance-based cash incentive pay-out for performance that falls below 80% of target results. The following table provides examples of the performance-based cash incentive payout that would be earned based on various levels of goal achievement:

Goal Achievement	Payout
less than 80%	0%
80%	50%
100%	100%
120%	150%
150% or greater	225%

At December 31, 2005, if we had assumed that the Company's Cycle 2 goal achievement would be either 120% or 80%, we would have recorded either $0.4 million more or less, respectively, of compensation expense in 2005. Due to the structure of the different cycles in the LTCP, we expect that 2006 expenses associated with the LTCP will be approximately one-half the level of 2005. However, the amount recorded could either increase or decrease dependent upon our future assessment of the expected attainment against pre-established performance goals.

In fourth quarter 2005, we accelerated the vesting of all stock options which were scheduled to vest on or after January 1, 2006. As a result, options to purchase approximately 0.8 million shares of our common stock, that would otherwise have vested at various times over the next six years, became fully vested. We recorded a charge of approximately $0.2 million related to the acceleration. This charge was based, in part, on our estimate that approximately 12% of the accelerated options would have been forfeited had the acceleration not occurred. The charge would have been approximately $1.6 million if we had estimated that 100% of the options would have been forfeited had the acceleration not occurred. The acceleration eliminates a non-cash charge of approximately $7.1 million that would have been recognized under SFAS 123 (R) over the next six years. We will continue to recognize expense for our remaining equity-based incentive programs.

On January 1, 2006, we granted approximately 130,000 RSUs to non-management employees. These RSUs will vest over a three year period. Based on our current headcount, we expect to record compensation expense associated with this grant of approximately $1.5 million, $0.7 million and $0.3 million in 2006, 2007 and 2008, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if management has determined that it is more likely than not that such assets will not be realized.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to compliance reviews by the Internal Revenue Service ("IRS") and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings. Certain tax contingencies are recognized when they are determined to be both probable and reasonably estimable. We believe we have adequately accrued for tax contingencies that have met both criteria. As of December 31, 2005 and 2004, there are certain tax contingencies that either are not considered probable or are not reasonably estimable by us at this time. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have a material adverse effect on our consolidated financial condition or results of operations.

We recognize deferred tax assets related to deferred revenue for both U.S. Federal Income Tax purposes and non-U.S. jurisdictions that assess a source withholding tax on related royalty payments. We expense these deferred tax assets in accordance with SFAS No. 109 as we recognize the revenue and the related temporary differences reverse. In 2005, 2004 and 2003, we paid zero, $3.9 million and $9.5 million, respectively, of foreign source withholding tax and recognized approximately $2.1 million, $4.5 million and $7.4 million, respectively, of foreign source withholding tax expense in our income tax provision in accordance with this policy.

Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the asset to offset future taxes. At December 31, 2003, we provided a full valuation allowance on all deferred tax assets, other than those associated with revenue, that was recognized in the computation of our foreign source withholding tax liability, but deferred for financial statement purposes. In 2004, we determined that our operating performance, coupled with our expectations to generate future taxable income, indicated that it was more likely than not that we would utilize a portion of our deferred tax assets. Accordingly, in third quarter 2004, we recognized an increase in the value of our deferred tax assets of approximately $27 million through a partial reversal of the valuation allowance. Of the $27 million benefit, $17 million was recognized as income in our Statement of Operations and $10 million was credited directly to additional paid-in capital. In 2005, we determined that our expectations to generate future taxable income indicated that it was more likely than not that we would utilize our remaining Federal deferred tax assets. Accordingly, in fourth quarter 2005, we reversed our remaining Federal deferred tax asset valuation allowance of approximately $66.7 million. Of the $66.7 million benefit, $46.4 million was recognized as income in our Statement of Operations and $20.3 million was credited directly to additional paid-in capital. In addition, at the same time, we increased the value of our deferred tax assets by $2.4 million as a result of a 1% change in the estimated tax rate we expect will apply when these deferred tax assets reverse in future years. Of the $2.4 million benefit, $1.4 million was recognized as income in our Statement of Operations and $1.0 million was credited directly to additional paid-in capital. Our assessments of the value of our federal deferred tax assets did not take into consideration all potential income sources, including potential income related to current arbitration/litigation matters with Nokia and Samsung.

We do not expect that we will reverse the remaining valuation allowance against our state deferred tax assets as we believe it is more likely than not that our state deferred tax assets will expire unutilized. We estimate that we will fully utilize our remaining federal NOL carryforwards between 2006 and 2008. Once this occurs, we will begin to pay U.S. Federal Income Tax, as well as foreign source withholding taxes, on patent license royalties and state taxes when applicable. In the course of future tax planning, should 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.

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 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.

Based on judgments associated with determining the annual limitation applicable to us under Internal Revenue Code Section 382, we did not include all federal NOL carryforwards in the computation of our gross deferred tax assets. We also excluded a portion of the federal research and experimental credits that may be available to us from the computation of gross deferred tax assets 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, the gross deferred tax assets would have been approximately $10 million greater and our income tax benefit would have increased by the same amount.

Excluding any prospective recognition of additional tax credits, we expect to provide for income taxes in 2006 at a rate equal to our combined federal and state effective rates, which would approximate 35% to 37% under current tax laws, plus an amount for deferred foreign source withholding tax expense which is dependent, in part, upon licensee royalty reports. As of December 31, 2005, we had net deferred foreign source withholding tax expense of approximately $2.2 million on our Balance Sheet.

SIGNIFICANT AGREEMENTS AND EVENTS

Technology Solution Agreements

In December 2004, we entered into an agreement with General Dynamics, to serve as a subcontractor on the MUOS program for the U.S. military. MUOS is an advanced tactical terrestrial and satellite communications system utilizing 3G commercial cellular technology to provide significantly improved high data rate and assured communications for U.S. warfighters. The Software License Agreement (SLA) requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. We have also provided product training under the SLA and will provide maintenance for a period of three years, beginning January 1, 2006.

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

We are accounting for portions of these and other technology solutions agreements using the percentage-of-completion method. From the inception of these agreements through December 31, 2005, we have recognized revenue of approximately $18.9 million under the percentage-of-completion method, including $18.8 million in 2005. Our accounts receivable at December 31, 2005 and 2004 included unbilled amounts of $4.1 million and $0.1 million, respectively.

2005 Repositioning

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

In connection with the closure, we expect to recognize repositioning charges totaling approximately $1.6 million, comprised of severance and relocation costs of $1.1 million and facility closing costs of $0.5 million. The facility closing costs include lease termination costs, fixed asset writeoffs and costs to wind down the facility. We recorded approximately $1.5 million of this charge in 2005 and expect to record the majority of the remaining charges during the first six months of 2006. The 2005 charge was comprised of both severance and relocation costs ($1.0 million) and facility closing costs ($0.5 million). At December 31, 2005, our accrued liability relating to the repositioning charge was approximately $0.1 million.

2004 Repositioning

In second quarter 2004, we reduced our headcount by 25 employees and recorded a charge of approximately $0.6 million associated with this repositioning. The charge was comprised primarily of severance and other cash benefits associated with the workforce reduction. During the balance of 2004, we adjusted our repositioning charge by less than $0.1 million and completely satisfied all liabilities associated with this restructuring. We believe that our financial obligations associated with this repositioning are substantially complete and do not expect to report further costs associated with the repositioning.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), *"Share-Based Payment ."* SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending compliance dates for SFAS No. 123(R). In accordance with the new rule, the accounting provisions of SFAS No. 123(R) will be effective for InterDigital beginning first quarter 2006. We currently expect to adopt the provisions of SFAS No. 123(R) using the modified-prospective method. 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) replaces SFAS No. 123 and supersedes APB Opinion No. 25. As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used.

In fourth quarter 2005, we accelerated the vesting of all remaining unvested options. The acceleration eliminates a non-cash charge of approximately $7.1 million that would have been recognized under SFAS 123(R) over the next six years. We adopted this standard effective January 1, 2006. We will continue to recognize expense for our remaining equity-based incentive programs and do not believe the adoption of this standard will have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 153, *" Exchanges of Nonmonetary Assets–an amendment of APB Opinion No. 29 "* ("SFAS No.153"). The guidance in APB Opinion No. 29, *"Accounting for Nonmonetary Transactions"* ("APB No. 29"), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for such exchange transactions occurring in fiscal periods beginning after June 15, 2005. We do not believe that adoption of this standard will have a material impact on our financial statements.

In May 2005, the FASB issued SFAS No. 154, *" Accounting Changes and Error Corrections–a replacement of APB Opinion No. 20 and FASB Statement No. 3 "* ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, *" Accounting Changes ,"* and FASB Statement No. 3, *" Reporting Accounting Changes in Interim Financial Statements ,"* and provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of a material error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will apply the applications of SFAS No. 154 beginning January 1, 2006 if and when required.

LITIGATION AND LEGAL PROCEEDINGS

Nokia

Nokia Arbitration

In July 2003, Nokia filed a Request for Arbitration against InterDigital Communications Corporation (IDCC) and ITC, regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement (Nokia License Agreement) with ITC (Nokia Arbitration). The arbitration proceeding related to ITC's claim that the patent license agreement ITC signed with Telefonakiebolaget LM Ericsson and Ericsson Inc. (collectively, Ericsson) (Ericsson Agreement) and the patent license agreement ITC signed with Sony Ericsson Mobile Communications AB (Sony Ericsson) (Sony Ericsson Agreement) in March 2003 triggered Nokia's obligation to pay royalties on its worldwide sales of covered 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units and infrastructure commencing January 1, 2002.

An evidentiary hearing was conducted in January 2005 by an arbitral tribunal (Arbitral Tribunal) operating under the auspices of the International Court of Arbitration of the International Chamber of Commerce (ICC). In June 2005, the Arbitral Tribunal rendered a Final Award, holding that (i) the Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5G infrastructure in the period from January 1, 2002 through December 31, 2006; and (ii) the Sony Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5 terminal units in period from January 1, 2002 through December 31, 2006. Based on the terms of the Ericsson Agreement and the Sony Ericsson Agreement, the Arbitral Tribunal established royalty rates that are applicable to Nokia's sales of covered 2G and 2.5 terminal units and infrastructure in that period.

In July 2005, IDCC and ITC filed in the United States District Court for the Southern District of New York a petition to confirm the Final Award. In December 2005, the presiding District Judge issued an order confirming the Final Award in its entirety. In January 2006, Nokia filed a Notice of Appeal of that order to the United States Court of Appeals for the Second Circuit (Second Circuit). On March 13, 2006, the Second Circuit ordered that the oral arguement of the appeal will be heard no earlier than the week of July 10, 2006. We intend to vigorously oppose Nokia's efforts to appeal.

Also in December 2005, IDCC and ITC took action to utilize the dispute resolution process in accordance with the terms of their patent license agreement with Nokia and a related master agreement between the parties. This dispute resolution process involves a timetable for discussions, senior representative meetings and any future initiation of arbitration, if necessary, and seeks to address issues raised by Nokia's failure to abide by the Final Award. IDCC and ITC are pursuing the dispute resolution process in order to accelerate the resolution of several issues including, without limitation, total amounts to be paid pursuant to the Final Award, including interest, and Nokia's failure to submit royalty reports and refusal to permit an audit of Nokia's books and records to determine amounts due. IDCC and ITC seek to resolve any and all unresolved issues that may impact a determination of the amount to be paid under the Final Award.

Nokia Texas and North Carolina Proceedings

In July 2003, Nokia filed in the United States District Court for the Northern District of Texas (District Court) a motion to intervene and to gain access to documents previously sealed by the District Court in the now-settled litigation between IDCC and ITC and Ericsson, Inc. (Ericsson Litigation). We filed a response opposing the request to intervene and opposing the request for access to the documents. The District Court granted Nokia's motion to intervene in the Ericsson Litigation and provided Nokia with document access on a limited basis. Nokia subsequently filed a motion to reinstate certain orders that were vacated in the Ericsson Litigation, which motion was granted by the trial court. We appealed that ruling to the U.S. Court of Appeals for the Federal Circuit (Circuit Court). On August 2005, the Circuit Court ruled in favor of IDCC and ITC and reversed the District Court's order, finding that the District Court had committed error in permitting Nokia to intervene. The Circuit Court reversed the District Court's decisions which had both granted intervention and reinstated the prior vacated orders, which orders had been vacated as part of the settlement of the Ericsson Litigation.

In late 2004, Nokia sought to enforce two subpoenas issued by the Arbitral Tribunal in the above described arbitration proceeding to Ericsson and Sony Ericsson seeking certain documents. Those enforcement actions were commenced in the Federal District Court for the Northern District of Texas and the Federal District Court for the Eastern District of North Carolina. In February 2005, Nokia withdrew both enforcement actions.

Nokia UK Proceedings

In June 2004, Nokia commenced a patent revocation proceeding in the English High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's UK patents declared invalid (UK Revocation Proceeding). Nokia also seeks a Declaration that manufacture and sale of GSM mobiles and infrastructure equipment compliant with the ETSI GSM Standard (Release 4) without license from ITC does not require infringement of the 3 UK patents, so that none of the patents are essential IPR for that standard. The hearing on this matter commenced early November 2005 and after several recesses concluded at the end of January 2006, with a decision to be issued thereafter by the High Court.

In July 2005, Nokia filed a claim in the English High Court of Justice, Chancery Division, Patents Court against ITC. Nokia's claim seeks a Declaration that thirty-one of ITC's UMTS European Patents registered in the UK are not essential IPR for the 3GPP standard. We intend to vigorously defend our position and are contesting Nokia's claim of jurisdiction in the High Court.

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.

Samsung

In 2002, during an arbitration proceeding, Samsung Electronics Co. Ltd. (Samsung) elected, under an MFL clause its 1996 patent license agreement with ITC (Samsung Agreement), to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the Nokia License agreement, including its most favored licensee (MFL) provision. By notice in March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of the Ericsson Agreement (for infrastructure products) and the Sony Ericsson Agreement (for terminal unit products) 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 against IDCC and ITC regarding Samsung's royalty payment obligations to ITC for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration). This arbitration proceeding relates to ITC's claim that the Ericsson Agreement and the Sony Ericsson Agreement defined the financial terms under which Samsung is required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002 through December 31, 2006. We also seek a declaration that the parties' rights and obligations are governed by the Samsung Agreement, and that the Nokia License Agreement dictates only Samsung's royalty obligations and most favored licensee rights for those TDMA products licensed under the Samsung Agreement. Samsung is seeking a determination that Samsung's obligations are not defined by the Ericsson Agreement, the Sony Ericsson Agreement, or the Final Award in the Nokia arbitration. In the alternative, Samsung seeks to determine the amount of the appropriate royalty to be paid, which is substantially less than the amount that we believe is owed. Samsung is also seeking a determination that it has succeeded to all of Nokia's CDMA license rights, including its 3G license. If the arbitration panel were to agree with Samsung's position on Nokia's CDMA rights, Samsung would be licensed to sell 3G products on the same terms as Nokia.

In January 2006, an evidentiary hearing was conducted. Absent a resolution by the parties to this dispute, the presiding ICC Arbitral Tribunal will render a decision.

Lucent

In March 2004, Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000 infrastructure equipment. The case was originally based on our assertions of infringement by Lucent of nine of Tantivy's U.S. patents. The lawsuit sought damages for past infringement and an injunction against future infringement, as well as interest, costs and attorneys' fees. Lucent responded to the lawsuit denying any infringement, and sought a declaration of non-infringement and alleged that the patents were invalid and requested attorneys' fees and costs.

In November 2005, Tantivy and Lucent agreed to dismiss the patent infringement litigation between them and, together with IDCC, entered into a combined patent license and technology agreement. Under the terms of the agreement, Lucent is obligated to pay approximately $14 million over a period of approximately 5 years. Tantivy granted a patent license to Lucent under only those patents which were involved in the litigation being dismissed covering Lucent's cdma2000 infrastructure products. In addition, IDCC and Lucent agreed to cooperate on advanced technology programs.

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 their determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement (Agreement) requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. Additionally, under certain circumstances, Federal may seek to recover interest on its claim. In November 2003, the Company filed an action in United States District Court for the Eastern District of Pennsylvania (the Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement was found to be valid and enforceable, the Company was seeking a declaratory judgment that Federal would have been 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 December 31, 2005. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

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

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

In 2005 and 2004, we generated net cash from operating activities of $33.7 million and $48.2 million, respectively. The positive operating cash flow in 2005 arose principally from receipts of approximately $133.1 million related to 2G and 3G patent licensing agreements. These receipts included $35.6 million from NEC, $33.3 million from Sharp Corporation of Japan (Sharp), $27.9 from Sony Ericsson, $20.0 million from Kyocera Corporation and $16.3 million from other licensees. 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 $124.9 million and changes in working capital during 2005. The positive operating cash flow in 2004 arose principally from receipts of approximately $138.3 million related to 2G and 3G patent licensing agreements. These receipts included $34.6 million from NEC, $27.0 million from SANYO Electric Co., Ltd (Sanyo), $23.0 million from Sharp, $17.5 million and $11.6 million from Ericsson and Sony Ericsson, respectively, $10.0 million from Toshiba Corporation (Toshiba) and $14.6 million from other licensees. 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 $94.2 million and changes in working capital during 2004.

We receive cash payments relating to current per-unit royalties. We also receive up-front cash payments for prepaid royalties or to fulfill a patent licensee’s obligations to us under a patent license agreement for either a specified time period or for the term of the agreement. When we record the receipt or expected receipt of up-front payments, we defer recognition of the revenue associated with such payments pursuant to our revenue recognition policy as discussed in our Critical Accounting Policies. We have no material obligations associated with such deferred revenue.

Our combined short-term and long-term deferred revenue balances at December 31, 2005 was approximately $91.2 million, a decrease of $8.0 million from December 31, 2004. The decrease was mainly due to current year deferred revenue recognition of approximately $29.8 million related to the amortization of fixed fee royalty payments and approximately $35.8 million from current year per-unit exhaustion of prepaid royalties based upon royalty reports provided by our licensees offset, in part, by the receipt of approximately $57.6 million in Prepayments and Fixed Fee Amounts, primarily from new, expanded or amended patent license agreements, including $27.9 million from Sony Ericsson, $20 million from Kyocera and $9.7 million from other licensees.

Based on current license agreements, in 2006, we expect the amortization of fixed fee royalty payments to reduce the December 31, 2005 deferred revenue balance of $91.2 million by $20.1 million. Additional reductions to deferred revenue will be dependent upon the level of per-unit royalties our licensees report against prepaid balances. In first quarter 2006, we recorded gross increases in deferred revenue of approximately $221 million, $190 million of which relates to payments received and due from LG, and approximately $31 million which relates to new prepayments from two other existing licensees. In first quarter 2006, we collected the first $95 million payment from LG and recorded $95 million in accounts receivable relating to LG's second payment 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, which is due in first quarter 2008, until twelve months prior to its due date.

In 2005, we generated net cash from investing activities of $8.0 million. In 2004, we used $48.2 million for these same activities. We sold $38.2 million of short-term marketable securities, net of purchases, in 2005. We purchased $31.3 million of short-term marketable securities, net of sales, in 2004. This change resulted from a higher use of cash in financing activities. Purchases of property and equipment increased to $5.4 million in 2005 from $3.7 million in 2004 due to investments in development tools and the expansion of our engineering information system network. Investment costs associated with patents increased from $13.1 million in 2004 to $17.0 million in 2005. This increase reflects higher 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 2006, we expect that purchases of property and equipment in support of planned technology development initiatives will be $7 million to $9 million. We also expect that capitalized patent costs will be between $13 million to $16 million. In first quarter 2005, we acquired, for a purchase price of approximately $8.1 million, selected patents, intellectual property blocks and related assets from an unrelated third party, the function of which are aimed at improving the range, throughput and reliability of wireless LAN and other wireless technology systems.

Net cash used in financing activities in 2005 increased $24.4 million to $29.6 million from $5.2 million in 2004. In 2005, we repurchased two million shares of our common stock for $34.1 million compared to repurchases of one million shares of common stock in 2004 for $17.1 million. We received proceeds from option and warrant exercises of $4.9 million and $12.2 million in 2005 and 2004, respectively.

We had 6.3 million and 7.3 million stock options outstanding at December 31, 2005 and 2004, respectively, that had exercise prices less than the fair market value of our common stock at each balance sheet date. These options would have generated $63.5 million and $78.9 million of cash proceeds to us had they been fully exercised at these dates.

As of December 31, 2005, we had $105.7 million of cash, cash equivalents and short-term investments, compared to $131.8 million at December 31, 2004. Our working capital (adjusted to exclude cash, cash equivalents, short-term investments, current maturities of debt and current deferred revenue) increased to $39.9 million at December 31, 2005 from $3.3 million at December 31, 2004. This $36.6 million increase is primarily due to a $36.9 million increase in current deferred tax assets associated with the recognition of an increase in the value of these assets in fourth quarter 2005, offset, in part, by the net changes in other elements of working capital.

In December 2005, we entered into a two-year $60 million unsecured revolving credit facility (the Credit Agreement). The Credit Agreement was entered into by the Company, Bank of America, N.A., as Administrative Agent, and Citizens Bank of Pennsylvania. At our option, borrowings under the Credit Agreement will bear interest at LIBOR plus 75-90 basis points, depending on the level of borrowing under the credit facility, or under certain conditions at the prime rate or if higher, 50 basis points above the Federal Funds Rate. The Credit Agreement further contains certain customary restrictive financial and operating covenants which, among other things, require us to (i) maintain certain minimum cash and short-term investment levels of 1.15 times outstanding borrowings subject to adjustments defined in the agreement, (ii) maintain minimum financial performance requirements as measured by our income or loss before taxes, with certain adjustments, and (iii) limit or prohibit the incurrence of certain indebtedness and/or liens, judgments above a threshold amount for which a reserve is not maintained, and certain other activities outside the ordinary course of business. 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 December 31, 2005, we did not have any amounts outstanding under the Credit Agreement.

Consistent with our strategy to focus our resources on the development and commercialization of advanced wireless technology products, we expect to see modest growth in operating cash needs related to planned staffing levels and continued investments in enabling capital assets in 2006. We are capable of supporting these and other operating cash requirements, including repurchases of our common stock, for the near future through cash and short-term investments on hand, other operating funds such as patent license royalty payments or the above-noted credit facility. An adverse resolution of the litigation involving Federal Insurance Company (See, "*— Litigation and Legal Proceedings, Federal* ") should not prevent us from supporting our operating requirements for the near future. At present, we do not anticipate the need to seek additional financing through additional bank facilities or the sale of debt or equity securities.

Contractual Obligations

With the exception of two purchase orders totaling $3.1 million for tools associated with our FDD WCDMA development programs, we did not have any significant purchase obligations outside our ordinary course of business at December 31, 2005.

The following is a summary of our consolidated debt and lease obligations at December 31, 2005 (in millions):

Obligation	Total	1-3 Years	4-5 Years	Thereafter
Debt	$1.9	$ 1.0	$ 0.5	$ 0.4
Operating leases	3.0	3.0	—	—
Total debt and operating lease obligations	$4.9	$ 4.0	$ 0.5	$ 0.4

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

2005 Compared With 2004

Revenues

	2005	2004
Per-unit royalty revenue (a)	$104.1	$ 73.1
Fixed-fee and amortized royalty revenue	29.8	28.5
Recurring patent licensing royalties	133.9	101.6
Past infringement and other non-recurring royalties	10.2	1.8
Total patent licensing royalties	144.1	103.4
Technology solutions revenue	19.0	0.3
Total Revenue	$163.1	$103.7

(a) In 2004, we transitioned to recognizing revenue associated with per-unit royalties in the quarter when royalty reports are received from licensees, rather than in the quarter in which our licensees' underlying sales occurred. Due to this transition, revenues for 2004 included only three quarters of per-unit royalties.

In 2005, revenues increased 57%, to $163.1 million from $103.7 million in 2004. This increase resulted from growth in royalties from existing licensees at December 2004, incremental revenue from patent licensees added in 2005, growth in revenue related to technology solution agreements with General Dynamics, Philips and others, and the effect of the above-noted third quarter 2004 transition in reporting per-unit royalties.

2005 revenues included non-recurring revenue of $10.2 million related to past infringement, primarily associated with a new patent license agreement with Kyocera, compared with $1.4 million in 2004. 2004 revenues also included $0.4 million of non-recurring royalties related to the remaining deferred revenue balance of a licensee that had discontinued sales of covered products.

Technology solution revenue increased substantially in 2005 to $19.0 million from $0.3 million in 2004. This increase was primarily due to the recognition of $16.1 million of revenue associated with the majority of our deliverables under the MUOS program for the U.S. military under our agreement with General Dynamics. We expect to recognize an additional $0.3 million in 2006 related to final deliverables, and will amortize an additional $2 million related to our maintenance services under that agreement over a three year period, beginning January 1, 2006.

In 2005 and 2004, respectively, 52% and 79% of our revenues were from companies that individually accounted for 10% or more of total revenues. In 2005, those companies were NEC (30%) and Sharp (22%). In 2004, the comparable list included NEC (43%), Sharp (24%) and Sony Ericsson (12%).

Operating Expenses

Operating expenses increased 33% from $110.0 million in 2004 to $146.0 million in 2005. The $36.0 million increase was primarily due to increases in the following items (in millions):

Patent litigation and arbitration	$ 13.8
Long-term compensation program (LTCP)	7.0
Other personnel related costs	4.1
Executive severance & repositioning	2.1
Patent amortization	1.9
Other (a)	7.1
Total Increase in Operating Expense	$ 36.0

(a) Other cost increases include tools and equipment, commissions, travel and all other costs, none of which represent more than 25% of the increase in this line item.

Patent litigation and arbitration costs increased as a result of (i) arbitration and related litigations with Nokia, (ii) litigation with Lucent that was settled in 2005, and (iii) preparation for arbitration with Samsung, the hearing for which took place in

January 2006. Costs associated with our LTCP increased due to the overlap of Cycles 1 and 2 that occurred in 2005. Other personnel costs increased primarily due to higher levels of headcount prior to a third quarter repositioning. The increase in patent amortization resulted from an acquisition of a patent portfolio in 2005 and higher levels of internal inventive activity in recent years. Other costs increased due to work on our HSDPA platform development, higher commission expense resulting from higher levels of royalty revenue, and higher travel costs associated with increased customer procurement and service requirements.

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

	2005	2004	Increase	
Sales and marketing	$ 7.9	$ 6.2	$ 1.7	27%
General and administrative	24.1	21.6	2.5	12
Patents administration and licensing	49.4	30.4	19.0	63
Development	63.1	51.2	11.9	23
Repositioning	1.5	0.6	0.9	150
Total Operating Expense	$146.0	$110.0	$36.0	33%

Sales and Marketing Expense: Approximately 63% of the increase in sales and marketing expense was due to personnel costs, primarily resulting from the overlap of Cycles 1 and 2 of our LTCP that occurred in 2005. The balance of the increase was mainly due to higher costs associated with increased trade show activities.

General and Administrative Expense: The increase in general and administrative expenses resulted from increased personnel costs, including $1.2 million of executive severance and a $1.6 million increase in LTCP costs resulting from overlapping cycles in 2005.

Patents Administration and Licensing Expense: Approximately $13.8 million of the overall increase in patents administration and licensing expense was due to higher patent enforcement costs related to an arbitration with Nokia that concluded in 2005, litigation with Nokia that remains outstanding, litigation with Lucent that was settled in 2005 and preparation for an arbitration with Samsung that took place in January 2006. Another $1.9 million of the increase was due to increased patent amortization resulting from the acquisition of a patent portfolio in 2005 and higher levels of internal inventive activity in recent years. In addition, commission expense increased approximately $1.0 million due to higher levels of royalty revenue. The balance of the increase was due to higher staff levels and LTCP costs resulting from overlapping cycles in 2005.

Development Expense: Approximately $6.4 million of the increase in development expenses was due to personnel costs. Approximately $4.1 million of this increase was due to LTCP costs resulting from overlapping cycles in 2005, with the balance related to higher levels of headcount prior to a third quarter 2005 repositioning. The remaining increase in development expense resulted from targeted outsourced services, tools and equipment and other costs related to work on our HSDPA platform development.

Repositioning Expense: Costs associated with the 2005 repositioning were higher than the 2004 repositioning due to both higher levels of headcount reduction and higher facility closure costs.

Interest and Investment Income, Net

Net interest and investment income of $3.2 million in 2005 increased $1.4 million or 82% from $1.7 million in 2004. The increase resulted from higher rates of return on our investments in 2005.

Income Taxes

Our income tax provision in 2005 included benefits totaling $43.7 million, primarily related to the fourth quarter 2005 reversal of our Federal deferred tax asset valuation allowance (a portion of this reversal was credited directly to additional paid-in capital), which were partly offset by $7.2 million of federal income tax and alternative minimum tax, and $2.1 million of foreign source withholding tax.

Our income tax provision in 2004 included a benefit of approximately $17.1 million related to the partial reversal of our Federal deferred tax asset valuation allowance and was offset in part by approximately $7.8 million of federal income tax and alternative minimum tax and approximately $4.6 million of foreign source withholding tax.

The net income tax benefit associated with adjustments to the value of our deferred tax assets is comprised of the following components (in millions):

	2005	2004
Reversal of Federal valuation allowance	$(46.4)	$(17.1)
Change in effective tax rate applied to Federal deferred tax assets	(1.4)	—
Other adjustments to deferred tax assets	4.1	—
Total adjustments related to Federal deferred tax asset valuation	$(43.7)	$(17.1)

The $46.4 million and $17.1 million reversals of the Federal valuation allowance in 2005 and 2004, respectively, were based on expectations that we will generate sufficient future taxable income to utilize our Federal deferred tax assets. The $1.4 million change in the effective tax rate applied to Federal deferred tax assets is related to a change in the estimated tax rate we expect will apply when these deferred tax assets reverse. The remaining $4.1 million adjustment of our deferred tax assets reduces the recorded value of credits associated with federal NOL carryforwards and research and development activities based on our assessment of the likelihood of realizing such credits.

2004 Compared With 2003

Revenues

	2004	2003
Per-unit royalty revenue (a)	$ 73.1	$ 69.6
Fixed-fee and amortized royalty revenue	28.5	23.3
Recurring patent licensing royalties	101.6	92.9
Past infringement and other non-recurring royalties	1.8	20.6
Total patent licensing royalties	103.4	113.5
Technology solutions revenue	0.3	1.1
Total Revenue	$103.7	$114.6

(a) In 2004, we transitioned to recognizing revenue associated with per-unit royalties in the quarter when royalty reports are received from licensees, rather than in the quarter in which our licensees' underlying sales occurred. Due to this transition, revenues for 2004 included only three quarters of per-unit royalties.

Revenues in 2004 were $103.7 million compared with $114.6 million in 2003. The decrease in 2004 revenues was due to the absence of per-unit royalties in third quarter 2004 associated with the transition in reporting per-unit royalties.

Notwithstanding the effect of the transition in reporting per-unit royalties on 2004 revenues, recurring patent license royalties (which include both fixed and amortized amounts, as well as per-unit royalties reported to us) increased from $92.9 million in 2003 to $101.6 million in 2004. The $8.7 million increase in recurring patent license royalty revenue from 2003 to 2004 was primarily due to an increase in royalties from NEC, offset by the absence of reporting per-unit royalties for one quarter in 2004.

In 2004, we recorded non-recurring revenue of $1.4 million related to past infringement from a number of new licensees signed in 2004 and $0.4 million associated with the remaining deferred revenue balance of a licensee that has discontinued sales of covered products. In 2003, we recorded $20.6 million of non-recurring royalty revenue, primarily associated with Sony Ericsson's pre-2003 handset sales.

Technology solution revenue decreased to $0.3 million in 2004 from $1.1 million in 2003. The decrease was due to the fact that 2003 included $1.0 million related to final deliverables under a technology development agreement with Nokia.

In 2004 and 2003, respectively, 79% and 83% of our revenues were from companies that individually accounted for 10% or more of total revenues. In 2004, these companies were NEC (43%), Sharp (24%) and Sony Ericsson (12%). In 2003 the comparable list included NEC (29%), Sony Ericsson (29%) and Sharp (25%).

Operating Expenses

Operating expenses increased 29% from $85.0 million in 2003 to $110.0 million in 2004. The increase in our operating expenses reflected both a commitment to investing in the development of advanced wireless technology solutions and legal costs associated with arbitration and litigation proceedings involving Nokia, Samsung and Lucent. The $25.0 million increase in operating expenses was primarily due to increases in personnel costs ($13.1 million), legal fees ($11.3 million), patent amortization ($1.1 million) and insurance premiums ($0.8 million) and was partly offset by savings in other areas. Approximately 73% and 13%, respectively, of the increase in personnel costs was due to company-wide compensation initiatives instituted in first half 2004 and the addition, in mid-2003, of a design center in Melbourne, Florida. The remaining increase in personnel costs was primarily due to severance associated with a second quarter repositioning and expanded training and development programs.

Development expenses increased 11% in 2004 to $51.2 million from $45.9 million in 2003. The increase resulted from a $6.6 million increase in personnel costs primarily associated with compensation initiatives instituted in first half 2004, offset, in part, by a decrease of $0.8 million each related to consulting fees and depreciation of fixed assets.

Sales and marketing expenses of $6.2 million in 2004 increased 26% from $4.9 million in 2003 primarily due to a $1.9 million increase in personnel costs offset, in part, by decreased consulting costs.

General and administrative expenses in 2004 increased 19% to $21.6 million from $18.2 million in 2003. Increased personnel costs accounted for 70% of this increase, with the balance due to increased public entity costs, including audit fees and insurance premiums.

Patents administration and licensing expenses increased 90% in 2004 to $30.3 million from $16.0 million in 2003. Nearly 82% of this increase was due to higher patent enforcement costs related to our respective arbitrations with Nokia and Samsung and a litigation with Lucent.

Other Income, Interest and Investment Income, Net

In 2003, we recognized $14.0 million from the settlement of litigation with Ericsson, net of an estimated $3.4 million associated with a claim under an insurance reimbursement agreement, as other income. The $3.4 million represents a loss contingency associated with an insurance reimbursement agreement with Federal.

Net interest and investment income of $1.7 million in 2004 remained relatively level with 2003.

Income Taxes

Our income tax provision in 2004 included a benefit of approximately $17.1 million related to the partial reversal of our Federal deferred tax asset valuation allowance and was offset in part by approximately $7.8 million of federal income tax and alternative minimum tax and approximately $4.6 million of foreign source withholding tax. Our income tax provision in 2003 consisted primarily of foreign source withholding taxes associated with patent licensing royalties, principally from Japan. The decrease in our foreign source withholding tax expense from 2003 to 2004 resulted primarily from a July 2004 tax treaty between the U.S. and Japan that eliminates the foreign source withholding tax requirements between these countries, provided certain conditions defined in the treaty are met.

Expected Trends

In first quarter 2006, we expect to report revenue of $50 million to $52 million. This revenue amount includes slightly more than $11 million related to the recently announced patent license agreement with LG (for which we are recognizing revenue associated with $285 million in total expected payments on a straight-line amortization over the approximately five-year term of the agreement) as well as increases in sales from some of our other licensees. We anticipate that first quarter 2006 operating expenses, excluding current patent arbitration or litigation costs, will be in line with those experienced in fourth quarter 2005 reflecting continued investment in our dual mode terminal unit offering. Patent arbitration and litigation expense will depend on the level of activity through the remainder of the quarter. Lastly, we expect that our book tax rate for first quarter 2006 will approximate 35% to 37%.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (Form 10-K), including “Item 1. Business” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements. Words such as “expect,” “will,” “believe,” “could,” “would,” “should,” “if,” “may,” “might,” “anticipate,” “unlikely that,” “our strategy,” “future,” “target,” “goal,” “trend,” “seek to,” “seeking,” “will continue,” “outcome,” “assuming,” “predict,” “estimate,” “due to receive,” “likely,” “in the event” or similar expressions contained herein are intended to identify such forward-looking statements. Although forward-looking statements in this Form 10-K 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:

(i) Our ability to both expand our technology solutions revenues and create synergies between our patent licensing and technology licensing businesses.

(ii) Our belief that:

(a) a number of our patented inventions are essential to products built to 2G and 3G cellular standards, and other standards such as WLAN and WiMAX,, and that companies making, using or selling products compliant with these standards require a license under our patents;

(b) our patent enforcement costs will likely continue to be a significant expense for us;

(c) there would not be any material adverse impact on our ongoing revenues under exiting patent license agreements, but there could be an impact on our ability to generate new royalty streams if a party successfully asserted that some of our patents are not valid, should be revoked or do not cover their products, or if products are implemented in a manner such that patents we believe are commercially important are not infringed;

(d) a number of our CDMA inventions are essential to the implementation of CDMA systems in use today; and

(e) the loss of revenues or cash payments from either of our two licensees generating 2005 revenues exceeding 10% of total revenues would adversely affect either our cash flow or results of operations and could affect our ability to achieve or sustain acceptable levels of profitability.

(iii) The anticipated proliferation of converged devices.

(iv) Factors driving the continued growth of wireless product and services sales through the end of the decade.

(v) The types of licensing arrangements and various royalty structure models which we anticipate using under our future license agreements.

(vi) Our goal to derive revenue on every 3G mobile terminal unit sold and our strategy for achieving this goal including:

(a) Continuing our successful program of licensing our patented technology to wireless equipment producers worldwide;

(b) Offering our intellectual property rights and technology products in a coordinated fashion;

(c) Enhancing our technology position by (i) continuing the development of leading edge wireless technologies, and (ii) acquiring legacy technologies (e.g., GSM) and other technologies and intellectual property to enhance the value of our product solutions; and

(d) Maintaining substantial involvement in key worldwide standards bodies to contribute to the ongoing definition of wireless standards and to incorporate our inventions into those standards.

(vii) The impact of (a) a settlement, (b) a judgment in our favor, or (c) an adverse ruling in a patent litigation or arbitration proceeding with regard to our costs, future license agreements, and accounting recognition.

(viii) Our continued:

(a) WCDMA technology development efforts including advanced features (specifically, HSDPA and HSUPA), as well as IEEE-802 wireless technologies (specifically, convergence technologies); and

(b) monitoring of TDD technology market developments.

(ix) Our plans to:

(a) seek additional customers for our technology solutions and to seek further investment opportunities in technologies;

(b) continue to pursue discussions and negotiate license agreements with companies which we believe require a license under our patents, and to pursue legal actions if negotiations do not result in license agreements;

(c) resolve any and all issues that may impact a determination of the amount to be paid by Nokia to us under the Final Award; and

(d) vigorously defend our position in the July 2005 claim filed by Nokia in the UK Patents Court.

(x) Pre-tax cost savings associated with our 2005 repositioning activities.

(xi) Our competition and factors necessary for us to remain successful in light of such competition.

(xii) Severance benefits, generally, under employment agreements with our executive management.

(xiii) A potential material adverse effect on our consolidated financial position, results of operations or cash flows in light of any potential adverse decision or settlement in the Federal legal proceeding and our belief that an adverse resolution should not prevent us from supporting our operating requirements for the near future.

(xiv) Our 2G/3G royalty mix will shift to a higher percentage of 3G royalties throughout this decade.

(xv) The timing of final deliverables and associated payments, as well as the timing of payments for maintenance services under our agreement with General Dynamics.

(xvi) Our critical accounting policies, our accounting for contingencies under the Federal legal proceeding and factors affecting our revenue recognition.

(xvii) 2006 expense levels associated with our LTCP and our expense recognition with regard to our other equity-based incentive programs.

(xviii) The adequacy of our accrual for tax contingencies, our assessment of the valuation allowance associated with our Federal and state deferred tax assets, our future tax paying status, and our expectation that we will provide for income taxes in 2006 at a rate equal to our combined Federal and state effective rates plus an amount for foreign source withholding tax expense, as applicable.

(xix) The anticipated reduction in revenue in 2006 and 2007 related to certain agreements, and the anticipated recognition of revenue associated with LG's expected total payments to us of $285 million.

(xx) First quarter 2006 revenues, operating expenses, book tax rate, and patent and arbitration expense.

(xxi) Fiscal year 2006 (and near future), capitalized patent costs, purchases of property and equipment, operating cash requirements and our ability to repurchase our common stock.

(xxii) Our lack of need to seek additional financing.

Consequently, 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-K, including "Item 1A - Risk Factors." 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-K. We undertake no obligation to revise or publicly update any forward-looking statement for any reason, except as otherwise required by law.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cash Equivalents and Investments

We do not use derivative financial instruments in our investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. This policy also limits our amount of credit exposure to any one issue, issuer, and type of instrument. We do not expect any material loss with respect to our investment portfolio.

The following table provides information about our cash and investment portfolio as of December 31, 2005. For investment securities, the table presents principal cash flows and related weighted average contractual interest rates by expected maturity dates. All investment securities are held as available for sale.

(in millions)		
Cash and demand deposits	$ 22.9	
Average interest rate		1.28%
Cash equivalents	$ 5.0	
Average interest rate		4.24%
Short-term investments	$ 77.8	
Average interest rate		4.51%
Total portfolio	$105.7	
Average interest rate		3.80%

Long-Term Debt

The table below sets forth information about our long-term debt obligation, by expected maturity dates.

	Expected Maturity Date December 31, (In millions)						
	2006	**2007**	**2008**	**2009**	**2010**	**2011 and Beyond**	**Total Fair Value**
Debt Obligation	$ 0.4	$ 0.4	$ 0.2	$ 0.2	$ 0.3	$ 0.4	$ 1.9
Interest Rate	*7.06 %*	*8.01 %*	*8.28 %*	*8.28 %*	*8.28 %*	*8.28 %*	*8.10 %*

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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CONSOLIDATED FINANCIAL STATEMENTS:	
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SCHEDULES:	
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All other schedules are omitted because they are either not required or applicable or equivalent information has been included in the financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
InterDigital Communications Corporation:

We have completed integrated audits of InterDigital Communications Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of InterDigital Communications Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Annual Report on Internal Control over Financial Reporting" appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, PA
March 14, 2006

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

	DECEMBER 31, 2005	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,877	$ 15,737
Short-term investments	77,831	116,081
Accounts receivable	19,534	11,612
Deferred tax assets, net	42,103	5,170
Prepaid and other current assets, net	8,370	8,017
Total current assets	175,715	156,617
PROPERTY AND EQUIPMENT, NET	10,660	10,716
PATENTS, NET	59,516	40,972
DEFERRED TAX ASSETS, NET	48,681	27,164
OTHER NON-CURRENT ASSETS	4,965	6,451
	123,822	85,303
TOTAL ASSETS	$ 299,537	$ 241,920
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 350	$ 212
Accounts payable	7,163	6,758
Accrued compensation and related expenses	17,040	9,264
Deferred revenue	20,055	28,075
Foreign and domestic taxes payable	160	379
Other accrued expenses	5,766	5,145
Total current liabilities	50,534	49,833
LONG-TERM DEBT	1,572	1,672
LONG-TERM DEFERRED REVENUE	71,193	71,121
OTHER LONG-TERM LIABILITIES	1,924	3,635
TOTAL LIABILITIES	125,223	126,261
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
SHAREHOLDERS' EQUITY:		
Common Stock, $.01 par value, 100,000 shares authorized, 60,537 and 59,662 issued and 54,032 and 55,156 shares outstanding	605	597
Additional paid-in capital	383,494	342,751
Accumulated deficit	(109,839)	(164,524)
Accumulated other comprehensive loss	(192)	(66)
Unearned compensation	(5,846)	(3,276)
	268,222	175,482
Treasury stock, 6,506 and 4,506 shares of common held at cost	93,908	59,823
Total shareholders' equity	174,314	115,659
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 299,537	$ 241,920

The accompanying notes are an integral part of these statements.

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

	For the Year Ended December 31,		
	2005	2004	2003
REVENUES:			
Licensing and alliance	$163,125	$103,685	$114,574
OPERATING EXPENSES:			
Sales and marketing	7,914	6,201	4,919
General and administrative	24,150	21,622	18,183
Patents administration and licensing	49,399	30,340	15,995
Development	63,095	51,218	45,936
Repositioning	1,480	596	—
	146,038	109,977	85,033
Income (loss) from operations	17,087	(6,292)	29,541
OTHER INCOME:			
Other income, net	—	—	10,580
Interest and investment income, net	3,164	1,743	1,613
Income (loss) before income taxes	20,251	(4,549)	41,734
INCOME TAX BENEFIT (PROVISION)	34,434	4,704	(7,269)
Net income	54,685	155	34,465
PREFERRED STOCK DIVIDENDS	—	(66)	(133)
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 54,685	$ 89	$ 34,332
NET INCOME PER COMMON SHARE - BASIC	$ 1.01	$ 0.00	$ 0.62
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	54,058	55,264	55,271
NET INCOME PER COMMON SHARE - DILUTED	$ 0.96	$ 0.00	$ 0.58
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	57,161	59,075	59,691

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands)

	$2.50 Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income(Loss)	Unearned Compensation	Treasury Stock	Total Shareholders' Equity	Total Comprehensive Income
BALANCE, DECEMBER 31, 2002	$ 5	$ 563	$ 285,869	$ (198,945)	$ 210	$ (838)	$ (8,073)	$ 78,791	
Net income	—	—	—	34,465	—	—	—	34,465	$ 34,465
Net change in unrealized loss on Short-term investments	—	—	—	—	(480)	—	—	(480)	(480)
Total Comprehensive Income									$ 33,985
Exercise of Common Stock options	—	19	17,490	—	—	—	—	17,509	
Exercise of Common Stock warrants	—	—	19	—	—	—	—	19	
Dividend of Common Stock and cash to $2.50 Preferred shareholders	—	—	56	(133)	—	—	—	(77)	
Sale of Common Stock under Employee Stock Purchase Plan	—	2	1,716	—	—	—	—	1,718	
Issuance of Restricted Common Stock	—	1	1,228	—	—	(840)	—	389	
Reduction of tax benefit from exercise of stock options	—	—	(1,116)	—	—	—	—	(1,116)	
Amortization of unearned compensation	—	—	—	—	—	956	—	956	
Repurchase of Common Stock	—	—	—	—	—	—	(34,689)	(34,689)	
BALANCE, DECEMBER 31, 2003	5	585	305,262	(164,613)	(270)	(722)	(42,762)	97,485	
Net income	—	—	—	155	—	—	—	155	155
Net change in unrealized loss on Short-term investments	—	—	—	—	204	—	—	204	204
Total Comprehensive Income									$ 359
Exercise of Common Stock options	—	10	10,349	—	—	—	—	10,359	
Exercise of Common Stock warrants	—	—	583	—	—	—	—	583	
Dividend of Common Stock and cash to $2.50 Preferred shareholders	—	—	29	(66)	—	—	—	(37)	
Conversion of $2.50 Preferred Stock to Common Stock and redemptions	(5)	1	(47)	—	—	—	—	(51)	
Sale of Common Stock under Employee Stock Purchase Plan	—	1	1,211	—	—	—	—	1,212	
Issuance of Restricted Common Stock	—	—	8,086	—	—	(7,636)	—	450	
Partial reversal of Valuation Allowance	—	—	9,789	—	—	—	—	9,789	
Recognition of Deferred Tax Benefit	—	—	7,489	—	—	—	—	7,489	
Amortization of unearned compensation	—	—	—	—	—	5,082	—	5,082	
Repurchase of Common Stock	—	—	—	—	—	—	(17,061)	(17,061)	
BALANCE, DECEMBER 31, 2004	—	597	342,751	(164,524)	(66)	(3,276)	(59,823)	115,659	
Net income	—	—	—	54,685	—	—	—	54,685	54,685
Net change in unrealized loss on Short-term investments	—	—	—	—	(126)	—	—	(126)	(126)
Total Comprehensive Income									$ 54,559
Exercise of Common Stock options	—	5	4,824	—	—	—	—	4,829	
Sale of Common Stock under Employee Stock Purchase Plan	—	—	25	—	—	—	—	25	
Issuance of Common Stock under Profit Sharing Plan	—	—	568	—	—	—	—	568	
Issuance of Restricted Common Stock, net	—	3	11,641	—	—	(11,150)	—	494	
Acceleration of option vesting	—	—	190	—	—	—	—	190	
Partial reversal of Valuation Allowance	—	—	20,268	—	—	—	—	20,268	
Recognition of Deferred Tax Benefit	—	—	3,227	—	—	—	—	3,227	
Amortization of unearned compensation	—	—	—	—	—	8,580	—	8,580	
Repurchase of Common Stock	—	—	—	—	—	—	(34,085)	(34,085)	
BALANCE, DECEMBER 31, 2005	$ —	$ 605	$ 383,494	$ (109,839)	$ (192)	$ (5,846)	$ (93,908)	$ 174,314	

The accompanying notes are an integral part of these statements

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

	For the Year Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 54,685	$ 155	$ 34,465
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,421	9,707	9,735
Deferred revenue recognized	(65,553)	(53,601)	(61,563)
Increase in deferred revenue	57,605	66,202	57,488
Non-cash compensation	9,766	6,100	1,345
Deferred income taxes	(37,298)	(15,631)	2,291
Tax benefit from stock options	2,343	7,489	—
Non-cash repositioning charges	222	—	—
Other	(75)	41	325
(Increase) decrease in assets:			
Receivables	(7,922)	26,227	15,647
Deferred charges	1,509	(4,031)	1,110
Other current assets	(409)	74	(839)
Increase (decrease) in liabilities:			
Accounts payable	846	323	1,023
Accrued compensation	6,672	4,087	1,683
Other accrued expenses	(138)	1,088	(3,149)
Net cash provided by operating activities	33,674	48,230	59,561
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(151,453)	(199,127)	(144,445)
Sales of short-term investments	189,685	167,850	124,144
Purchases of property and equipment	(5,372)	(3,746)	(3,926)
Capitalized patent costs	(16,954)	(13,153)	(9,209)
Acquisition of patents and other assets	(8,050)	—	(10,430)
Proceeds from sale of fixed assets	169	—	—
Increase in notes receivable	—	—	(1,446)
Net cash provided (used) by investing activities	8,025	(48,176)	(45,312)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	4,853	12,154	19,246
Payments on long-term debt, including capital lease obligations	(327)	(199)	(189)
Repurchase of common stock	(34,085)	(17,061)	(34,689)
Dividends on preferred stock	—	(37)	(77)
Redemption of preferred stock	—	(51)	—
Net cash used by financing activities	(29,559)	(5,194)	(15,709)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,140	(5,140)	(1,460)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,737	20,877	22,337
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 27,877	$ 15,737	$ 20,877
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 183	$ 160	$ 187
Income taxes paid, including foreign withholding taxes	$ 755	$ 4,187	$ 9,537
Non-cash investing and financing activities			
Issuance of restricted common stock	$ 494	$ 450	$ 389
Issuance of common stock for profit sharing	$ 568	$ —	$ —
Accrued profit sharing	$ 501	$ 568	$ —
Cancellation of note receivable related to acquisition of patents and other assets	$ —	$ —	$ 1,446
Leased asset additions and related obligation	$ 365	$ 113	$ —
Non-cash dividends on preferred stock	$ —	$ 29	$ 56

The accompanying notes are an integral part of these statements.

1. BACKGROUND

InterDigital Communications Corporation (collectively with its subsidiaries referred to as "InterDigital," the "Company," "we," "us" and "our") designs and develops advanced digital wireless technology solutions. We are developing technologies that may be utilized to extend the life of the current generation of products, may be applicable to multiple generational standards such as 2G, 2.5G and 3G cellular standards, as well as IEEE 802 wireless standards, and may have applicability across multiple air interfaces. In conjunction with our technology development, we have assembled an extensive body of technical know-how, related intangible products and a broad patent portfolio. We offer our solutions for license or sale to semiconductor companies and producers of wireless equipment and components.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. We believe the accounting policies that are of particular importance to the portrayal of our financial condition and results, and that may involve a higher degree of complexity and judgment in their application compared to others, are those relating to patents, contingencies, revenue recognition, compensation, and income taxes. If different assumptions were made or different conditions had existed, our financial results could have been materially different.

Cash, Cash Equivalents and Short-Term Investments

We consider all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents. Management determines the appropriate classification of our investments at the time of acquisition and re-evaluates such determination at each balance sheet date. At December 31, 2005 and 2004, all of our short-term investments were classified as available-for-sale and carried at amortized cost, which approximates market value. We determine the cost of securities by specific identification and report unrealized gains and losses on our available-for-sale securities as a separate component of equity. Net unrealized losses on short-term investments were $0.2 million at December 31, 2005 and less than $0.1 million at December 31, 2004. Realized gains and losses for 2005, 2004 and 2003 were as follows (in thousands):

Year	Gains	Losses	Net
2005	$—	(82)	(82)
2004	$ 34	$ (55)	$ (21)
2003	$ 64	$(322)	$(258)

Cash and cash equivalents at December 31, 2005 and 2004 consisted of the following (in thousands):

	December 31,	
	2005	2004
Money market funds and demand accounts	$26,365	$15,456
Repurchase agreements	1,512	281
	$27,877	$15,737

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

Short-term investments as of December 31, 2005 and 2004 consisted of the following (in thousands):

	December 31,	
	2005	2004
US Government agency instruments	$25,837	$ 66,058
Corporate bonds	51,994	50,023
	$77,831	$116,081

At December 31, 2005 and 2004, $65.4 million and $104.2 million, respectively, of our short-term investments had contractual maturities within one year. The remaining portions of our short-term investments had contractual maturities within two to five years.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are provided using the straight-line method. The estimated useful lives for computer equipment, machinery and equipment, and furniture and fixtures are generally three to five years. Leasehold improvements are being amortized over the lesser of their estimated useful lives or their respective lease terms, which are generally five to ten years. Buildings are being depreciated over twenty-five years. Expenditures for major improvements and betterments are capitalized while minor repairs and maintenance are charged to expense as incurred.

Internal-Use Software Costs

Under the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal-Use,” we capitalize costs associated with software for internal-use. All computer software costs capitalized to date relate to the purchase, development and implementation of engineering, accounting and other enterprise software. Capitalization begins when the preliminary project stage is complete and ceases when the project is substantially complete and ready for its intended purpose. Capitalized computer software costs are amortized over their estimated useful life of three years.

Patents

We capitalize external costs, such as filing fees and associated attorney fees, incurred to obtain issued patents and patent license rights. We expense costs associated with maintaining and defending patents subsequent to their issuance. We amortize capitalized patent costs on a straight-line basis over the estimated useful lives of the patents. Ten years represents our best estimate of the average useful life of our patents relating to technology developed directly by us. The ten year estimated useful life of internally generated patents is based on our assessment of such factors as the integrated nature of the portfolios being licensed, the overall makeup of the portfolio over time and the length of license agreements for such patents. The estimated useful lives of acquired patents and patent rights, however, is and will be based on a separate analysis related to each acquisition and may differ from the estimated useful lives of internally generated patents. We assess the potential impairment to all capitalized net patent costs when there is evidence that events or changes in circumstances indicate that the carrying amount of these patents may not be recoverable. Amortization expense related to capitalized patent costs was $6.3 million, $4.4 million and $3.3 million in 2005, 2004 and 2003, respectively. As of December 31, 2005 and 2004, we had capitalized gross patent costs of $87.3 million and $62.5 million, respectively, which were offset by accumulated amortization of $27.8 million and $21.5 million, respectively. Our capitalized gross patent costs in 2005, 2004 and 2003 increased $8.1 million, $0 and $11.3 million, respectively, as a result of patents acquired from third parties in those years. The weighted average estimated useful life of our capitalized patent costs at December 31, 2005 and 2004 was 11.4 years and 11.2 years, respectively.

The estimated aggregate amortization expense related to our patents balance as of December 31, 2005 is as follows (in thousands):

2006	$ 6,874
2007	6,292
2008	6,174
2009	6,032
2010	5,872
Thereafter	28,272

Contingencies

We recognize contingent assets and liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 5 *Accounting for Contingencies* .

Revenue Recognition

In 2005, we derived 88% of our revenue from patent licensing. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Such agreements are often complex and multi-faceted. These agreements can include, without limitation, elements related to the settlement of past patent infringement liabilities, up-front and non-refundable license fees for the use of patents and/or know-how, patent and/or know-how licensing royalties on covered products sold by licensees, cross licensing terms between us and other parties, the compensation structure and ownership of intellectual property rights associated with contractual technology development arrangements, and advanced payments and fees for service arrangements. Due to the combined nature of some agreements and the inherent difficulty in establishing reliable, verifiable and objectively determinable evidence of the fair value of the separate elements of these agreements, the total revenue resulting from such agreements may sometimes be recognized over the combined performance period. In other circumstances, such as those agreements involving consideration for past and expected future patent royalty obligations, the determining factors necessary to allocate revenue across past, current, and future years may be difficult to establish. In such instances, after consideration of the particular facts and circumstances, the appropriate recording of revenue between periods may require the use of judgment. Generally, we will not recognize revenue or establish a receivable related to payments that are due greater than twelve months from the balance sheet date. In all cases, revenue is only recognized after all of the following criteria are met: (1) written agreements have been executed; (2) delivery of technology or intellectual property rights has occurred or services have been rendered; (3) fees are fixed or determinable; and (4) collectibility of fees is reasonably assured.

Patent License Agreements

Upon signing a patent license agreement, we provide the licensee permission to use our patented inventions in specific applications. We have no material future obligations associated with such licenses, other than, in some instances, to provide such licensees with notification of future license agreements pursuant to most favored licensee rights. Under our patent license agreements, we typically receive one or a combination of the following forms of payment as consideration for permitting our licensees to use our patented inventions in their applications and products:

- Consideration for Prior Sales: Consideration related to a licensee’s product sales from prior periods may result from a negotiated agreement with a licensee that utilized our patented inventions prior to signing a patent license agreement with us or from the resolution of a disagreement or arbitration with a licensee over the specific terms of an existing license agreement. In each of these cases, we record the consideration as revenue. We may also receive consideration from the settlement of patent infringement litigation where there was no prior patent license agreement. We record the consideration related to such litigation as other income.
- Fixed Fee Royalty Payments: Up-front, non-refundable royalty payments that fulfill the licensee’s obligations to us under a patent license agreement, for a specified time period or for the term of the agreement.
- Prepayments: Up-front, non-refundable royalty payments towards a licensee’s future obligations to us related to its expected sales of covered products in future periods. Our licensees’ obligations to pay royalties extend beyond the exhaustion of their Prepayment balance. Once a licensee exhausts its Prepayment balance, we may provide them with the opportunity to make another Prepayment toward future sales or it will be required to make Current Royalty Payments.
- Current Royalty Payments: Royalty payments covering a licensee’s obligations to us related to its sales of covered products in the current contractual reporting period.

We recognize revenues related to Consideration for Prior Sales when we have obtained a signed agreement, identified a fixed and determinable price and determined that collectibility is reasonably assured. We recognize revenues related to Fixed Fee Royalty Payments on a straight-line basis over the effective term of the license. We utilize the straight-line method because we have no future obligations under these licenses and we can not reliably predict in which periods, within the term of a license, the licensee will benefit from the use of our patented inventions.

Licensees that either owe us Current Royalty Payments or have Prepayment balances provide us with quarterly or semi-annual royalty reports that summarize their sales of covered products and their related royalty obligations to us. We typically receive these royalty reports subsequent to the period in which our licensees' underlying sales occurred. Consideration for Prior Sales, the exhaustion of Prepayments and Current Royalty Payments are often calculated based on related per-unit sales of covered products.

In third quarter 2004, we transitioned to recognizing these per-unit royalties in the period when we receive royalty reports from licensees, rather than in the period in which our licensees' underlying sales occur. This transition was necessary because we could no longer wait to receive royalty reports from our licensees and file our financial statements on a timely basis. Without royalty reports, our visibility into our licensees sales is very limited. We are not involved in the supply or sale of their products and industry analysts do not provide information either detailed or timely enough to give us sufficient visibility to make reasonably accurate revenue estimates for our most significant licensees. As such, it is unlikely that we could arrive at revenue estimates for our most significant licensees that would be objective and supportable.

Previously, we recognized revenue related to per-unit sales of covered products in the period the sales occurred, and when we did not receive the royalty reports prior to the issuance of our financial statements, we accrued the related royalty revenue if reasonable estimates could be made. Such estimates, which were limited to a small number of licensees and never exceeded 5% of our revenue in any period presented, were based on the historical royalty data of the licensees involved, third party forecasts of royalty related product sales in the applicable market available at the time and, if available, information provided by the licensee. When our licensees formally reported royalties for which we had previously accrued revenues based on estimates, or when they reported updates to prior royalty reports, we adjusted revenue in the period in which the final reports were received. In cases where we receive objective, verifiable evidence that a licensee has discontinued sales of covered products, we recognize any remaining deferred revenue balance related to unexhausted Prepayments in the period that we receive such evidence.

Technology Solutions Revenue

Technology solutions revenue consists primarily of revenue from software licenses and engineering services. Software license revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2 "Software Revenue Recognition" and SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition". When the arrangement with the customer includes significant production, modification or customization of the software, we recognize the related revenue using the percentage-of-completion method in accordance with SOP 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". Under this method, revenue and profit are recognized throughout the term of the contract, based on actual labor costs incurred to date as a percentage of the total estimated labor costs related for the contract. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When such estimates indicate that costs will exceed future revenues and a loss on the contract exists, a provision for the entire loss is recognized at that time.

We recognize revenues associated with engineering service arrangements that are outside the scope of SOP 81-1 on a straight-line basis under Staff Accounting Bulletin No 104 "Revenue Recognition", unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. When recognizing revenue based on our proportional performance, we measure the progress of our performance based on the relationship between incurred contract costs and total estimated contract costs. Our most significant cost has been labor and we believe labor cost provides a measure of the progress of our services. The effect of changes to total estimated contract costs is recognized in the period such changes are determined. Estimated losses, if any, are recorded when the loss first becomes probable and reasonably estimable.

Deferred Charges

From time-to-time, we use sales agents to assist us in our licensing activities. We often pay a commission related to successfully negotiated license agreements. The commission rate varies from agreement to agreement. Commissions are normally paid shortly after our receipt of cash payments associated with the patent license agreements.

We defer recognition of commission expense related to both Prepayments and Fixed Fee Royalty Payments and amortize these expenses in proportion to the recognition of the related revenue. In 2005, 2004 and 2003, we paid cash commissions of approximately $3.1 million, $7.5 million and $2.9 million and recognized commission expense of $4.5 million, $3.5 million, and $3.4 million, respectively, as part of patent administration and licensing expense. At December 31, 2005 and 2004 we had approximately $5.8 million and $7.2 million, respectively, of deferred commission expense included within prepaid and other current assets and other non-current assets.

Development

All engineering development expenditures are expensed in the period incurred.

Compensation Programs

We use a variety of compensation programs to both attract and retain engineers and other key employees, as well as more closely align employee compensation with Company performance. These programs include, but are not limited to, an annual bonus tied to performance goals, cash awards to inventors for filed patent applications and patent issuances, restricted stock unit (RSU) awards for non-managers and a long-term compensation program ("LTCP"), covering managers, that includes RSUs and a performance-based cash incentive component. The LTCP was originally designed to include three year cycles that overlap by one year. The first cycle under the program covered the period from April 1, 2004 through January 1, 2006 ("Cycle 1"). The second cycle originally covered the period from January 1, 2005 through January 1, 2008 ("Cycle 2"). In second quarter 2005, the Compensation Committee of our Board of Directors amended the LTCP to revise the performance-based cash award portion of Cycle 2 to cover a 3 $^{1}/_{2}$ year period from July 1, 2005 through January 1, 2009, and authorized a pro-rated interim payment, of approximately $0.9 million, related to first half 2005. In 2005, we recognized $6.5 million and $7.6 million of compensation expense related to the performance-based cash incentive and RSUs, respectively. In 2004, we recognized $3.0 million and $4.1 million of compensation expense related to the performance-based cash incentive and RSUs, respectively. We amortize the expense associated with RSUs using an accelerated method.

In addition, under our performance based annual bonus plan, executive officers and other key management personnel may be paid up to 30% of their bonus in shares of restricted stock. These shares are restricted as to their transferability for a two year period but are not forfeitable. The shares have full voting power and have a right to receive dividends.

We also have a 401(k) plan wherein employees can elect to defer compensation based on federal limits. The Company matches a portion of the employee contributions and may, at its discretion make additional contributions based upon the Company's annual performance. In 2005, 2004 and 2003 we had expense associated with additional discretionary contributions of $0.5, $0.6 and zero, respectively.

We account for stock-based employee compensation using the intrinsic value method and provide pro forma disclosures related to our stock-based compensation under the provisions of Statement No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure an amendment of FASB Statement No. 123." Equity instruments issued to non-employees for services are accounted for at fair value and are marked to market until service is complete. We have not issued warrants or any other equity instruments to non-employees in any period presented and have not recognized any expense for outstanding warrants in any period presented.

At December 31, 2005, we had several active stock-based employee compensation plans which are described more fully in Note 11. We account for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. In fourth quarter 2005, we accelerated the vesting of all stock options which were scheduled to vest on or after January 1, 2006. As a result, options to purchase approximately 0.8 million shares of our common stock, that would otherwise have vested at various times over the next six years, have become fully vested. We recorded a charge of approximately $0.2 million related to the acceleration. No other option-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share data):

For the Year Ended December 31,	2005	2004	2003
Net income applicable to Common Shareholders – as reported	$ 54,685	$ 89	$ 34,332
Add: Stock-based employee compensation expense included in reported net income	9,766	6,100	1,345
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards (a)	(20,784)	(14,494)	(13,472)
Tax effect (b)	3,746	2,854	—
Net (loss) income applicable to Common Shareholders – pro forma	$ 47,413	$ (5,451)	$ 22,205
Net income (loss) per share – as reported – basic	1.01	0.00	0.62
Net income (loss) per share – as reported – diluted	0.96	0.00	0.58
Net (loss) income per share – pro forma – basic	0.88	(0.10)	0.40
Net (loss) income per share – pro forma – diluted	0.83	(0.10)	0.37

(a) In 2005, we recorded a pro-forma charge of $7.1 million associated with the acceleration of 0.8 million unvested options.

(b) In 2004, the pro forma tax effect has been limited to tax effects directly related to additional stock-based compensation expense recognized in the period for pro forma purposes. In our interim report for third quarter 2004 we had included all tax effects associated with recognizing stock-based employee compensation expense using the fair value method. No pro forma tax effect has been recognized for periods prior to 2004 due to the limited amount of federal and state tax expense recognized in such periods.

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

For the Year Ended December 31,	2005	2004	2003
Expected option life (in years)	5.7	4.8	4.7
Risk-free interest rate	4.1%	3.5%	2.9%
Volatility	80%	86%	104%
Dividend yield	—	—	—
Weighted average fair value	$12.78	$19.59	$15.99

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), *Share-Based Payment* .

SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in

financial statements. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending compliance dates for SFAS No. 123(R). In accordance with the new rule, the accounting provisions of SFAS No. 123(R) will be effective for InterDigital beginning first quarter 2006. We currently expect to adopt the provisions of SFAS No. 123(R) using the modified-prospective method. 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) replaces SFAS No. 123 and supersedes APB Opinion No. 25. As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used.

In fourth quarter 2005, we accelerated the vesting of all remaining unvested options. We recorded a charge of approximately $0.2 million related to the acceleration. This charge was based, in part, on our estimate that approximately 12% of the accelerated options would have been forfeited had the acceleration not occurred. The acceleration eliminates a non-cash charge of approximately $7.1 million that would have been recognized under SFAS 123(R) over the next six years. We adopted this standard effective January 1, 2006. We will continue to recognize expense for our remaining equity-based incentive programs and do not believe the adoption of this standard will have a material impact on our financial statements.

Concentration of Credit Risk and Fair Value of Financial Instruments

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. We place our cash equivalents and short-term investments only in highly rated financial instruments and in United States Government instruments.

Our accounts receivable are derived principally from patent license agreements and engineering services. At December 31, 2005, four customers represented 31%, 19%, 14% and 14%, respectively, of our accounts receivable balance. At December 31, 2004, two customers represented 52%, and 36%, respectively, of our accounts receivable balance. We perform ongoing credit evaluations of our customers who generally include large, multi-national, wireless telecommunications equipment manufacturers. We believe that the book value of our financial instruments approximate their fair values.

Impairment of Long-Lived Assets

Pursuant to SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, we evaluate long-lived assets and intangible assets for impairment when factors indicate that the carrying value of an asset may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, we review the realizability of our long-lived assets by analyzing the projected undiscounted cash flows in measuring whether the asset is recoverable. In 2005, we recorded an impairment to our fixed assets of approximately $0.2 million in connection with our 2005 Repositioning (Note 4). No such adjustments were recorded in 2004 or 2003.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if management has determined that it is more likely than not that such assets will not be realized.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. We are subject to compliance reviews by the Internal Revenue Service (“IRS”) and other taxing jurisdictions on various tax matters, including challenges to various positions we assert in our filings. Certain tax contingencies are recognized when they are determined to be probable and reasonably estimable. We believe we have adequately accrued for tax contingencies that have met both the probable and reasonably estimable criteria. As of December 31, 2005 and 2004, there are certain tax contingencies that either are not considered probable or are not reasonably estimable by us at this time. In the event that the IRS or another taxing jurisdiction levies an assessment in the future, it is possible the assessment could have a material adverse effect on our consolidated financial condition or results of operations.

We recognize deferred tax assets related to deferred revenue for both U.S. Federal Income Tax purposes and non-U.S. jurisdictions that assess a source withholding tax on related royalty payments. We expense these deferred tax assets in accordance with FAS 109 as we recognize the revenue and the related temporary differences reverse. In 2005, 2004 and 2003, we paid approximately zero, $3.9 million and $9.5 million of foreign source withholding tax and recognized approximately $2.1 million, $4.5 million and $7.4 million, respectively, of foreign source withholding tax expense in our income tax provision in accordance with this policy.

Net Income Per Common Share

Basic earnings per share (EPS) are calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options, warrants or other securities with features that could result in the issuance of common stock were exercised or converted to common stock. The following tables reconcile the numerator and the denominator of the basic and diluted net income per share computation (in thousands, except for per share data):

For the Year Ended December 31, 2005	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per Share – Basic:			
Income available to common shareholders	$ 54,685	54,058	$ 1.01
Dilutive effect of options and warrants	—	3,103	(0.05)
Income per Share – Diluted:			
Income available to common shareholders plus dilutive effects of options and warrants	$ 54,685	57,161	$ 0.96

For the Year Ended December 31, 2004	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per Share – Basic:			
Income available to common shareholders	$ 89	55,264	$ 0.00
Dilutive effect of options, warrants and convertible preferred stock	—	3,811	0.00
Income per Share – Diluted:			
Income available to common shareholders plus dilutive effects of options, warrants and convertible preferred stock	$ 89	59,075	$ 0.00

For the Year Ended December 31, 2003	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per Share – Basic:			
Income available to common shareholders	$ 34,332	55,271	$ 0.62
Dilutive effect of options, warrants and convertible preferred stock	—	4,420	(0.04)
Income per Share – Diluted:			
Income available to common shareholders plus dilutive effects of options, warrants and convertible preferred stock	$ 34,332	59,691	$ 0.58

For the years ended December 31, 2005, 2004 and 2003, options and warrants to purchase approximately 1.8 million, 1.7 million and 1.1 million shares, respectively, of common stock were excluded from the computation of diluted EPS because the exercise prices of the options were greater than the weighted average market price of our common stock during the respective periods and, therefore, their effect would have been anti-dilutive.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 153, " *Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29* " ("SFAS No.153"). The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB No. 29"), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for such exchange transactions occurring in fiscal periods beginning after June 15, 2005. We do not believe that adoption of this standard will have a material impact on our financial statements.

In May 2005, the FASB issued SFAS No. 154, " *Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3* " ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, " *Accounting Changes* ," and FASB Statement No. 3, " *Reporting Accounting Changes in Interim Financial Statements* ," and provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of a material error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will apply the applications of SFAS No. 154 beginning January 1, 2006 if and when required.

Change in Classification

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

3. GEOGRAPHIC/CUSTOMER CONCENTRATION

We have one reportable segment. As of December 31, 2005, substantially all of our revenue was derived from a limited number of customers based outside of the United States (primarily Japan and Europe). These revenues were paid in U.S. dollars and not subject to any substantial foreign exchange transaction risk. During 2005, 2004, and 2003, revenue from our Japan-based licensees comprised 68%, 77%, and 64% of total revenues, respectively.

During 2005, 2004, and 2003, the following customers accounted for 10% or more of total revenues:

	2005	2004	2003
NEC Corporation of Japan	30%	43%	29%
Sharp Corporation of Japan	22%	24%	25%
Sony Ericsson Mobile Communications AB	(a)	12%	29%

(a) Less than 10%

4. SIGNIFICANT AGREEMENTS AND EVENTS

LG Electronics Inc.

On January 18, 2006, we 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 Second Generation (2G) standards (including TIA-136, GSM, GPRS, and EDGE) and all Third Generation (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 the first quarters of 2007 and 2008, respectively. We are recognizing the revenue associated with this agreement on a straight-line basis from it's inception through December 31, 2010.

Technology Solution Agreements

In December 2004, we entered into an agreement with General Dynamics C4 Systems (f.k.a, 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 (SLA) requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. We have also provided product training under the SLA and will provide maintenance for a period of three years, beginning January 1, 2006.

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

We are accounting for portions of these and other technology solutions agreements using the percentage-of-completion method. From the inception of these agreements through December 31, 2005, we had recognized related revenue of approximately $18.9 million using the percentage-of-completion method, including $18.8 million in 2005. Our accounts receivable at December 31, 2005 and 2004 included unbilled amounts of $4.1 million and $0.1 million, respectively.

2005 Repositioning

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

In connection with the closure, we expect to recognize repositioning charges totaling approximately $1.6 million, comprised of severance and relocation costs of $1.1 million and facility closing costs of $0.5 million. The facility closing costs include lease termination costs, fixed asset writeoffs and costs to wind down the facility. We recorded approximately $1.5 million of this charge in 2005 and expect to record the majority of the remaining charges during the first six months of 2006. The 2005 charge was comprised of both severance and relocation costs ($1.0 million) and facility closing costs ($0.5 million). At December 31, 2005, our accrued liability relating to the repositioning charge was approximately $0.1 million.

2004 Repositioning

In second quarter 2004, we reduced our headcount by 25 employees and recorded a charge of approximately $0.6 million associated with this repositioning. The charge was comprised primarily of severance and other cash benefits associated with the workforce reduction. During the balance of 2004, we adjusted our repositioning charge by less than $0.1 million and completely satisfied all liabilities associated with this restructuring. We believe that our financial obligations associated with this repositioning are substantially complete and do not expect to report further costs associated with the repositioning.

Acquisition of Patents and Other Assets

In July 2003, we entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with Windshift Holdings, Inc. (formerly known as Tantivy Communications, Inc., "Windshift"), pursuant to which we acquired substantially all the assets of Windshift. Included in the acquisition were patents, patent applications, know-how, and state-of-the-art laboratory facilities related to cdma2000, smart antenna, wireless LAN and other wireless communications technologies. The acquisition included patents and patent applications to which we had previously acquired rights under a patent license agreement with Windshift. We acquired these assets to strengthen our existing cdma2000 patent portfolio and competitive position in that marketplace, broaden our offering to potential licensees and technology partners and eliminate contingent payment obligations we had to Windshift in connection with the license we entered into with them in 2002 regarding the cdma2000-related patents.

The purchase price for the acquisition was $11.5 million, consisting of approximately $10.0 million in cash and the cancellation of approximately $1.5 million in outstanding indebtedness owed to us by Windshift. In addition, under the terms of the Asset Purchase Agreement, Windshift will be entitled to receive, for a period of approximately five years, 1% and 4%, respectively, of amounts we receive from the licensing or sale of smart antenna and 802.11 intellectual property acquired from Windshift ("the Earn-out"). We have not incurred any royalty obligations at this time. In addition to the purchase price, we incurred approximately $0.4 million of acquisition related costs.

We accounted for this asset acquisition under FAS 141 *"Business Combinations."* The following table summarizes the estimated fair values of the assets acquired. Additional payments to Windshift under the Earn-out may result in the recognition of goodwill, which would be subject to impairment testing in accordance with SFAS 142 " *Goodwill and Other Intangible Assets* ."

	(In thousands)
Property and Equipment	$ 552
Patents	11,324
Total assets acquired	$ 11,876

As indicated in the table above, the majority of the purchase price has been allocated to patents with the remainder allocated to fixed assets. We have estimated the useful life of the acquired patents to be 15 years. We have estimated the useful lives of the acquired fixed assets to be between 3 and 10 years.

In connection with the acquisition, we opened an engineering design center in Melbourne, Florida and hired 10 individuals that were formerly employed by Windshift. Beginning July 31, 2003, we included the results of the Melbourne design center, amortization of the acquired patents, and depreciation of the acquired fixed assets in our results of operations. As discussed above under *"2005 Repositioning"* we closed this facility in fourth quarter 2005.

The following unaudited pro forma combined results of operations is provided for illustrative purposes only and assumes this acquisition of assets occurred as of the beginning of each of the periods presented. The unaudited pro forma combined financial results do not purport to be indicative of the results of operations for future periods or the results that actually would have been realized had the entities been a single entity during these periods.

	2003
Pro forma revenue	$114,574
Pro forma net income	$ 31,651
Diluted net income per share, as reported	$ 0.58
Diluted net income per share, pro forma	$ 0.56

5. PROPERTY AND EQUIPMENT

	December 31,	
	2005	2004
	(In thousands)	
Land	$ 695	$ 695
Building and improvements	6,075	5,996
Machinery and equipment	13,454	11,754
Computer equipment	15,652	14,287
Computer software	15,286	13,937
Furniture and fixtures	4,110	4,020
Leasehold improvements	2,376	2,312
	57,648	53,001
Less: Accumulated depreciation	(46,988)	(42,285)
	$ 10,660	$ 10,716

Depreciation expense was $5.1 million, $5.3 million, and $6.4 million in 2005, 2004 and 2003, respectively. Depreciation expense included depreciation of computer software costs of $1.5 million, $2.0 million and $2.7 million in 2005, 2004 and 2003, respectively. Accumulated depreciation related to computer software costs was $13.1 million and $11.8 million at December 31, 2005 and 2004, respectively.

6. OBLIGATIONS

	December 31,	
	2005	2004
	(In thousands)	
Credit facility	—	—
Mortgage debt	$1,601	$1,777
Capital leases	321	107
Total long-term debt obligations	1,922	1,884
Less: Current portion	(350)	(212)
	$1,572	$1,672

In December 2005, we entered into a two-year $60 million unsecured revolving credit facility (the Credit Agreement). The Credit Agreement was entered into by the Company, Bank of America, N.A., as Administrative Agent, and Citizens Bank of Pennsylvania. At our option, borrowings under the Credit Agreement will bear interest at LIBOR plus 75-90 basis points, depending on the level of borrowing under the credit facility, or under certain conditions at the prime rate or if higher, 50 basis points above the Federal Funds Rate. The Credit Agreement further contains certain customary restrictive financial and operating covenants which, among other things, require us to (i) maintain certain minimum cash and short-term investment levels of 1.15 times outstanding borrowings subject to adjustments defined in the agreement, (ii) maintain minimum financial performance requirements as measured by our income or loss before taxes, with certain adjustments, and (iii) limit or prohibit the incurrence of certain indebtedness and/or liens, judgments above a threshold amount for which a reserve is not maintained, and certain other activities outside the ordinary course of business. 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 December 31, 2005, we did not have any amounts outstanding under the Credit Agreement.

During 1996, we purchased our King of Prussia, Pennsylvania facility for $3.7 million, including cash of $0.9 million and a 16-year mortgage of $2.8 million with interest payable at a rate of 8.28% per annum.

Capital lease obligations are payable in monthly installments at an average rate of 5.68%, through 2007. The net book value of equipment under capitalized lease obligations was $0.3 million at December 31, 2005 and $0.1 million at December 31, 2004.

Maturities of principal of the long-term debt obligations as of December 31, 2005 are as follows (in thousands):

2006	$ 350
2007	369
2008	225
2009	245
2010	266
Thereafter	467
	$1,922

7. COMMITMENTS

Leases

We have entered into various operating lease agreements. Total rent expense, primarily for office space, was $3.1 million, $2.7 million, and $2.6 million in 2005, 2004 and 2003, respectively. Minimum future rental payments for operating leases as of December 31, 2005 are as follows (in thousands):

2006	$2,658
2007	314
2008	—
2009	—
2010	—
Thereafter	—

8. LITIGATION AND LEGAL PROCEEDINGS

Nokia

Nokia Arbitration

In July 2003, Nokia Corporation (Nokia) filed a Request for Arbitration against InterDigital Communications Corporation (IDCC) and ITC, regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement (Nokia License Agreement) with ITC (Nokia Arbitration). The arbitration proceeding related to ITC's claim that the patent license agreement ITC signed with Telefonakiebolaget LM Ericsson and Ericsson Inc. (collectively, Ericsson) (Ericsson Agreement) and the patent license agreement ITC signed with Sony Ericsson Mobile Communications AB (Sony Ericsson) (Sony Ericsson Agreement) in March 2003 triggered Nokia's obligation to pay royalties on its worldwide sales of covered 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units and infrastructure commencing January 1, 2002.

An evidentiary hearing was conducted in January 2005 by an arbitral tribunal (Arbitral Tribunal) operating under the auspices of the International Court of Arbitration of the International Chamber of Commerce (ICC). In June 2005, the Arbitral Tribunal rendered a Final Award, holding that (i) the Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5G infrastructure in the period from January 1, 2002 through December 31, 2006; and (ii) the Sony Ericsson Agreement triggered Nokia's obligation to pay royalties to us for sales of covered 2G and 2.5 terminal units in period from January 1, 2002 through December 31, 2006. Based on the terms of the Ericsson Agreement and the Sony Ericsson Agreement, the Arbitral Tribunal established royalty rates that are applicable to Nokia's sales of covered 2G and 2.5 terminal units and infrastructure in that period.

In July 2005, IDCC and ITC filed in the United States District Court for the Southern District of New York a petition to confirm the Final Award. In December 2005, the presiding District Judge issued an order confirming the Final Award in its entirety. In January 2006, Nokia filed a Notice of Appeal of that order to the United States Court of Appeals for the Second Circuit (Second Circuit). On March 13, 2006, the Second Circuit ordered that the oral arguement of the appeal will be heard no earlier than the week of July 10, 2006. We intend to vigorously oppose Nokia's efforts to appeal.

Also in December 2005, IDCC and ITC took action to utilize the dispute resolution process in accordance with the terms of their patent license agreement with Nokia and a related master agreement between the parties. This dispute resolution process involves a timetable for discussions, senior representative meetings and any future initiation of arbitration, if necessary, and seeks to address issues raised by Nokia's failure to abide by the Final Award. IDCC and ITC are pursuing the dispute resolution process in order to accelerate the resolution of several issues including, without limitation, total amounts to be paid pursuant to the Final Award, including interest, and Nokia's failure to submit royalty reports and refusal to permit an audit of Nokia's books and records to determine amounts due. IDCC and ITC seek to resolve any and all unresolved issues that may impact a determination of the amount to be paid under the Final Award.

Nokia Texas and North Carolina Proceedings

In July 2003, Nokia filed in the United States District Court for the Northern District of Texas (District Court) a motion to intervene and to gain access to documents previously sealed by the District Court in the now-settled litigation between IDCC and ITC and Ericsson, Inc. (Ericsson Litigation). We filed a response opposing the request to intervene and opposing the request for access to the documents. The District Court granted Nokia's motion to intervene in the Ericsson Litigation and provided Nokia with document access on a limited basis. Nokia subsequently filed a motion to reinstate certain orders that were vacated in the Ericsson Litigation, which motion was granted by the trial court. We appealed that ruling to the U.S. Court of Appeals for the Federal Circuit (Circuit Court). On August 2005, the Circuit Court ruled in favor of IDCC and ITC and reversed the District Court's order, finding that the District Court had committed error in permitting Nokia to intervene. The Circuit Court reversed the District Court's decisions which had both granted intervention and reinstated the prior vacated orders, which orders had been vacated as part of the settlement of the Ericsson Litigation.

In late 2004, Nokia sought to enforce two subpoenas issued by the Arbitral Tribunal in the above described arbitration proceeding to Ericsson and Sony Ericsson seeking certain documents. Those enforcement actions were commenced in the Federal District Court for the Northern District of Texas and the Federal District Court for the Eastern District of North Carolina. In February 2005, Nokia withdrew both enforcement actions.

Nokia UK Proceedings

In June 2004, Nokia commenced a patent revocation proceeding in the English High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's UK patents declared invalid (UK Revocation Proceeding). Nokia also seeks a Declaration that manufacture and sale of GSM mobiles and infrastructure equipment compliant with the ETSI GSM Standard (Release 4) without license from ITC does not require infringement of the 3 UK patents, so that none of the patents are essential IPR for that standard. The hearing on this matter commenced early November 2005 and after several recesses concluded at the end of January 2006, with a decision to be issued thereafter by the High Court.

In July 2005, Nokia filed a claim in the English High Court of Justice, Chancery Division, Patents Court against ITC. Nokia's claim seeks a Declaration that thirty-one of ITC's UMTS European Patents registered in the UK are not essential IPR for the 3GPP standard. We intend to vigorously defend our position and are contesting Nokia's claim of jurisdiction in the High Court.

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.

Samsung

In 2002, during an arbitration proceeding, Samsung Electronics Co. Ltd. (Samsung) elected, under an MFL clause its 1996 patent license agreement with ITC (Samsung Agreement), to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the Nokia License agreement, including its most favored licensee (MFL) provision. By notice in March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of the Ericsson Agreement (for infrastructure products) and the Sony Ericsson Agreement (for terminal unit products) 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 against IDCC and ITC regarding Samsung's royalty payment obligations to ITC for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products (Samsung Arbitration). This arbitration proceeding relates to ITC's claim that the Ericsson Agreement and the Sony Ericsson Agreement defined the financial terms under which Samsung is required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products commencing January 1, 2002 through December 31, 2006. We also seek a declaration that the parties' rights and obligations are governed by the Samsung Agreement, and that the Nokia License Agreement dictates only Samsung's royalty obligations and most favored licensee rights for those TDMA products licensed under the Samsung Agreement. Samsung is seeking a determination that Samsung's obligations are not defined by the Ericsson Agreement, the Sony Ericsson Agreement, or the Final Award in the Nokia arbitration. In the alternative, Samsung seeks to determine the amount of the appropriate royalty to be paid, which is substantially less than the amount that we believe is owed. Samsung is also seeking a determination that it has succeeded to all of Nokia's CDMA license rights, including its 3G license. If the arbitration panel were to agree with Samsung's position on Nokia's CDMA rights, Samsung would be licensed to sell 3G products on the same terms as Nokia.

In January 2006, an evidentiary hearing was conducted. Absent a resolution by the parties to this dispute, the presiding ICC Arbitral Tribunal will render a decision.

Lucent

In March 2004, Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000 infrastructure equipment. The case was originally based on our assertions of infringement by Lucent of nine of Tantivy's U.S. patents. The lawsuit sought damages for past infringement and an injunction against future infringement, as well as interest, costs and attorneys' fees. Lucent responded to the lawsuit denying any infringement, and sought a declaration of non-infringement and alleged that the patents were invalid and requested attorneys' fees and costs.

In November 2005, Tantivy and Lucent agreed to dismiss the patent infringement litigation between them and, together with IDCC, entered into a combined patent license and technology agreement. Under the terms of the agreement, Lucent is obligated to pay approximately $14 million over a period of approximately 5 years. Tantivy granted a patent license to Lucent under only those patents which were involved in the litigation being dismissed covering Lucent's cdma2000 infrastructure products. In addition, IDCC and Lucent agreed to cooperate on advanced technology programs.

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 their determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement (Agreement) requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. Additionally, under certain circumstances, Federal may seek to recover interest on its claim. In November 2003, the Company filed an action in United States District Court for the Eastern District of Pennsylvania (the Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement was found to be valid and enforceable, the Company was seeking a declaratory judgment that Federal would have been 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 December 31, 2005. While we continue to contest this matter, any adverse decision or settlement obligating us to pay amounts materially in excess of the accrued contingent liability could have a material negative effect on our consolidated financial position, results of operations or cash flows.

Other

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

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

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

9. RELATED PARTY TRANSACTIONS

In 2005, 2004 and 2003, we engaged a consulting firm and paid less than $0.1 million, $0.1 million and $0.7 million, respectively, for their services. One of our outside directors is Chairman of the Advisory Board to the consulting firm. Our board member did not receive any direct compensation or commissions related to the engagement.

We paid less than $0.1 million to a consultant for services in 2003 prior to his appointment to our Board of Directors in December, 2003.

10. PREFERRED STOCK

During second quarter 2004, our Board of Directors approved the redemption of all shares outstanding of our $2.50 Cumulative Convertible Preferred Stock (Preferred Stock). We issued a redemption notice for 52,762 shares of Preferred Stock outstanding as of June 15, 2004. The holders of the Preferred Stock were entitled to convert their Preferred Stock at any time prior to the July 19, 2004 redemption date at a conversion rate of 2.08 shares of our common stock for each share of Preferred Stock. Between the date of our redemption notice and the redemption date, 50,738 shares of Preferred Stock were converted. In early third quarter 2004, we paid approximately $51,000 to fulfill our redemption obligation, the redemption price being $25.00 per share plus accrued dividends, for the remaining 2,024 Preferred Shares.

Prior to the above-noted redemption, the holders of the Preferred Stock were entitled to receive, when and as declared by our Board of Directors, cumulative annual dividends of $2.50 per share payable in cash or common stock at our election (subject to a cash election right of the holder), if legally available. Such dividends were payable semi-annually on June 1 and December 1. The Preferred Stock was convertible into common stock at any time prior to redemption at a conversion rate of 2.08 shares of common stock for each share of preferred. In 2004 and 2003, we declared and paid dividends on the Preferred Stock of $66,000 and $133,000, respectively. These dividends were paid with both cash of $37,000 and $77,000 and shares of our common stock of 1,759 and 2,593 in 2004 and 2003, respectively.

11. COMMON STOCK 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 granted options under two incentive stock option plans, three non-qualified stock option plans and two plans which provide for grants of both incentive and non-qualified stock options (Pre-existing Plans) to non-employee directors, officers and employees of the Company and other specified groups, depending on the plan. No further grants are allowed under the Pre-existing Plans. In 2000, our shareholders approved the 2000 Stock Award and Incentive Plan (2000 Plan) that allows for the granting of incentive and non-qualified options, as well as other securities. The 2000 Plan authorizes the offer and sale of up to approximately 7.4 million shares of common stock. The Board of Directors or the Compensation and Stock Option Committee of the Board determine the number of options to be granted. Under the terms of the 2000 Plan, the option price cannot be less than 100% of the fair market value of the common stock at the date of grant.

In 2002, the Board of Directors approved the 2002 Stock Award and Incentive Plan (2002 Plan) that allows for the granting of incentive and 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 authorizes the offer and sale of up to 1.5 million shares of common stock. The Board of Directors or the Compensation and Stock Option Committee of the Board determine the number of options to be granted. Under the terms of the 2002 Plan, the option price cannot be less than 100% of the fair market value of the common stock at the date of grant. In addition, unless otherwise modified, no awards may be granted under the 2002 Plan after the first quarter 2012.

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 Average Exercise Price
		Number	Price Range	
BALANCE AT DECEMBER 31, 2002	1,878	10,462	$ 0.01-39.00	$ 11.86
Granted	(999)	999	$13.20-25.85	$ 19.05
Canceled	151	(151)	$ 6.50-39.00	$ 19.34
Exercised	—	(1,952)	$ 0.01-19.10	$ 8.97
BALANCE AT DECEMBER 31, 2003	1,030	9,358	$ 0.01-39.00	$ 13.11
Granted	(390)	390	$15.63-27.26	$ 22.75
Canceled	245	(245)	$ 6.31-39.00	$ 21.42
Exercised	—	(1,030)	$ 3.00-23.39	$ 10.02
BALANCE AT DECEMBER 31, 2004	885	8,473	$ 0.01-39.00	$ 13.70
Granted	(108)	108	$15.24-20.72	$ 17.62
Canceled	136	(136)	$ 9.60-39.00	$ 19.78
Exercised	—	(519)	$ 4.94-19.77	$ 9.30
BALANCE AT DECEMBER 31, 2005	913	7,926	$ 0.01-39.00	$ 13.93

The following table summarizes information regarding the stock options outstanding at December 31, 2005 (in thousands, except for per share amounts):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)*	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01 - 5.25	424	4.17	$ 4.73	424	$ 4.73
$ 5.38 - 5.44	851	1.84	5.43	851	5.43
$ 5.50 - 8.90	858	6.93	7.03	858	7.03
$ 8.97 - 9.52	83	6.55	9.24	83	9.24
$ 9.60 - 9.60	949	5.97	9.60	949	9.60
$ 9.63 - 11.63	990	10.15	10.70	990	10.70
$ 11.64 - 13.19	922	5.54	12.46	922	12.46
$ 13.20 - 17.00	808	6.55	15.43	808	15.43
$ 17.08 - 20.19	802	6.96	18.54	802	18.54
$ 20.38 - 39.00	1,239	5.40	31.05	1,239	31.05
$ 0.01 - 39.00	7,926	6.08	$ 13.93	7,926	$ 13.93

* We currently have approximately 250,000 options outstanding that have an indefinite contractual life. These options were granted between 1983 and 1986 under a pre-existing plan. 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 $9.63 and $11.63.

Common Stock Warrants

As of December 31, 2005 and 2004, we had warrants outstanding to purchase 80,000 shares of common stock at an exercise price and weighted average exercise price of $7.63 per share. These warrants are exercisable and will expire in 2006. The exercise price and number of shares of common stock to be obtained upon exercise of these warrants are subject to adjustment under conditions specified in the warrant certificate.

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 5 years from the date of the grant. As of December 31, 2005 and 2004, we had issued 1,999,460 and 1,447,826 shares, respectively, of restricted stock and restricted stock units under the 1999 Plan. The related compensation expense has been, and will continue to be, amortized over vesting periods that are generally from 1 to 5 years. The balance of unearned compensation at December 31, 2005 and 2004 was $5.8 million and $3.3 million, respectively.

At December 31, 2005 and 2004, we had 6,250,622 and 7,305,142 options outstanding, respectively, that had exercise prices less than the fair market value of our stock at each balance sheet date. These options would generate $63.5 million and $78.9 million of cash proceeds to the Company if they were fully exercised.

12. SHAREHOLDER RIGHTS PLAN

In December 1996, our Board of Directors (Board) declared a distribution under our Shareholder Rights Plan (Rights Plan) of one Right (as described below) for each outstanding common share of the Company to shareholders of record as of the close of business on January 3, 1997. In addition, any new common shares issued after January 3, 1997 will receive one Right for each common share. The Rights Plan was amended in a number of respects with the latest amendments in March 2000. As amended, each Right entitles shareholders to buy one-thousandth of a share of Series B Junior Participating Preferred Stock (Preferred Stock) at a purchase price of $250 per 1/1000th of a share, subject to adjustment. Ordinarily, the Rights will not be exercisable until (i) 10 business days after the earlier of any of the following events (A) a person, entity or group other than certain categories of shareholders exempted under the Rights Plan (collectively, a Person), acquires beneficial ownership of 10% or more of the Company's outstanding common shares, or (B) a Person publicly commences a tender or exchange offer for 10% or more of the Company's outstanding common shares, or (C) a Person publicly announces an intention to acquire control over the Company and proposes in a proxy or consent solicitation to elect such a number of directors, who if elected, would outnumber the Independent Directors (as defined in the Rights Plan) on the Board, or (ii) such later date as may be determined by action of a majority of the Independent Directors prior to the occurrence of any event specified in (i) above (Distribution Date). In general, following the Distribution Date and in the event that the Company enters into a merger or other business combination with an Acquiring Person (as such term is defined in the Rights Plan) and the Company is the surviving entity, each holder of a Right will have the right to receive, upon exercise, units of Preferred Stock (or, in certain circumstances, Company common shares, cash, property, or other securities of the Company) having a value equal to twice the exercise price of the Right, or if the Company is acquired in such a merger or other business combination, each holder of a Right will have the right to receive stock of the acquiring entity having a value equal to twice the exercise price of the Right. The Company reserves the right to redeem the Rights by majority action of its Independent Directors at any time prior to the date such Rights become exercisable. The Rights Plan, as currently in place, will expire on December 31, 2006 absent some extension, modification or replacement of the Rights Plan by the Board prior to such date.

13. TAXES

Our income tax (benefit) provision consists of the following components for 2005, 2004 and 2003 (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Current			
Federal	$ 2,343	$ 7,490	$ (755)
State	—	—	—
Alternative Minimum Tax (AMT)	350	391	(793)
Foreign Income Tax	170	20	—
Foreign source withholding tax	—	1,309	3,170
	2,863	9,210	1,622
Deferred			
Federal	6,938	(18,090)	3,418
State	—	—	(410)
Foreign source withholding tax	2,136	3,150	4,213
Reversal of valuation allowance	(46,371)	(17,064)	—
Increase/(decrease) in valuation allowance - federal	—	18,090	(1,574)
	(37,297)	(13,914)	5,647
Total	$(34,434)	$ (4,704)	$ 7,269

The deferred tax assets and liabilities are comprised of the following components at December 31, 2005 and 2004 (in thousands):

	2005			
	Federal	State	Foreign	Total
Net operating losses	$ 29,827	$ 13,499	—	$ 43,326
Deferred revenue, net	35,603	7,007	3,346	45,956
R&E credits	9,296	—	—	9,296
Stock compensation	4,551	896	—	5,447
Patent amortization	3,213	632	—	3,845
Depreciation	1,348	265	—	1,613
AMT credit carryforward	1,603	—	—	1,603
Other accrued liabilities	1,211	238	—	1,449
Other employee benefits	786	155	—	941
	87,438	22,692	3,346	113,476
Less: valuation allowance	—	(22,692)	—	(22,692)
Net deferred tax asset	$ 87,438	$ —	$3,346	$ 90,784

	2004			
	Federal	State	Foreign	Total
Net operating losses	$ 37,990	$ 10,933	—	$ 48,923
Deferred revenue, net	35,168	6,912	5,481	47,561
R&E credits	10,576	—	—	10,576
Stock compensation	826	162	—	988
Patent amortization	2,487	489	—	2,976
Depreciation	902	177	—	1,079
AMT credit carryforward	1,299	—	—	1,299
Other employee benefits	3,027	595	—	3,622
Other	1,235	243	—	1,478
	93,510	19,511	5,481	118,502
Less: valuation allowance	(66,657)	(19,511)	—	(86,168)
Net deferred tax asset	$ 26,853	$ —	$5,481	$ 32,334

The following is a reconciliation of income taxes at the federal statutory rate with income taxes recorded by the Company for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Tax at U.S. statutory rate	$ 7,088	$ (1,547)	$14,190
Foreign withholding tax, with no U.S. foreign tax credit	1,388	2,943	4,861
State tax provision	—	—	(410)
Change in federal and state valuation allowance	—	11,770	(9,814)
Adjustment to tax credits	626	—	(793)
Other	173	(806)	(765)
Tax provision before adjustments related to federal deferred tax asset valuation	9,275	12,360	7,269
Reversal of federal valuation allowance	(46,371)	(17,064)	—
Change in effective rate applied to federal deferred tax assets	(1,438)	—	—
Other adjustments to deferred tax assets	4,100	—	—
Total adjustments related to federal deferred tax asset valuation	(43,709)	(17,064)	—
Total tax (benefit) provision	$(34,434)	$ (4,704)	$ 7,269

Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the asset to offset future taxes. At December 31, 2003, we provided a full valuation allowance on all deferred tax assets other than those associated with revenue that was recognized in the computation of our foreign source withholding tax liability, but deferred for financial statement purposes. In 2004, we determined that our operating performance, coupled with our expectations to generate future taxable income, indicated that it was more likely than not that we would utilize a portion of our deferred tax assets. Accordingly, in third quarter 2004, we recognized an increase in the value of our deferred tax assets of approximately $27 million through a partial reversal of the valuation allowance. Of the $27 million benefit, approximately $17 million was recognized as income in our Statement of Operations and approximately $10 million was credited directly to additional paid-in capital. In 2005, we determined that our expectations to generate future taxable income indicated that it was more likely than not that we would utilize our remaining Federal deferred tax assets. Accordingly, in fourth quarter 2005, we reversed our remaining Federal deferred tax asset valuation allowance of approximately $66.7 million. Of the $66.7 million benefit, approximately $46.4 million was recognized as income in our Statement of Operations and approximately $20.3 million was credited directly to additional paid-in capital. In addition, at the same time, we increased the value of our deferred tax assets by $2.4 million as a result of a 1% change in the estimated tax rate we expect will apply when these deferred tax assets reverse in future years. Of the $2.4 million benefit, approximately $1.4 million was recognized as income in our Statement of Operations and approximately $1.0 million was credited directly to additional paid-in capital. These tax benefits are partly offset by a $4.1 million adjustment to reduce the recorded value of credits associated with federal NOL carryforwards and research and development activities based on our assessment of the likelihood of realizing such credits.

We estimate that we will fully utilize our remaining federal NOL carryforwards between 2006 and 2008. Once this occurs, we will begin to pay U.S. Federal Income Tax as well as foreign source withholding taxes on patent license royalties and state taxes when applicable. In the course of future tax planning, should 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.

In 2005, we completed a study of our state net operating losses. As a result of that study, we adjusted our gross deferred tax asset associated with state net operating losses by approximately $13.5 million. However, we believe it is more likely than not that our state deferred tax assets will not be utilized and we have therefore maintained a full valuation allowance against our state deferred tax assets.

Excluding any prospective recognition of additional tax credits, we expect to provide for income taxes in 2006 at a rate equal to our combined federal and state effective rates, which would approximate 35% to 37% under current tax laws, plus an amount for deferred foreign source withholding tax expense which is dependent, in part, upon licensee royalty reports. As of December 31, 2005, we had net deferred foreign source withholding tax expense of approximately $2.2 million on our Balance Sheet.

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 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.

Based on judgments associated with determining the annual limitation applicable to us under Internal Revenue Code Section 382, we did not include all federal NOL carryforwards in the computation of our gross deferred tax assets. We also excluded a portion of the federal research and experimental credits that may be available to us from the computation of gross deferred tax assets 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, the gross deferred tax assets would have been approximately $10 million greater and our income tax benefit would have increased by the same amount.

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. 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 Section 382. There can be no assurance that we will realize the benefit of any NOL carryforward.

14. REPURCHASE OF COMMON STOCK

On March 8, 2006, our Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock through open market purchases, pre-arranged trading plans or privately negotiated purchases. Under previous repurchase programs in 2005, 2004 and 2003, we repurchased 2 million, 1 million and 2 million shares of common stock for $34.1 million, $17.1 million and $34.7 million, respectively.

15. SELECTED QUARTERLY RESULTS (Unaudited)

The table below presents quarterly data for the years ended December 31, 2005 and 2004:

Selected Quarterly Results (in thousands, except per share amounts, unaudited)	First	Second	Third	Fourth
2005:				
Revenues	$35,497	$38,601	$48,538	$40,489
Net income (loss) applicable to common shareholders (*a*)	$ (882)	$ 4,011	$ 6,526	$45,030
Net income (loss) per common share – basic	$ (0.02)	$ 0.07	$ 0.12	$ 0.83
Net income (loss) per common share – diluted	$ (0.02)	$ 0.07	$ 0.11	$ 0.80
2004:				
Revenues (*b*)	$33,016	$29,379	$ 7,358	$33,932
Net income (loss) applicable to common shareholders (*c*)	$ 5,800	$ 856	$ (6,403)	$ (164)
Net income (loss) per common share – basic	$ 0.11	$ 0.02	$ (0.12)	$ —
Net income (loss) per common share – diluted	$ 0.10	$ 0.01	$ (0.12)	$ —

(a) Our income tax provision in fourth quarter 2005 included a benefit of approximately $43.7 million, primarily related to the reversal of our Federal deferred tax asset valuation allowance.

(b) In third quarter 2004, we transitioned to reporting per-unit royalties in the period in which we receive our licensees' royalty reports rather than in the period in which our licensees' sales of covered products occur. As a result of this transition, our results for 2004 include only three quarters of per-unit royalties.

(c) Our income tax provision in third quarter 2004 included a benefit of approximately $17 million related to the partial reversal of our Federal deferred tax asset valuation allowance.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 Office 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.

Management's Annual Report on Internal Control Over Financial Reporting.

Management of InterDigital Communications Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in " *Internal Control—Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2005, the Company maintained effective internal control over financial reporting at a reasonable assurance level.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears under Item 8 in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF INTERDIGITAL .

Information concerning directors is incorporated by reference herein from the information following the caption "ELECTION OF DIRECTORS – Nominees for Election to the Board of Directors Three Year Term Expiring at 2009 Annual Meeting of Shareholders" to, but not including, "Committees and Meetings of the Board of Directors" in our Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year ended December 31, 2005, and which shall be forwarded to shareholders prior to the 2006 Annual Meeting of Shareholders (Proxy Statement).

Our Code of Business Conduct and Ethics is applicable to all employees of the Company including the Chief Executive Officer, Chief Financial Officer, and the Board of Directors (Code). In addition, each of our consultants agrees to abide by its terms. A copy of the Code is available free of charge on our Internet website at *www.interdigital.com* . We intend to disclose any amendment to the Code or waiver from a provision of the Code made to our Chief Executive Officer, Chief Financial Officer or Controller on our website. Information concerning the Company's Audit Committee and the Company's Audit Committee financial expert is incorporated herein by reference to the Proxy Statement following the caption "Audit Committee Report" to, but not including, "RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM." In addition, information set forth in the two paragraphs immediately following the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement is incorporated by reference herein. Information concerning executive officers appears under the caption "Item 1. Business, Executive Officers" in Part 1 of this Annual Report on Form 10-K.

Item 11. EXECUTIVE COMPENSATION .

Information concerning executive compensation required by this item is incorporated by reference to the Proxy Statement following the caption "Executive Compensation" to, but not including, "Shareholder Return Performance Graph" and information in the section "Compensation Committee Interlocks and Insider Participation." Information concerning director compensation is incorporated by reference to the Proxy Statement in the section "Compensation of Directors."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS .

The information required by this item is incorporated by reference to the Proxy Statement following the caption "Security Ownership of Certain Beneficial Owners" to and including all information in the section "Equity Compensation Plan Information."

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS .

None.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES .

The information required by this item is incorporated by reference to the Proxy Statement following the caption "Independent Registered Public Accounting Firm's Fees."

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES .

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) Financial Statements.

The information required by this Item begins on Page 48.

(2) Financial Statement Schedules.

INTERDIGITAL COMMUNICATION CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance, Beginning of Period	Increase (Decrease)	Reversal of Valuation Allowance	Balance, End of Period
2005				
Valuation Allowance for Deferred Tax Assets	$86,168	3,181	$(66,657)(a)	$22,692
2004				
Valuation Allowance for Deferred Tax Assets	92,550	20,471	(26,853)(b)	86,168
2003				
Valuation Allowance for Deferred Tax Assets	94,124	(1,574)	—	92,550

(a) Of the $66.7 million benefit, approximately $46.4 million was recognized as income in our Statement of Operations and approximately $20.3 million was credited directly to additional paid-in capital.

(b) Of the $27 million benefit, approximately $17 million was recognized as income in our Statement of Operations and approximately $10 million was credited directly to additional paid-in capital.

(3) Exhibits.

See Item 15(b) below.

(b)

Exhibit Number	Exhibit Description
*2.1	Asset Purchase Agreement dated as of July 30, 2003 by and between InterDigital Acquisition Corp. and Tantivy Communications, Inc. (Exhibit 2.1 to InterDigital's Current Report on Form 8-K dated August 4, 2003).
*3.1	Restated Articles of Incorporation (Exhibit 3.1 to Amendment No. 1 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
*3.2	By-laws, as amended September 30, 2004 (Exhibit 3.3 to InterDigital's Current Report on Form 8-K dated October 5, 2004).
*3.3	By-laws, as amended June 1, 2005 (Exhibit 3.2 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (the "June 2005 Form 10-Q")).
*4.1	Rights Agreement between InterDigital and American Stock Transfer & Trust Co., ("AST") (Exhibit 4 to InterDigital's Current Report on Form 8-K filed on January 2, 1997).
*4.2	Amendment No. 1 to the Rights Agreement between InterDigital and AST (Exhibit 4.2 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (the "June 1997 Form 10-Q")).
*4.3	Amendment No. 2 to the Rights Agreement between InterDigital and AST (Exhibit 4.3 to the June 1997 Form 10-Q).
*4.4	Amendment No. 3 to the Rights Agreement between InterDigital and AST (Exhibit 4.4 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).
*10.1	Intellectual Property License Agreement between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.39 to InterDigital's Registration Statement No. 33-28253 filed on April 18, 1989).
*10.2	1992 License Agreement dated February 29, 1992 between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.3 to InterDigital's Current Report on Form 8-K dated February 29, 1992 (the "February 1992 Form 8-K")).
*10.3	E-TDMA License Agreement dated February 29, 1992 between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.4 to the February 1992 Form 8-K).
†*10.4	Non-Qualified Stock Option Plan, as amended (Exhibit 10.4 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1991).
†*10.5	Amendment to Non-Qualified Stock Option Plan (Exhibit 10.31 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (the "June 2000 Form 10-Q")).
†*10.6	Amendment to Non-Qualified Stock Option Plan, effective October 24, 2001 (Exhibit 10.6 to the 2001 Form 10-K).
†*10.7	1992 Non-Qualified Stock Option Plan (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated October 21, 1992).
†*10.8	Amendment to 1992 Non-Qualified Stock Option Plan (Exhibit 10.32 to the June 2000 Form 10-Q).

(b)

Exhibit Number	Exhibit Description
†*10.9	1992 Employee Stock Option Plan (Exhibit 10.71 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1992).
†*10.10	Amendment to 1992 Employee Stock Option Plan (Exhibit 10.29 to the June 2000 Form 10-Q).
†*10.11	Amendment to 1992 Employee Stock Option Plan, effective October 24, 2001 (Exhibit 10.11 to the 2001 Form 10-K).
†*10.12	1995 Stock Option Plan for Employees and Outside Directors, as amended (Exhibit 10.7 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 Form 10-K")).
†*10.13	Amendment to the 1995 Stock Option Plan for Employees and Outside Directors (Exhibit 10.25 to the 1999 Form 10-K).
†*10.14	Amendment to 1995 Stock Option Plan for Employees and Outside Directors (Exhibit 10.33 to the June 2000 Form 10-Q).
†*10.15	Amendment to 1995 Stock Option Plan for Employees and Outside Directors, effective October 24, 2001 (Exhibit 10.15 to the 2001 Form 10-K).
†*10.16	1997 Stock Option Plan for Non-Employee Directors (Exhibit 10.34 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
†*10.17	1997 Stock Option Plan for Non-Employee Directors, as amended March 30, 2000 (Exhibit 10.42 to the June 2000 Form 10-Q).
†*10.18	Amendment to 1997 Stock Option Plan for Non-Employee Directors (Exhibit 10.34 to the June 2000 Form 10-Q).
†*10.19	Amendment to 1997 Stock Option Plan for Non-Employee Directors, effective October 24, 2001 (Exhibit 10.19 to the 2001 Form 10-K).
†*10.20	2000 Stock Award and Incentive Plan (Exhibit 10.28 to the June 2000 Form 10-Q).
†*10.21	1999 Restricted Stock Plan, as amended April 13, 2000 (Exhibit 10.43 to the June 2000 Form 10-Q).
†*10.22	Amended and Restated Employment Agreement dated as of November 20, 2000 by and between InterDigital Communications Corporation ("InterDigital") and Howard E. Goldberg (Exhibit 10.12 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 Form 10-K")).
†*10.23	Employment Agreement dated November 18, 1996 by and between InterDigital and Charles R. Tilden (Exhibit 10.26 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1996).
†*10.24	Amendment dated as of April 6, 2000 by and between InterDigital and Charles R. Tilden (Exhibit 10.39 to the June 2000 Form 10-Q).
†*10.25	Employment Agreement dated May 7, 1997 by and between InterDigital and Mark A. Lemmo (Exhibit 10.32 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
†*10.26	Amendment dated as of April 6, 2000 by and between InterDigital and Mark A. Lemmo (Exhibit 10.37 to the June 2000 Form 10-Q).
†*10.27	Employment Agreement dated September 3, 1998 by and between InterDigital and William J. Merritt (Exhibit 10.23 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1998 (the "1998 Form 10-K")).
†*10.28	Amendment dated as of April 6, 2000 by and between InterDigital and William J. Merritt (Exhibit 10.38 to the June 2000 Form 10-Q).
†*10.29	Employment Agreement dated November 16, 1998 by and between InterDigital and Richard J. Fagan (Exhibit 10.24 to the 1998 Form 10-K).
†*10.30	Amendment dated as of April 6, 2000 by and between InterDigital and Richard J. Fagan (Exhibit 10.36 to the June 2000 Form 10-Q).
†*10.31	Employment Agreement dated November 19, 1996 by and between InterDigital and Brian G. Kiernan (Exhibit 10.37 to the 2000 Form 10-K).

(b)	Exhibit Number	Exhibit Description
	†*10.32	Amendment dated as of April 6, 2000 by and between InterDigital and Brian G. Kiernan (Exhibit 10.38 to the 2000 Form 10-K).
	†*10.33	Employment Agreement dated July 24, 2000 by and between InterDigital and William C. Miller (Exhibit 10.39 to the 2000 Form 10-K).
	†*10.34	Employment Agreement dated January 2, 2001 by and between InterDigital and Alain C. Briancon (Exhibit 10.41 to the 2000 Form 10-K).
	†*10.35	Employment Agreement dated as of November 12, 2001 by and between InterDigital and Lawrence F. Shay (Exhibit 10.38 to the 2001 Form 10-K).
	†*10.36	Employment Agreement dated as of December 3, 2001 by and between InterDigital and Guy M. Hicks (Exhibit 10.39 to the 2001 Form 10-K).
	†*10.37	Agreement of Lease dated November 25, 1996 by and between InterDigital and We're Associates Company (Exhibit 10.42 to the 2000 Form 10-K).
	*10.38	Modification of Lease Agreement dated December 28, 2000 by and between InterDigital and We're Associates Company (Exhibit 10.43 to the 2000 Form 10-K).
	†*10.39	Indemnity Agreement dated as of March 19, 2003 by and between Company and Howard E. Goldberg (pursuant to Instruction 2 to Item 601 of Regulation S-K, the Indemnity Agreements, which are substantially identical in all material respects, except as to the parties thereto and the dates, between the Company and the following individuals, were not filed: Lisa A. Alexander, Bruce Bernstein, D. Ridgely Bolgiano, Alain C. Briancon, Harry G. Campagna, Steven T. Clontz, Joseph S. Colson, Jr., Patrick J. Donahue, Richard J. Fagan, Howard E. Goldberg, Guy M. Hicks, Gary D. Isaacs, John D. Kaewell, Brian G. Kiernan, Mark A. Lemmo, Linda S. Lutkefedder, William J. Merritt, William C. Miller, Rebecca B. Opher, Robert S. Roath, Jane S. Schultz, Lawrence F. Shay, and Charles R. Tilden) (Exhibit 10.47 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
	*10.40	Patent License Agreement dated and effective January 1, 2003 between InterDigital Technology Corporation ("ITC") and Ericsson Inc. and Telefonaktiebolaget LM Ericsson (Exhibit 10.48 to InterDigital's Amendment No. 1 to Quarterly Report on Form 10-Q/A dated July 2, 2003 (the "July 2003 10-Q/A")).
	*10.41	Patent License Agreement dated and effective January 1, 2003 between ITC and Sony Ericsson Mobile Communications AB (Exhibit 10.49 to the July 2003 10-Q/A).
	†*10.42	2002 Stock Award and Incentive Plan (Exhibit 10.50 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
	*10.43	Patent License Agreement dated May 8, 1995 between ITC and NEC Corporation ("NEC") (Exhibit 10.51 to InterDigital's Current Report on Form 8-K dated February 21, 2003 (the "2003 Form 8-K")).
	*10.44	Amendment to the Patent License Agreement of May 8, 1995 between ITC and NEC (Exhibit 10.52 to the 2003 Form 8-K).
	*10.45	Narrowband CDMA and Third Generation Patent License Agreement dated January 15, 2002 between ITC and NEC (Exhibit 10.53 to the 2003 Form 8-K).
	*10.46	Settlement Agreement dated January 15, 2002 between ITC and NEC (Exhibit 10.54 to the 2003 Form 8-K).
	*10.47	The TDD Development Agreement between and among InterDigital, ITC and Nokia (Exhibit 10.55 to the 2003 Form 8-K).
	*10.48	Amendment No. 1 to the TDD Development Agreement dated September 30, 2001 between and among InterDigital, ITC and Nokia (Exhibit 10.56 to the 2003 Form 8-K).
	*10.49	PHS and PDC Subscriber Unit Patent License Agreement dated March 19, 1998 between ITC and Sharp Corporation of Japan (Sharp) (Exhibit 10.57 to the 2003 Form 8-K).
	*10.50	Amendment No. 1 dated March 23, 2000 and Amendment No. 2 dated May 30, 2003 to PHS and PDC Subscriber Unit Patent License Agreement dated March 19, 1998 between ITC and Sharp (Exhibit 10.58 to InterDigital's Amendment No. 1 to Current Report on Form 8-K/A dated July 2, 2003).
	†*10.51	Indemnity Agreement dated as of May 5, 2003 by and between InterDigital and Richard J. Brezski (Exhibit 10.59 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

(b)

Exhibit Number	Exhibit Description
†*10.52	Severance Agreement dated January 20, 2004 by and between InterDigital and Guy M. Hicks (Exhibit 10.52 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Form 10-K").
†*10.53	InterDigital Communications Corporation 2002 Stock Award and Incentive Plan, as amended through June 4, 2003 (Exhibit 10.52 to 2003 Form 10-K).
†*10.54	Indemnity Agreement dated March 15, 2004 by and between InterDigital and Edward B. Kamins (Exhibit 10.60 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
†*10.55	InterDigital Communications Corporation Long-Term Compensation Program, as amended December 2004 ("LTCP") (Exhibit 10.55 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K")).
†*10.56	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Awarded to Independent Directors Upon Re-Election] (Exhibit 10.62 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the "September 2004 Form 10-Q").
†*10.57	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Annual Award to Independent Directors] (Exhibit 10.63 to September 2004 Form 10-Q).
†*10.58	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Periodically Awarded to Members of the Board of Directors] (Exhibit 10.64 to September 2004 Form 10-Q).
†*10.59	1999 Restricted Stock Plan, Form of Restricted Stock Agreement [Awarded to Executives and Management as Part of Annual Bonus] (Exhibit 10.65 to September 2004 Form 10-Q).
†*10.60	2000 Stock Award and Incentive Plan, Form of Option Agreement [Director Awards] (Exhibit 10.66 to September 2004 Form 10-Q).
†*10.61	2000 Stock Award and Incentive Plan, Form of Option Agreement [Executive Awards] (Exhibit 10.67 to September 2004 Form 10-Q).
†*10.62	2000 Stock Award and Incentive Plan, Form of Option Agreement [Inventor Awards] (Exhibit 10.68 to September 2004 Form 10-Q).
†*10.63	2002 Stock Award and Incentive Plan, Form of Option Agreement [Inventor Awards] (Exhibit 10.69 to September 2004 Form 10-Q).
†*10.64	Software License Agreement dated December 21, 2004 between General Dynamics Decision Systems, Inc. and InterDigital (Exhibit 10.64 to InterDigital's 2004 Form 10-K).
†*10.65	InterDigital Communications Corporation Annual Employee Bonus Plan (Exhibit 10.66 to InterDigital's 2004 Form 10-K).
†*10.66	InterDigital Communications Corporation Long-Term Compensation Program, as amended April 2005 (Exhibit 10.70 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (the "March 2005 Form 10-Q")).
†*10.67	Compensation Program for Outside Directors, as amended January 2006 (Amendment incorporated as part of InterDigital's Current Report on Form 8-K dated January 18, 2006).
†*10.68	InterDigital Communications Corporation Annual Employee Bonus Plan, as amended April 2005 (Exhibit 10.72 to March 2005 Form 10-Q).
†*10.69	InterDigital Communications Corporation Restricted Stock Unit Award Agreement with Harry G. Campagna dated February 4, 2005 (Exhibit 10.73 to March 2005 Form 10-Q).
†*10.70	Amended and Restated Employment Agreement, dated May 16, 2005, by and between William J. Merritt and InterDigital (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated May 16, 2005).
†*10.71	Employment Agreement, dated as of June 20, 2005, by and between Bruce Bernstein and InterDigital (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated June 20, 2005).
†*10.72	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Awarded to Independent Directors Upon Re-Election] (Exhibit 10.62 to June 2005 Form 10-Q).
†*10.73	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Annual Award to Independent Directors] (Exhibit 10.63 to June 2005 Form 10-Q).

Exhibit Number	Exhibit Description
†*10.74	InterDigital Communications Corporation Long-Term Compensation Program, as amended June 2005 (Exhibit 10.70 to June 2005 Form 10-Q).
†*10.75	InterDigital Communications Corporation 2000 Stock Award and Incentive Plan, as amended June 1, 2005 (Exhibit 10.74 to June 2005 Form 10-Q).
†*10.76	InterDigital Communications Corporation 2002 Stock Award and Incentive Plan, as amended June 1, 2005 (Exhibit 10.75 to June 2005 Form 10-Q).
*10.77	Patent License Agreement between InterDigital, ITC and Nokia dated January 29, 1999 (Exhibit 10.76 to June 2005 Form 10-Q).
†*10.78	Severance Agreement and General Release between InterDigital and Charles R. Tilden dated May 26, 2005 (Exhibit 10.77 to June 2005 Form 10-Q).
†*10.79	Severance Agreement and General Release between InterDigital and Howard E. Goldberg dated May 26, 2005 (Exhibit 10.78 to June 2005 Form 10-Q).
†*10.80	Severance Agreement and General Release between InterDigital and Alain Briancon dated October 25, 2005 (Exhibit 10.81 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the "September 2005 Form 10-Q")).
*10.81	Litigation Expense and Reimbursement Agreement by and between InterDigital, ITC and Federal Insurance Company dated February 15, 2000 (Exhibit 99.1 to the September 2005 Form 10-Q).
10.82	Credit Agreement dated as of December 28, 2005 among InterDigital, Bank of America, N.A. as Administrative Agent and L/C Issuer and the other Lenders party thereto.
21	Subsidiaries of InterDigital.
23.1	Consent of PricewaterhouseCoopers LLP.
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 Howard E. Goldberg.
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.

* Incorporated by reference to the previous filing indicated.
† Management contract or compensatory plan or arrangement.

(c) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERDIGITAL COMMUNICATIONS CORPORATION

Date: March 14, 2006

/s/ William J. Merritt
William J. Merritt
President and Chief Executive Officer

Date: March 14, 2006

/s/ R. J. Fagan
Richard J. Fagan
Chief Financial Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of InterDigital and in the capacities and on the dates indicated.

Date: March 14, 2006	/s/ D. Ridgely Bolgiano D. Ridgely Bolgiano, Director
Date: March 14, 2006	/s/ Harry G. Campagna Harry G. Campagna, Chairman of the Board of Directors
Date: March 14, 2006	/s/ Steven T. Clontz Steven T. Clontz, Director
Date: March 14, 2006	/s/ Edward B. Kamins Edward B. Kamins, Director
Date: March 14, 2006	/s/ Robert S. Roath Robert S. Roath, Director
Date: March 14, 2006	/s/ Robert W. Shaner Robert W. Shaner, Director
Date: March 14, 2006	/s/ Alan P. Zabarsky Alan P. Zabarsky, Director
Date: March 14, 2006	/s/ William J. Merritt William J. Merritt, Director, President and Chief Executive Officer (Principal Executive Officer)
Date: March 14, 2006	/s/ R. J. Fagan Richard J. Fagan, Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
†*10.67	Compensation Program for Outside Directors, as amended January 2006 (Amendment incorporated as part of InterDigital's Current Report on Form 8-K dated January 18, 2006)
10.82	Credit Agreement dated as of December 28, 2005 among InterDigital, Bank of America, N.A. as Administrative Agent and L/C Issuer and the other Lenders party thereto.
21	Subsidiaries of InterDigital.
23.1	Consent of PricewaterhouseCoopers LLP.
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 Howard E. Goldberg.
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.

* Incorporated by reference to the previous filing indicated.
† Management contract or compensatory plan or arrangement.

EXHIBIT 10.67

2006 Compensation Program for Outside Directors

Annual Board Retainer:	$25,000
Committee Chairs:	$15,000/$30,000 for Audit Committee Chair
Committee Membership:	$ 5,000
Re-election RSU Grant:	6,000 RSUs (vesting 2,000 each year beginning at 1 st anniversary of re-election)
Annual RSU Grant: (to all outside directors at each annual meeting*)	2,000 RSUs (vesting in full one year from grant date)
Chairman's Annual RSU Grant	10,000 RSUs (vesting in full one year from grant date)

* For so long as a director has options vesting pursuant to a grant made under the previous director compensation plan (i.e. program which provided a grant of 48,000 options upon election, vesting 16,000 at each subsequent annual meeting), he will not be entitled to the Annual RSU Grant.

All cash payments shall be based on service for a full year; pro rata payment shall be made for service of less than one year. Payment shall be quarterly and may be deferred. Deferrals must be made in the calendar year preceding the year in which services are rendered.

The Chairman's Annual RSU Grant shall be made in January of each fiscal year. Other equity grants shall be granted effective at the corresponding Annual Meeting of Shareholders.

The terms of this program shall be periodically reviewed.

As approved by the Compensation Committee January 11, 2006

Exhibit 10.82

CREDIT AGREEMENT

Dated as of December 28, 2005

among

INTERDIGITAL COMMUNICATIONS CORPORATION,
as the Borrower,

BANK OF AMERICA, N.A.,
as Administrative Agent
and
L/C Issuer,

and

The Other Lenders Party Hereto

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CREDIT AGREEMENT

This CREDIT AGREEMENT (this " Agreement ") is entered into as of December 28, 2005, among INTERDIGITAL COMMUNICATIONS CORPORATION, a Pennsylvania corporation (the " Borrower "), each lender from time to time party hereto (collectively, the " Lenders " and individually, a " Lender "), and BANK OF AMERICA, N.A., as Administrative Agent and L/C Issuer.

The Borrower has requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I.
DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

" Acquisition Consideration " means the purchase consideration for any Permitted Acquisition and all other payments by the Borrower or any of its Subsidiaries in exchange for, or as part of, or in connection with, the aggregate consideration for any Permitted Acquisition (including, without limitation, Indebtedness assumed by the Borrower or any of its Subsidiaries), whether paid in cash, in Equity Interests or by exchange of properties or otherwise and whether payable at or prior to the consummation of such Permitted Acquisition or deferred for payment at any future time, whether or not any such future payment is subject to the occurrence of any contingency, and includes any and all payments representing the purchase price and any incurrence or assumption of Indebtedness, "earn-outs" and other similar agreements to make any payment the amount of which is, or the terms of payment of which are, in any respect subject to or contingent upon the revenues, income, cash flow or profits (or the like) of any Person or business acquired in such Permitted Acquisition; provided that any such future payment that is subject to a contingency shall be considered Acquisition Consideration only to the extent of the reserve, if any, required under GAAP to be established in respect thereof by the Borrower or any of its Subsidiaries.

" Administrative Agent " means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

" Administrative Agent's Office " means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.02 , or such other address or account as the Administrative Agent may from time to time notify to the Borrower and the Lenders.

" Administrative Questionnaire " means an Administrative Questionnaire in a form supplied by the Administrative Agent.

" Adverse Determination " means any judgment, order, determination or award in any suit, action or proceeding before any Governmental Authority or in any alternative dispute resolution proceeding or any settlement thereof.

" Adverse Litigation Change " has the meaning specified in Section 5.06 .

" Affiliate " means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

" Aggregate Commitments " means the Commitments of all the Lenders.

" Agreement " means this Credit Agreement.

" Applicable Percentage " means with respect to any Lender at any time, the percentage (carried out to the ninth decimal place) of the Aggregate Commitments represented by such Lender's Commitment at such time. If the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02 or if the Aggregate Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

" Applicable Rate " means, for any day, the following percentages per annum, based upon the result, expressed as a percentage, obtained by dividing the Total Outstandings on such day by the Aggregate Commitments, as set forth below:

Usage Level	Applicable Rate for Base Rate Loans	Applicable Rate for LIBOR Loans
33% or more	0.00%	0.90%
less than 33%	0.00%	0.75%

" Approved Fund " means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

" Asset Sale " means a sale, lease or sublease (as lessor or sublessor), sale and leaseback, assignment, conveyance, transfer or other disposition to, or any exchange of property with, any Person (other than the Borrower or any Subsidiary Guarantor), in one transaction or a series of transactions, of all or any part of the Borrower's or any of its Subsidiaries' businesses, assets or properties of any kind, whether real, personal, or mixed and whether tangible or intangible, whether now owned or hereafter acquired, including, without limitation, the Equity Interests of any of the Borrower's Subsidiaries and Equity Interests in any joint venture, other than (a) inventory, Cash Equivalents or other properties sold, leased or licensed in the ordinary course of business, (b) Dispositions of IP Rights permitted under Section 7.05(f) , (c) obsolete, worn out or

surplus property sold in the ordinary course of business (or in the case of leased or subleased properties, properties which are no longer useful or necessary in the Borrower's or any of its Subsidiaries' businesses and disposed of in the ordinary course of business), and (d) sales of other assets for aggregate consideration of less than $1,000,000 with respect to any transaction or series of related transactions.

" Assignee Group " means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

" Assignment and Assumption " means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.06(b) , and accepted by the Administrative Agent, in substantially the form of Exhibit E or any other form approved by the Administrative Agent.

" Attributable Indebtedness " means, on any date, (a) in respect of any Capital Lease Obligation of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation of any Person, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

" Audited Financial Statements " means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended December 31, 2004, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto, as filed by the Borrower with the SEC on Form 10-K for the year ended December 31, 2004.

" Availability Period " means the period from and including the Closing Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06 , and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02 .

" Bank of America " means Bank of America, N.A. and its successors.

" Base Rate " means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus $^1/_2$ of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate." The "prime rate" is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

" Base Rate Loan " means a Loan that bears interest based on the Base Rate.

" Borrower " has the meaning specified in the introductory paragraph hereto.

" Borrower Materials " has the meaning specified in Section 6.02 .

" Borrowing " means a borrowing consisting of simultaneous Loans of the same Type and, in the case of LIBOR Rate Loans, having the same Interest Period made by each of the Lenders pursuant to Section 2.01 .

" Business Day " means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent's Office is located and, if such day relates to any LIBOR Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

" Capital Lease Obligations " means, as to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP.

" Cash Collateralize " has the meaning specified in Section 2.03(g) .

" Cash Equivalents " means, as to any Person, (a) securities issued, or directly, unconditionally and fully guaranteed or insured, by the United States or any agency or instrumentality thereof having maturities of not more than one year from the date of acquisition by such Person; (b) time deposits, certificates of deposit and bankers' acceptances of any Lender or any commercial bank, or which is the principal banking subsidiary of a bank holding company, in each case, organized under the laws of the United States, any state thereof or the District of Columbia having, capital and surplus aggregating in excess of $500 million with maturities of not more than one year from the date of acquisition by such Person; (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with any bank meeting the qualifications specified in clause (b) above, which repurchase obligations are secured by a valid perfected security interest in the underlying securities; (d) commercial paper issued by any Person incorporated in the United States rated at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's and in each case maturing not more than one year after the date of acquisition by such Person; (e) direct obligations issued by any state of the United States or any political subdivision thereof having one of the two highest rating categories obtainable from either S&P or Moody's with maturities of not more than one year from the date of acquisition thereof; (f) demand deposit accounts maintained in the ordinary course of business; (g) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (a) through (f) above; (h) in the case of Foreign Subsidiaries, Investments made locally of a type comparable to those described in clauses (a)-(g) of this definition; and (i) Investments described in the Borrower's investment policies attached as Exhibit H .

" Change in Law " means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

" Change of Control " means an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire (such right, an " option right "), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 25% or more of the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right);

(b) during any period of 24 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors);

(c) any Person or two or more Persons acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation thereof, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Borrower, or control over the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such securities that such Person or group has the right to acquire pursuant to any option right) representing 25% or more of the combined voting power of such securities; or

(d) the "Distribution Date" shall occur under the Company's Rights Agreement, dated as of December 31, 1996, as amended, or any similar event shall occur under any successor agreement.

" Closing Date " means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 10.01 .

" Code " means the Internal Revenue Code of 1986.

" Commitment " means, as to each Lender, its obligation to (a) make Loans to the Borrower pursuant to Section 2.01 and (b) purchase participations in L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

" Compliance Certificate " means a certificate substantially in the form of Exhibit D .

" Consolidated Income Before Taxes " (or " Consolidated Loss Before Taxes ") means, for any period, the consolidated income or loss before tax of the Borrower and its Subsidiaries for such period, (a) minus , to the extent included in calculating such consolidated income or loss before tax, (i) the income or loss attributable to any Subsidiary that is not a wholly-owned Subsidiary Guarantor, and (ii) the amount of income or loss of any Subsidiary of the Borrower for any portion of such period that the Subsidiary was not a Subsidiary Guarantor, plus (b) to the extent either excluded in calculating consolidated income or loss before tax or subtracted under clause (a) above, dividends or other distributions actually paid in cash to the Borrower or any wholly-owned Subsidiary Guarantor by any Person in which any other Person (other than the Borrower or any wholly-owned Subsidiary Guarantor) has a joint interest and plus (c) to the extent deducted in calculating such consolidated income or loss before tax, Covered Litigation Losses.

" Contractual Obligation " means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

" Control " means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. " Controlling " and " Controlled " have meanings correlative thereto.

" Covered Litigation Liability " means any Litigation Liability to the extent that, within ten (10) days after the date of the related Adverse Determination the Borrower shall have either (a) paid or otherwise satisfied in full the liabilities resulting from such Adverse Determination (so long as, after giving effect to such payment or satisfaction, no Default shall have occurred and be continuing) or (b) deposited in the Reserve Account cash or Cash Equivalents in the full amount of liabilities resulting from such Adverse Determination.

" Covered Litigation Loss " means any Litigation Loss to the extent that, within ten (10) days after the date of the related Adverse Determination, the Borrower shall have either (a) paid or otherwise satisfied in full the liabilities resulting from such Adverse Determination (so long as, after giving effect to such payment or satisfaction, no Default shall have occurred and be continuing) or (b) deposited in the Reserve Account cash or Cash Equivalents in the amount of liabilities resulting from such Adverse Determination, provided that the aggregate amount of Covered Litigation Losses shall not exceed $40,000,000 over the term of this Agreement.

" Credit Extension " means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

" Debtor Relief Laws " means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

" Default " means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

" Default Rate " means (a) when used with respect to Obligations other than Letter of Credit Fees, an interest rate equal to (i) the Base Rate plus (ii) the Applicable Rate, if any, applicable to Base Rate Loans plus (iii) 2% per annum; provided , however , that with respect to a LIBOR Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, and (b) when used with respect to Letter of Credit Fees, a rate equal to the Applicable Rate plus 2% per annum.

" Defaulting Lender " means any Lender that (a) has failed to fund any portion of the Loans or participations in L/C Obligations required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

" Deferred JV Liabilities " has the meaning specified in Section 7.02 .

" Disclosed Litigation " has the meaning specified in Section 5.06 .

" Disposition " or " Dispose " means the sale, transfer, swap, exchange, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

" Disqualified Capital Stock " means any Equity Interest which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is one hundred eighty (180) days following the Maturity Date, (b) is convertible into or exchangeable (unless at the sole option of the issuer thereof) for (i) debt securities or (ii) any Equity Interests referred to in (a) above, in each case at any time on or prior to the date that is six months following the Maturity Date, or (c) contains any mandatory repurchase obligation which may come into effect prior to payment in full of all Obligations; provided that any Equity Interests that would not constitute Disqualified Capital Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such

Equity Interests is convertible, exchangeable or exercisable) the right to require the issuer thereof to redeem such Equity Interests upon the occurrence of a change in control or an asset sale occurring prior to the date that is one hundred eighty (180) days following the Maturity Date shall not constitute Disqualified Capital Stock if such Equity Interests provide that the issuer thereof will not redeem any such Equity Interests pursuant to such provisions prior to the repayment in full of the Obligations.

" Dollar " and " $ " mean lawful money of the United States.

" Eligible Assignee " means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent and the L/C Issuer, and (ii) unless an Event of Default has occurred and is continuing, the Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of the Borrower's Affiliates or Subsidiaries.

" Environmental Laws " means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

" Environmental Liability " means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

" Equity Interests " means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

" ERISA " means the Employee Retirement Income Security Act of 1974.

" ERISA Affiliate " means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

" ERISA Event " means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

" Event of Default " has the meaning specified in Section 8.01 .

" Excluded Domestic Subsidiary " means each of InterDigital Mobilcom, Inc., a New York corporation, and InterDigital Telecom, Inc., a New York corporation, provided that each such Person shall cease to be an Excluded Domestic Subsidiary (a) on June 30, 2007 or (b) such earlier date on which such Subsidiary (i) has total revenues of more than $100,000 in any twelve-month period or (ii) has total assets of $100,000 or more.

" Excluded Foreign Subsidiary " means any Foreign Subsidiary the guarantee of the Obligations by which would, in the reasonable determination of the Borrower, result in adverse tax consequences to the Borrower.

" Excluded Subsidiary " means any Excluded Domestic Subsidiary or Excluded Foreign Subsidiary.

" Excluded Taxes " means, with respect to the Administrative Agent, any Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 10.13), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office) or is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e) , except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 3.01(a) .

" Extraordinary Receipts " means any receipt by the Borrower or any of its Subsidiaries of any insurance proceeds or condemnation awards in respect of any equipment, fixed assets or real property (including any improvements thereon) to replace or repair such equipment, fixed assets or real property.

" Federal Funds Rate " means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of $^{1}/_{100}$ of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

" Fee Letter " means the letter agreement, dated as of the Closing Date, between the Borrower and the Administrative Agent.

" Foreign Lender " means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

" Foreign Subsidiary " means any Subsidiary that is organized under the laws of any jurisdiction that is not a political subdivision of the United States.

" FRB " means the Board of Governors of the Federal Reserve System of the United States.

" Fund " means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

" GAAP " means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

" Governmental Authority " means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

" Governmental Authorizations " means any permit, license, authorization, plan, directive, consent order, consent decree or other consent of or from any Governmental Authority.

" Guarantee " means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

" Hazardous Materials " means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

" Indebtedness " means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than 60 days, other than those being contested in good faith by appropriate proceedings);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) Capital Lease Obligations and Synthetic Lease Obligations of such Person;

(g) all direct and indirect obligations of such Person in respect of Disqualified Capital Stock, and all other obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends;

(h) all Off-Balance Sheet Liabilities of such Person; and

(i) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any Capital Lease Obligation or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

" Indemnified Taxes " means Taxes other than Excluded Taxes.

" Indemnitees " has the meaning specified in Section 10.04(b) .

" Information " has the meaning specified in Section 10.07 .

" Interest Payment Date " means, (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided , however , that if any Interest Period for a LIBOR Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the last Business Day of each March, June, September and December and the Maturity Date.

" Interest Period " means, as to each LIBOR Rate Loan, the period commencing on the date such LIBOR Rate Loan is disbursed or converted to or continued as a LIBOR Rate Loan

and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Loan Notice; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period shall extend beyond the Maturity Date.

" Internal Control Event " means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Borrower's internal controls over financial reporting, in each case as described in the Securities Laws.

" Investment " means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

" IP Rights " has the meaning specified in Section 5.17 .

" IRS " means the United States Internal Revenue Service.

" ISP " means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

" Issuer Documents " means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the L/C Issuer and the Borrower (or any Subsidiary) or in favor the L/C Issuer and relating to any such Letter of Credit.

" Laws " means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

" L/C Advance " means, with respect to each Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Applicable Percentage.

" L/C Borrowing " means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Borrowing.

" L/C Credit Extension " means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

" L/C Issuer " means Bank of America in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder.

" L/C Obligations " means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06 . For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

" Lender " has the meaning specified in the introductory paragraph hereto.

" Lending Office " means, as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

" Letter of Credit " means any standby letter of credit issued hereunder.

" Letter of Credit Application " means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

" Letter of Credit Expiration Date " means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

" Letter of Credit Fee " has the meaning specified in Section 2.03(i) .

" Letter of Credit Sublimit " means an amount equal to $10,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

" LIBOR Base Rate " means, for such Interest Period, the rate per annum equal to the British Bankers Association LIBOR Rate (" BBA LIBOR "), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for

delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "LIBOR Base Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the LIBOR Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

" LIBOR Rate " means for any Interest Period with respect to a LIBOR Rate Loan, a rate per annum determined by the Administrative Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR Base Rate}}{1.00 - \text{LIBOR Reserve Percentage}}$$

" LIBOR Rate Loan " means a Loan that bears interest at a rate based on the LIBOR Rate.

" LIBOR Reserve Percentage " means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, carried out to five decimal places) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to LIBOR funding (currently referred to as "Eurocurrency liabilities"). The LIBOR Rate for each outstanding LIBOR Rate Loan shall be adjusted automatically as of the effective date of any change in the LIBOR Reserve Percentage.

" Lien " means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

" Litigation Liability " means the amount of any liability of the Borrower or any Subsidiary arising out of (and equal to the amount of) any Adverse Determination.

" Litigation Loss " means any loss of the Borrower or any Subsidiary attributable to any Adverse Determination.

" Loan " has the meaning specified in Section 2.01 .

" Loan Documents " means this Agreement, each Note, each Issuer Document, the Fee Letter and the Subsidiary Guarantee.

" Loan Notice " means a notice of (a) a Borrowing, (b) a conversion of Loans from one Type to the other, or (c) a continuation of LIBOR Rate Loans, pursuant to Section 2.02(a) , which, if in writing, shall be substantially in the form of Exhibit A .

" Loan Parties " means, collectively, the Borrower and each Subsidiary Guarantor.

" Material Adverse Effect " means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent) or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party. Any change in the price or trading volume of the capital stock of the Borrower shall not, in and of itself, constitute a Material Adverse Effect.

" Maturity Date " means December 28, 2007.

" Moody's " means Moody's Investors Service, Inc. and any successor thereto.

" Multiemployer Plan " means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

" Net Cash Proceeds " means:

(a) with respect to any Asset Sale (other than any issuance or sale of Equity Interests), the cash proceeds received by the Borrower or any of its Subsidiaries (including cash proceeds subsequently received (as and when received by the Borrower or any of its Subsidiaries) in respect of non-cash consideration initially received) net of (i) bona fide direct costs incurred in connection with such Asset Sale; (ii) amounts provided as a reserve, in accordance with GAAP, against any liabilities under any indemnification obligations associated with such Asset Sale (provided that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds) and (iii) the principal amount, premium or penalty, if any, interest and other amounts on any Indebtedness for borrowed money (other than the Loans) which is secured by a Lien on the properties sold in such Asset Sale (so long as such Lien was permitted to encumber such properties under the Loan Documents at the time of such sale) and which is repaid with such proceeds (other than any such Indebtedness assumed by the purchaser of such properties); and

(b) with respect to any Extraordinary Receipts, the cash insurance proceeds, condemnation awards and other compensation received in respect thereof, net of (i) all reasonable costs and expenses incurred in connection with the collection of such proceeds, awards or other compensation in respect of such Extraordinary Receipts, (ii) any portion of such proceeds, awards or compensation constituting reimbursement or compensation for amounts previously paid by the Borrower or its Subsidiaries in respect of the theft, loss, destruction, damage or other similar event relating to such Extraordinary Receipts and (iii) the principal amount, premium or penalty, if any, interest and other amounts on any Indebtedness for borrowed money (other than the Loans) which is secured by a Lien on the properties in respect of which such Extraordinary

Receipts are received (so long as such lien was permitted to encumber such properties under the Loan Documents at the time of such sale) and which is repaid with such proceeds;

provided that no net cash proceeds calculated in accordance with the foregoing realized in a single transaction or series of related transactions shall constitute Net Cash Proceeds unless and until the aggregate amount of all such net cash proceeds in such fiscal year shall exceed $1,000,000.

" Note " means a promissory note made by the Borrower in favor of a Lender evidencing Loans made by such Lender, substantially in the form of Exhibit C .

" Obligations " means (a) all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding and (b) all obligations with respect to Swap Contracts and Treasury Management Agreements of the Borrower or any Subsidiary to which a Lender or Affiliate of any Lender is a party.

" Off-Balance Sheet Liabilities " means, with respect to any Person as of any date of determination thereof, without duplication and to the extent not included as a liability on the consolidated balance sheet of such Person and its Subsidiaries in accordance with GAAP: (a) with respect to any asset securitization transaction (including any accounts receivable purchase facility) (i) the unrecovered investment of purchasers or transferees of assets so transferred and (ii) any other payment, recourse, repurchase, hold harmless, indemnity or similar obligation of such Person or any of its Subsidiaries in respect of assets transferred or payments made in respect thereof, other than limited recourse provisions that are customary for transactions of such type and that neither (x) have the effect of limiting the loss or credit risk of such purchasers or transferees with respect to payment or performance by the obligors of the assets so transferred nor (y) impair the characterization of the transaction as a true sale under applicable Laws (including Debtor Relief Laws); (b) the monetary obligations under any financing lease or so-called "synthetic," tax retention or off-balance sheet lease transaction which, upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness; or (c) any other monetary obligation arising with respect to any other transaction which (i) is characterized as indebtedness for tax purposes but not for accounting purposes in accordance with GAAP or (ii) is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person and its Subsidiaries (for purposes of this clause (d), any transaction structured to provide tax deductibility as interest expense of any dividend, coupon or other periodic payment will be deemed to be the functional equivalent of a borrowing).

" Organization Documents " means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents

with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

" Other Taxes " means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

" Outstanding Amount " means (i) with respect to Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.

" Participant " has the meaning specified in Section 10.06(d) .

" PBGC " means the Pension Benefit Guaranty Corporation.

" Pension Plan " means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

" Permitted Acquisition " means any acquisition by the Borrower or any of its wholly-owned Subsidiaries, whether by purchase, merger or otherwise, of all or substantially all of the assets of, all of the Equity Interests of, or a business line or unit or a division of, any Person; provided ,

(i) immediately prior to, and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing or would result therefrom;

(ii) all transactions in connection therewith shall be consummated, in all material respects, in accordance with all applicable laws and in conformity with all applicable Governmental Authorizations;

(iii) in the case of the acquisition of Equity Interests, all of the Equity Interests (except for any such securities in the nature of directors' qualifying shares required pursuant to applicable law) acquired or otherwise issued by such Person or any newly

formed Subsidiary of the Borrower in connection with such acquisition shall be owned 100% by the Borrower or a Subsidiary thereof, and the Borrower shall have taken, or caused to be taken, as of the date such Person becomes a Subsidiary of the Borrower, all required action under Section 6.12 ;

(iv) the Borrower and its Subsidiaries shall be in compliance with the financial covenants set forth in Section 7.11 on a Pro forma Basis after giving effect to such acquisition as of the last day of the fiscal quarter most recently ended;

(v) the Borrower shall have delivered to the Lenders at least ten (10) Business Days prior to such proposed acquisition (and the Administrative Agent shall deliver to the Lenders upon their request), (A) a Compliance Certificate evidencing compliance with Section 7.11 as required under clause (iv) above, (B) if the aggregate Acquisition Consideration for such proposed acquisition (or any series of related acquisitions) exceeds $12,000,000, projections and calculations (including a statement as to sources and uses of funds), each in form and substance reasonably satisfactory to the Required Lenders, demonstrating that the financial covenants set forth in Section 7.11 will continue to be met for the first four full fiscal quarters following the date of such acquisition, and (C) all relevant financial information with respect to such acquired assets or Equity Interests (and any issuer thereof), including, without limitation, the aggregate consideration for such acquisition and any other information required to demonstrate compliance with Section 7.11 ;

(vi) any Person or assets or division as acquired in accordance herewith shall be in same business or lines of business in which the Borrower and/or its Subsidiaries are engaged as of the Closing Date or a similar or related business or line of business or such other lines of businesses as may be consented to by Required Lenders; and

(vii) after giving effect to such acquisition or other transaction, neither the Borrower nor any Subsidiary shall have any interest in any Joint Venture that would not be permitted hereunder.

" Person " means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

" Plan " means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

" Platform " has the meaning specified in Section 6.02 .

" Pro forma Basis " means, for purposes of calculating compliance with any test or financial covenant under this Agreement for any period in connection with a Permitted Acquisition, that such Permitted Acquisition (and all other Permitted that have been consummated during the applicable period) and the following transactions in connection therewith shall be deemed to have occurred as of the first day of the applicable period of measurement in such test or covenant: (a) income statement items (whether positive or negative) attributable to the property or Person subject to such Permitted Acquisitions shall be included,

(b) any retirement of Indebtedness, and (c) any Indebtedness incurred or assumed by the Borrower or any of its Subsidiaries in connection therewith and if such Indebtedness has a floating or formula rate, shall have an implied rate of interest for the applicable period for purposes of this definition determined by utilizing the rate which is or would be in effect with respect to such Indebtedness as at the relevant date of determination; provided that the foregoing pro forma adjustments may be applied to any such test or financial covenant solely to the extent that such adjustments are consistent with GAAP and give effect to events (including operating expense reductions) that are (x) attributable to such transaction, (y) expected to have a continuing impact on the Borrower and its Subsidiaries and (z) factually supportable (provided that pro forma effect shall only be given to operating expense reductions or similar anticipated benefits from any Permitted Acquisition to the extent that such adjustments and the bases therefor are set forth in reasonable detail in a certificate of the chief financial officer of the Borrower delivered to the Administrative Agent and dated the relevant date of determination and which certifies that all necessary steps for the realization thereof have been taken or the Borrower reasonably anticipates that all necessary steps for the realization thereof will be taken within six months following such date of determination).

" Register " has the meaning specified in Section 10.06(c) .

" Registered Public Accounting Firm " has the meaning specified in the Securities Laws and shall be independent of the Borrower as prescribed by the Securities Laws.

" Related Parties " means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

" Reportable Event " means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

" Request for Credit Extension " means (a) with respect to a Borrowing, conversion or continuation of Loans, a Loan Notice and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

" Required Lenders " means, as of any date of determination, Lenders having more than 50% (or, if there are fewer than four Lenders, 66 $^{2}/_{3}$%) of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02 , Lenders holding in the aggregate more than 50% (or, if there are fewer than four Lenders, 66 $^{2}/_{3}$%) of the Total Outstandings (with the aggregate amount of each Lender's risk participation and funded participation in L/C Obligations being deemed "held" by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

" Reserve Account " means an account established with Bank of America on terms (including terms permitting the amounts on deposit in such account to be applied to the related Covered Litigation Liability or to be released upon the payment or other satisfaction in full of

such related Covered Litigation Liability subject, in each case, to conditions (including as to the absence of Defaults before and after giving effect to such application or release) reasonably acceptable to the Administrative Agent) satisfactory to the Administrative Agent.

" Responsible Officer " means the chief executive officer, president, chief financial officer or controller of a Loan Party. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

" Restricted Payment " means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to the Borrower's stockholders, partners or members (or the equivalent Person thereof).

" S&P " means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

" Sarbanes-Oxley " means the Sarbanes-Oxley Act of 2002.

" SEC " means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

" Securities Laws " means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

" Solvency Certificate " means a certificate signed by a Responsible Officer of the Borrower, substantially in the form of Exhibit B .

" Subsidiary " of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of the Borrower.

" Subsidiary Guarantee " means the Subsidiary Guarantee made by the Borrower and the Subsidiary Guarantors in favor of the Administrative Agent and the Lenders, substantially in the form of Exhibit F .

" Subsidiary Guarantors " means, collectively, all Subsidiaries of the Borrower other than Excluded Subsidiaries.

" Swap Contract " means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a " Master Agreement "), including any such obligations or liabilities under any Master Agreement.

" Swap Termination Value " means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

" Synthetic Lease Obligation " means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

" Taxes " means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

" Threshold Amount " means $2,500,000.

" Total Outstandings " means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

" Treasury Management Agreement " means any agreement governing the provision of treasury or cash management services, including netting services, deposit accounts, funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services.

" Type " means, with respect to a Loan, its character as a Base Rate Loan or a LIBOR Rate Loan.

" Unfunded Pension Liability " means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

" United States " and " U.S. " mean the United States of America.

" Unreimbursed Amount " has the meaning specified in Section 2.03(c)(i) .

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words " include ," " includes " and " including " shall be deemed to be followed by the phrase "without limitation." The word " will " shall be construed to have the same meaning and effect as the word " shall ." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words " herein ," " hereof " and " hereunder ," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words " asset " and " property " shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word " from " means " from and including ;" the words " to " and " until " each mean " to but excluding ;" and the word " through " means " to and including ."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms. (a) Generally . All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP . If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that , until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

1.06 Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided , however , that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

ARTICLE II.
THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 Loans. Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a " Loan ") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Commitment; provided , however , that after giving

effect to any Borrowing, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations shall not exceed such Lender's Commitment. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01 , prepay under Section 2.05 , and reborrow under this Section 2.01 . Loans may be Base Rate Loans or LIBOR Rate Loans, as further provided herein.

2.02 Borrowings, Conversions and Continuations of Loans.

(a) Each Borrowing, each conversion of Loans from one Type to the other, and each continuation of LIBOR Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of LIBOR Rate Loans or of any conversion of LIBOR Rate Loans to Base Rate Loans, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of LIBOR Rate Loans shall be in a principal amount of $1,000,000 or a whole multiple of $500,000 in excess thereof. Except as provided in Sections 2.03(c) and 2.04(c) , each Borrowing of or conversion to Base Rate Loans shall be in a principal amount of $500,000 or a whole multiple of $100,000 in excess thereof. Each Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Borrowing, a conversion of Loans from one Type to the other, or a continuation of LIBOR Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Loan in a Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable LIBOR Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of LIBOR Rate Loans in any such Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage of the applicable Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding subsection. In the case of a Borrowing, each Lender shall make the amount of its Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the

Administrative Agent either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower; provided , however , that if, on the date the Loan Notice with respect to such Borrowing is given by the Borrower, there are L/C Borrowings outstanding, then the proceeds of such Borrowing, first , shall be applied to the payment in full of any such L/C Borrowings, and second , shall be made available to the Borrower as provided above.

(c) Except as otherwise provided herein, a LIBOR Rate Loan may be continued or converted only on the last day of an Interest Period for such LIBOR Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as LIBOR Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for LIBOR Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Borrowings, all conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than six Interest Periods in effect with respect to Loans.

2.03 Letters of Credit.

(a) The Letter of Credit Commitment .

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the Lenders set forth in this Section 2.03 , (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrower or its Subsidiaries, and to amend or extend Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drawings under the Letters of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower or its Subsidiaries and any drawings thereunder; provided that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (x) the Total Outstandings shall not exceed the Aggregate Commitments, (y) the aggregate Outstanding Amount of the Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations shall not exceed such Lender's Commitment, and (z) the Outstanding Amount of the L/C Obligations shall not exceed the Letter of Credit Sublimit. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) The L/C Issuer shall not issue any Letter of Credit, if:

(A) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(B) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(iii) The L/C Issuer shall not be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer;

(C) except as otherwise agreed by the Administrative Agent and the L/C Issuer, such Letter of Credit is in an initial stated amount less than $25,000;

(D) such Letter of Credit is to be denominated in a currency other than Dollars;

(E) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder; or

(F) a default of any Lender's obligations to fund under Section 2.03(c) exists or any Lender is at such time a Defaulting Lender hereunder, unless the L/C Issuer has entered into satisfactory arrangements with the Borrower or such Lender to eliminate the L/C Issuer's risk with respect to such Lender.

(iv) The L/C Issuer shall not amend any Letter of Credit if the L/C Issuer would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(v) The L/C Issuer shall be under no obligation to amend any Letter of Credit if (A) the L/C Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(vi) The L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the L/C Issuer shall have all of the benefits and immunities (A) provided to the Administrative Agent in Article IX with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in Article IX included the L/C Issuer with respect to such acts or omissions, and (B) as additionally provided herein with respect to the L/C Issuer.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit .

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the L/C Issuer (with a copy to the Administrative Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Application must be received by the L/C Issuer and the Administrative Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Administrative Agent and the L/C Issuer may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require. Additionally, the Borrower shall furnish to the L/C Issuer and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the L/C Issuer or the Administrative Agent may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Administrative Agent (by telephone or in writing) that the

Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the L/C Issuer will provide the Administrative Agent with a copy thereof. Unless the L/C Issuer has received written notice from any Lender, the Administrative Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article IV shall not then be satisfied, then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the Borrower (or the applicable Subsidiary) or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an " Auto-Extension Letter of Credit "); provided that any such Auto-Extension Letter of Credit must permit the L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the " Non-Extension Notice Date ") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Borrower shall not be required to make a specific request to the L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the L/C Issuer to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided , however , that the L/C Issuer shall not permit any such extension if (A) the L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is five Business Days before the Non-Extension Notice Date (1) from the Administrative Agent that the Required Lenders have elected not to permit such extension or (2) from the Administrative Agent, any Lender or the Borrower that one or more of the applicable conditions specified in Section 4.02 is not then satisfied, and in each such case directing the L/C Issuer not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations .

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Borrower and the Administrative Agent thereof. Not later than 11:00 a.m. on the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an " Honor Date "), the Borrower shall reimburse the L/C Issuer through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the L/C Issuer by such time, the Administrative Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the " Unreimbursed Amount "), and the amount of such Lender's Applicable Percentage thereof. In such event, the Borrower shall be deemed to have requested a Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth in Section 4.02 (other than the delivery of a Loan Notice). Any notice given by the L/C Issuer or the Administrative Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Administrative Agent for the account of the L/C Issuer at the Administrative Agent's Office in an amount equal to its Applicable Percentage of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 2.03(c)(iii) , each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the L/C Issuer.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to the Administrative Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03 .

(iv) Until each Lender funds its Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Applicable Percentage of such amount shall be solely for the account of the L/C Issuer.

(v) Each Lender's obligation to make Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c) , shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the L/C Issuer, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided , however , that each Lender's obligation to make Loans pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 4.02 (other than delivery by the Borrower of a Loan Notice). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Administrative Agent for the account of the L/C Issuer any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii) , the L/C Issuer shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the L/C Issuer in accordance with banking industry rules on interbank compensation. A certificate of the L/C Issuer submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations .

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c) , if the Administrative Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Applicable Percentage thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each Lender shall pay to the Administrative Agent for the account of the L/C Issuer its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute . The obligation of the Borrower to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or any Subsidiary.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the L/C Issuer. The Borrower shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) Role of L/C Issuer . Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant

or assignee of the L/C Issuer shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided , however , that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the L/C Issuer, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(e) ; provided , however , that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or gross negligence or the L/C Issuer's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Cash Collateral . Upon the request of the Administrative Agent, (i) if the L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. Sections 2.05 and 8.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03 , Section 2.05 and Section 8.02(c) , " Cash Collateralize " means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the L/C Issuer (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America.

(h) Applicability of ISP . Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is issued the rules of the ISP shall apply to each standby Letter of Credit.

(i) Letter of Credit Fees . The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage a Letter of Credit fee (the

" Letter of Credit Fee ") for each Letter of Credit equal to the Applicable Rate times the daily amount available to be drawn under such Letter of Credit. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06 . Letter of Credit Fees shall be (i) computed on a quarterly basis in arrears and (ii) due and payable on the first Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect. Notwithstanding anything to the contrary contained herein, upon the request of the Required Lenders, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate.

(j) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer . The Borrower shall pay directly to the L/C Issuer for its own account a fronting fee with respect to each Letter of Credit, at the rate per annum specified in the Fee Letter, computed on the daily amount available to be drawn under such Letter of Credit on a quarterly basis in arrears. Such fronting fee shall be due and payable on the tenth Business Day after the end of each March, June, September and December in respect of the most recently-ended quarterly period (or portion thereof, in the case of the first payment), commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06 . In addition, the Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Issuer Documents . In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

(l) Letters of Credit Issued for Subsidiaries . Notwithstanding that a Letter of Credit issued or outstanding hereunder is in support of any obligations of, or is for the account of, a Subsidiary, the Borrower shall be obligated to reimburse the L/C Issuer hereunder for any and all drawings under such Letter of Credit. The Borrower hereby acknowledges that the issuance of Letters of Credit for the account of Subsidiaries inures to the benefit of the Borrower, and that the Borrower's business derives substantial benefits from the businesses of such Subsidiaries.

2.04 [Omitted].

2.05 Prepayments.

(a) Voluntary Prepayments . The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Administrative Agent

not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of LIBOR Rate Loans and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of LIBOR Rate Loans shall be in a principal amount of $1,000,000 or a whole multiple of $500,000 in excess thereof; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of $100,000 or a whole multiple of $100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a LIBOR Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05 . Each such prepayment shall be applied to the Loans of the Lenders in accordance with their respective Applicable Percentages.

(b) If for any reason the Total Outstandings at any time exceed the Aggregate Commitments then in effect (including as a result of a voluntary or involuntary reduction of the Aggregate Commitments pursuant to Section 2.06), the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided , however , that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(b) unless after the prepayment in full of the Loans the Total Outstandings exceed the Aggregate Commitments then in effect.

(c) Notice of Mandatory Prepayment . The Borrower shall notify the Administrative Agent by written notice of any mandatory prepayment required by reason of a reduction in the Aggregate Commitments pursuant to Section 2.06(b) or (c) (i) in the case of prepayment of a LIBOR Rate Loan, not later than 11:00 a.m., three Business Days before the date of prepayment, and (ii) in the case of prepayment of a Base Rate Loan, not later than 11:00 a.m., one Business Day before the date of prepayment. Each such notice shall be irrevocable. Each such notice shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and shall include a reasonably detailed calculation of the amount of such prepayment. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing and otherwise in accordance with this Section 2.05 . Prepayments shall be accompanied by accrued interest on the amount prepaid and any amounts payable in connection therewith under Section 3.05 .

2.06 Termination or Reduction of Commitments. (a) Voluntary Terminations or Reductions . The Borrower may, upon notice to the Administrative Agent, terminate the Aggregate Commitments, or from time to time permanently reduce the Aggregate Commitments; provided that (i) any such notice shall be received by the Administrative Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of $2,500,000 or any whole multiple of $500,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Aggregate Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Aggregate Commitments. The Administrative Agent will promptly notify the Lenders of any such notice of termination or reduction of the Aggregate Commitments.

(b) Asset Sales . Subject to Section 2.06(d) , on the date of receipt by the Borrower or any Subsidiary of any Net Cash Proceeds of any Asset Sale, the Aggregate Commitments shall be reduced in an amount equal to 100% of such Net Cash Proceeds; provided that, so long as no Default or Event of Default shall then exist or would arise therefrom, such proceeds shall not be required to be so applied on such date to the extent that, on or before the date of the relevant Asset Sale, the Borrower shall have delivered a certificate to the Administrative Agent stating that an amount equal to such Net Cash Proceeds are expected to be reinvested in replacement assets of the Borrower and its Subsidiaries within one hundred eighty (180) days of the receipt of such Net Cash Proceeds, which certificate shall set forth the estimates of the proceeds to be so expended; provided that if all or any portion of such Net Cash Proceeds is not so reinvested within such period, an amount equal to such unreinvested portion shall be applied on the last day of such period as a mandatory reduction of the Aggregate Commitments as provided in this Section 2.06(b) ; provided , further , that pending any such reinvestment, all such Net Cash Proceeds shall be applied to prepay Loans to the extent outstanding (without a reduction in the Aggregate Commitments).

(c) Extraordinary Receipts . Subject to Section 2.06(d) , on the date of receipt by any Loan Party of any Net Cash Proceeds from any Extraordinary Receipts, the Aggregate Commitments shall be reduced in an aggregate amount equal to 100% of such Net Cash Proceeds; provided that so long as no Default or Event of Default shall then exist or arise therefrom, such proceeds shall not be required to be so applied on such date to the extent that, on or prior to such date, the Borrower shall have delivered a certificate to the Administrative Agent stating that an amount equal to such Net Cash Proceeds are expected to be invested in assets in the repair, replacement or restoration of such property in respect of which such Net Cash Proceeds were paid within one hundred eighty (180) days of the receipt of such Net Cash Proceeds, which certificate shall set forth the estimates of the proceeds to be so expended; provided that if all or any portion of such Net Cash Proceeds is not so reinvested within such period, an amount equal to such unreinvested portion shall be applied on the last day of such period as a mandatory reduction of the Aggregate Commitments as provided in this Section 2.06(d) ; provided , further , that pending any such reinvestment, all such Net Cash Proceeds shall be applied to prepay Loans to the extent outstanding (without a reduction in Aggregate Commitments).

(d) Annual Threshold for Reduction for Commitments . There shall be no reduction in the Aggregate Commitments pursuant to Section 2.06(b) or Section 2.06(c) unless, and then only to the extent that, the aggregate amount of all Net Cash Proceeds from all Asset Sales and all Extraordinary Receipts in any calendar year exceeds $10,000,000.

(e) Application of Reductions of Commitments . Any reduction of the Aggregate Commitments shall be applied to the Commitment of each Lender according to its Applicable Percentage. If, after giving effect to any reduction of the Aggregate Commitments, the Letter of Credit Sublimit exceeds the amount of the Aggregate Commitment, the Letter of Credit Sublimit shall be reduced by the amount of such excess. All fees accrued until the effective date of any termination of the Aggregate Commitments shall be paid on the effective date of such termination.

2.07 Repayment of Loans. The Borrower shall repay to the Lenders on the Maturity Date the aggregate principal amount of Loans outstanding on such date.

2.08 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each LIBOR Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) Upon the occurrence and during the continuance of any Event of Default, the Borrower shall pay interest on all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 Fees . In addition to certain fees described in subsections (i) and (j) of Section 2.03 :

(a) Commitment Fee . The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage, a commitment fee equal to two-tenths of one percent (0.20%) times the actual daily amount by which the Aggregate Commitments exceed the sum of (i) the Outstanding Amount of Loans and (ii) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) Closing Fee . On the date hereof, the Borrower shall pay to each Lender a closing fee equal to 0.20% of its Commitment. Such fee shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(c) Other Fees . (i) The Borrower shall pay to the Administrative Agent for its own account fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(ii) The Borrower shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 Computation of Interest and Fees. All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a) , bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent demonstrated error.

2.11 Evidence of Debt.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent demonstrated error of the amount of the Credit Extensions made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of demonstrated error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of demonstrated error.

2.12 Payments Generally; Administrative Agent's Clawback.

(a) General . All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed,

at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent . Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of LIBOR Rate Loans (or, in the case of any Borrowing of Base Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of a Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by the Borrower, the interest rate applicable to Base Rate Loans. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Borrower; Presumptions by Administrative Agent . Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the L/C Issuer hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the L/C Issuer, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the L/C Issuer, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent demonstrated error.

(c) Failure to Satisfy Conditions Precedent . If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II , and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several . The obligations of the Lenders hereunder to make Loans, to fund participations in Letters of Credit and to make payments pursuant to Section 10.04(c) are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Section 10.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment under Section 10.04(c) .

(e) Funding Source . Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Loans made by it, or the participations in L/C Obligations held by it resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and subparticipations in L/C Obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the

assignment of or sale of a participation in any of its Loans or subparticipations in L/C Obligations to any assignee or participant, other than to the Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

ARTICLE III.
TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Payments Free of Taxes . Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or L/C Issuer, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower . Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower . The Borrower shall indemnify the Administrative Agent, each Lender and the L/C Issuer, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, such Lender or the L/C Issuer, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the L/C Issuer (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or the L/C Issuer, shall be conclusive absent demonstrated error.

(d) Evidence of Payments . As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent

(e) Status of Lenders . Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, in the event that the Borrower is resident for tax purposes in the United States, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (B) a “10 percent shareholder” of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

(f) Treatment of Certain Refunds . If the Administrative Agent, any Lender or the L/C Issuer determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional

amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent, such Lender or the L/C Issuer, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, such Lender or the L/C Issuer, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, such Lender or the L/C Issuer in the event the Administrative Agent, such Lender or the L/C Issuer is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent, any Lender or the L/C Issuer to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

3.02 Illegality. If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund LIBOR Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue LIBOR Rate Loans or to convert Base Rate Loans to LIBOR Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all LIBOR Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such LIBOR Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such LIBOR Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

3.03 Inability to Determine Rates. If the Required Lenders determine that for any reason in connection with any request for a LIBOR Rate Loan or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such LIBOR Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Base Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan, or (c) the Eurodollar Base Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain LIBOR Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of LIBOR Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

3.04 Increased Costs.

(a) Increased Costs Generally . If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Eurodollar Rate) or the L/C Issuer;

(ii) subject any Lender or the L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any LIBOR Rate Loan made by it, or change the basis of taxation of payments to such Lender or the L/C Issuer in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or the L/C Issuer); or

(iii) impose on any Lender or the L/C Issuer or the London interbank market any other condition, cost or expense affecting this Agreement or LIBOR Rate Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any LIBOR Rate Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the L/C Issuer, the Borrower will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements . If any Lender or the L/C Issuer determines that any Change in Law affecting such Lender or the L/C Issuer or any Lending Office of such Lender or such Lender's or the L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the L/C Issuer's capital or on the capital of such Lender's or the L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the L/C Issuer, to a level below that which such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the L/C Issuer's policies and the policies of such Lender's or the L/C Issuer's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement . A certificate of a Lender or the L/C Issuer setting forth the amount or amounts necessary to compensate such Lender or the L/C Issuer or its

holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower, together with a reasonably detailed calculation of such amount or amounts, shall be conclusive absent demonstrated error. The Borrower shall pay such Lender or the L/C Issuer, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests . Failure or delay on the part of any Lender or the L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or the L/C Issuer's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the L/C Issuer pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender or the L/C Issuer, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the L/C Issuer's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

3.05 Compensation for Losses. Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a LIBOR Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 10.13 ;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.05 , each Lender shall be deemed to have funded each LIBOR Rate Loan made by it at the Eurodollar Base Rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such LIBOR Rate Loan was in fact so funded.

3.06 Mitigation Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office . If any Lender requests compensation under Section 3.04 , or the Borrower is required to pay any additional amount to any Lender or

any Governmental Authority for the account of any Lender pursuant to Section 3.01 , or if any Lender gives a notice pursuant to Section 3.02 , then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04 , as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02 , as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders . If any Lender requests compensation under Section 3.04 , or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01 , the Borrower may replace such Lender in accordance with Section 10.13 .

3.07 Survival. All of the Borrower's obligations under this Article III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV.
CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 Conditions of Initial Credit Extension. The obligation of the L/C Issuer and each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent on the date hereof:

(a) Loan Documents and Related Documents . The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and each of the Lenders:

(i) executed counterparts of this Agreement and the Subsidiary Guarantee, sufficient in number for distribution to the Administrative Agent, each Lender and the Borrower;

(ii) a Note executed by the Borrower in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of Dilworth Paxson LLP, counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, as to the matters set forth in Exhibit G and such other matters concerning the Loan Parties and the Loan Documents as the Required Lenders may reasonably request, together with such favorable opinions of such special and local counsel as the Administrative Agent may reasonably require;

(vi) a certificate signed by a Responsible Officer of the Borrower certifying (A) that the conditions specified in this Section 4.01 and Sections 4.02(a) and (b) have been satisfied and (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or would be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect;

(vii) a duly completed Compliance Certificate as of the last day of the fiscal quarter of the Borrower ended on September 30, 2005, signed by a Responsible Officer of the Borrower;

(viii) a certificate in form and substance satisfactory to the Lenders, signed by a Responsible Officer of the Borrower and describing any Disclosed Litigation;

(ix) evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect;

(x) a Solvency Certificate executed by the chief financial officer of the Borrower as to the solvency of each of the Borrower and the other Loan Parties in each case before and after giving effect to the Transactions and the use of proceeds therefrom;

(xi) a Loan Notice or Letter of Credit Application, as applicable, relating to the initial Credit Extensions; and

(xii) such other assurances, certificates, documents, consents or opinions as the Administrative Agent, the L/C Issuer or the Required Lenders reasonably may require.

(b) Financial Statements . The Lenders shall have received (i) the Audited Financial Statements and (ii) quarterly consolidated financial statements for the Borrower and its Subsidiaries for each of the three fiscal quarters ending on or prior to September 30, 2005, as filed by the Borrower with the SEC on Form 10-Q for each such quarter.

(c) Fees . Any fees required to be paid on or before the Closing Date shall have been paid.

(d) Indebtedness . The Lenders shall be reasonably satisfied with the amount, terms (including terms of subordination), conditions and holders of all Indebtedness for borrowed money owing to third parties to be outstanding on and after the Closing Date.

(e) Consents . All governmental, shareholder and other consents and approvals necessary in connection with the Transactions shall have been received and shall be in full force and effect.

(f) Litigation . The absence of any action, suit, investigation or proceeding pending or, to the knowledge of the Loan Parties, threatened or contemplated, in any court or before any arbitrator or governmental authority (other than the Disclosed Litigation) that would reasonably be expected to have a Material Adverse Effect.

Without limiting the generality of the provisions of Section 9.04 , for purposes of determining compliance with the conditions specified in this Section 4.01 , each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

4.02 Conditions to all Credit Extensions. The obligation of each Lender to honor any Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type, or a continuation of LIBOR Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02 , the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 .

(b) No Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Administrative Agent and, if applicable, the L/C Issuer shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type or a continuation of LIBOR Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE V.
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

5.01 Existence, Qualification and Power; Compliance with Laws. Each Loan Party and each Subsidiary thereof (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (a) (with respect to Excluded Subsidiaries only), (b)(i), (c) or (d), to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect.

5.02 Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any material Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. Each Loan Party and each Subsidiary thereof is in compliance with all Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect.

5.03 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document.

5.04 Binding Effect. This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws affecting the rights and remedies of creditors generally, as well as limitations imposed by general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

5.05 Financial Statements; No Material Adverse Effect; No Internal Control Event.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other material liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including liabilities for material taxes, material commitments and Indebtedness, in each case, insofar as such liabilities and Indebtedness are required by GAAP to be reflected on such Audited Financial Statements.

(b) The unaudited consolidated balance sheets of the Borrower and its Subsidiaries dated March 31, 2005, June 30, 2005 and September 30, 2005; and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or would reasonably be expected to have a Material Adverse Effect.

(d) Since the date of the Audited Financial Statements, no Internal Control Event has occurred (i) involving (A) fraud by management or other employees who have significant roles in the Borrower's internal controls over financial reporting or (B) a weakness in the internal controls over financial reporting which has or would reasonably be expected to have (individually or in the aggregate) a material and negative impact on the consolidated financial statements of the Borrower and its Subsidiaries.

5.06 Litigation. There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or, (b) except as separately disclosed in writing to the Lenders on the date hereof (the " Disclosed Litigation "), either individually or in the aggregate, if determined adversely, would reasonably be expected to have a Material Adverse Effect, and there has been no material adverse change (including by reason of the assertion of new material claims) (any such adverse change, an " Adverse Litigation Change ") in the potential effect on the condition (financial or otherwise) of any Loan Party or Subsidiary thereof of the matters disclosed as Disclosed Litigation, except as disclosed in the Borrower's disclosure of Disclosed Litigation on the Closing Date.

5.07 No Default. Except as disclosed in the Borrower's disclosure of Disclosed Litigation on the Closing Date, neither the Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation that would, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Ownership of Property; Liens. Each of the Borrower and each Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all real and personal property necessary or used in the operation of its business as presently conducted, except for such defects in title that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of the Borrower and its Subsidiaries is subject to no Liens, other than Liens permitted by Section 7.01 .

5.09 Environmental Compliance. The Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrower has reasonably concluded that such Environmental Laws and claims would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.10 Insurance. The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts (after giving effect to any self-insurance compatible with the following standards), with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or the applicable Subsidiary operates.

5.11 Taxes. The Borrower and its Subsidiaries have filed all Federal, state and other material tax returns and reports required to be filed (subject to permitted extensions), and have paid all Federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Borrower or any Subsidiary that would, if made, have a Material Adverse Effect. Neither any Loan Party nor any Subsidiary thereof is party to any tax sharing agreement, except for tax sharing agreements among Loan Parties.

5.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that would reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or would reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably likely to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 Subsidiaries; Equity Interests. As of the Closing Date, the Borrower has no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13 , and all of the outstanding Equity Interests in such Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by a Loan Party in the amounts specified on Part (a) of Schedule 5.13 free and clear of all Liens. As of the Closing Date, the Borrower has no equity investments in any other corporation or entity other than those specifically disclosed in Part(b) of Schedule 5.13 . All of the outstanding Equity Interests in the Borrower have been validly issued and are fully paid and nonassessable.

5.14 Margin Regulations; Investment Company Act; Public Utility Holding Company Act.

(a) The Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) None of the Borrower, any Person Controlling the Borrower, or any Subsidiary (i) is a “holding company,” or a “subsidiary company” of a “holding company,” or an “affiliate” of a “holding company” or of a “subsidiary company” of a “holding company,” within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

5.15 Disclosure. The Borrower has disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on

behalf of any Loan Party to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws. Each of the Borrower and each Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property Rights. Except for instances that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, the Borrower and its Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, " IP Rights ") that are reasonably necessary for the operation of their respective businesses as presently conducted, without conflict with the rights of any other Person. Except for the Disclosed Litigation, no claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, which, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect, and there has been no Adverse Litigation Change with respect to any Disclosed Litigation regarding any of the foregoing.

5.18 Excluded Domestic Subsidiaries. Each Person named in the definition of "Excluded Domestic Subsidiary" either (a) had total revenues of $100,000 or less in the twelve-month period most recently ended and has total assets of less than $100,000 or (b) has taken all actions required under Section 6.12 . The Excluded Domestic Subsidiaries had less than 5% of the total revenues of the Borrower and its Subsidiaries during the twelve-month period most recently ended; the assets of the Excluded Domestic Subsidiaries constitute less than 5% of the total assets of the Borrower and its Subsidiaries; and the operations and business of each Excluded Domestic Subsidiary are not material to the operations and business of the Borrower and its Subsidiaries.

ARTICLE VI.
AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall, and shall (except in the case of the covenants set forth in Sections 6.01 , 6.02 , 6.03 and 6.13) cause each Subsidiary to:

6.01 Financial Statements. Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) as soon as available, but in any event within 90 days (or such earlier time as may be required by the SEC, but taking into account any extension permitted under Rule 12b-25 of the SEC) after the end of each fiscal year of the Borrower (commencing with the fiscal year ended December 31, 2005), a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year (which shall in each case, for so long as the Borrower is required to file annual reports with the SEC on Form 10-K, be as so filed), setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be audited and accompanied by (i) a report and opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Required Lenders, which report and opinion shall be prepared in accordance with generally accepted auditing standards and applicable Securities Laws and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and (ii) an attestation report of such Registered Public Accounting Firm as to the Borrower's internal controls pursuant to Section 404 of Sarbanes-Oxley expressing a conclusion which (unless the Required Lenders do not object to the same) does not have or would not reasonably be expected to have (individually or in the aggregate) a materially negative impact on the consolidated financial statements of the Company and its Subsidiaries; and

(b) as soon as available, but in any event within 45 days (or such earlier time as may be required by the SEC, but taking into account any extension permitted under Rule 12b-25 of the SEC) after the end of each of the first three fiscal quarters of each fiscal year of the Borrower (commencing with the fiscal quarter ended December 31, 2005), a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended (which shall in each case, for so long as the Borrower is required to file quarterly reports with the SEC on Form 10-Q, be as so filed), setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, such consolidated statements to be certified by a Responsible Officer of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

As to any information contained in materials furnished pursuant to Section 6.02(d) , the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in clauses (a) and (b) above at the times specified therein.

6.02 Certificates; Other Information. Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) [Omitted].

(b) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b) , a duly completed Compliance Certificate (with supporting calculations) signed by a Responsible Officer of the Borrower;

(c) promptly after any request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Borrower by independent accountants in connection with the accounts or books of the Borrower or any Subsidiary, or any audit of any of them;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Administrative Agent pursuant hereto;

(e) promptly after the furnishing thereof, copies of any statement or report furnished to any holder of debt securities of any Loan Party or any Subsidiary thereof pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Lenders pursuant to Section 6.01 or any other clause of this Section 6.02 ;

(f) promptly, and in any event within five Business Days after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each notice or other correspondence received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation or other inquiry by such agency regarding financial or other operational results of any Loan Party or any Subsidiary thereof, other than routine and immaterial comments and questions from the SEC in connection with the Borrower's periodic reports and other disclosures; and

(g) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a) or (b) or Section 6.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 10.02 ; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall (A) notify the Administrative Agent and each Lender (by telecopier or electronic

mail) of the posting of any such documents and (B) provide to the Administrative Agent by electronic mail electronic versions (i.e. , soft copies) of such documents, other than current reports on Form 8-K, in the case of this clause (B). Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificates required by Section 6.02(b) to the Administrative Agent. Except for such Compliance Certificates or as otherwise required by Section 10.07 , the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and the L/C Issuer materials and/or information provided by or on behalf of the Borrower hereunder (collectively, " Borrower Materials ") by posting the Borrower Materials on IntraLinks or another similar electronic system (the " Platform ") and (b) certain of the Lenders may be "public-side" Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a " Public Lender "). The Borrower hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the L/C Issuer and the Lenders to treat such Borrower Materials as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided , however , that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 10.07); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor." Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Borrower Materials "PUBLIC."

6.03 Notices. Promptly notify the Administrative Agent and each Lender:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or would reasonably be expected to result in a Material Adverse Effect, whether arising from (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Subsidiary and any Governmental Authority; (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws or (iv) any other event or circumstance;

(c) of the occurrence of any ERISA Event;

(d) of any material change in accounting policies or financial reporting practices by the Borrower or any Subsidiary; and

(e) of the occurrence of any Internal Control Event that the Borrower is required to disclose under applicable Laws.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 Payment of Obligations. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.05 Preservation of Existence, Etc. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 7.04 or 7.05 except, in the case of Persons other than the Borrower, to the extent that the failure to do so would not reasonably be expected to have a Material Adverse Effect; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which would reasonably be expected to have a Material Adverse Effect.

6.06 Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so would not reasonably be expected to have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities.

6.07 Maintenance of Insurance. Maintain with financially sound and reputable insurance companies not Affiliates of the Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts (after giving effect to any self-insurance of the kind customarily carried under similar circumstances by such other Persons) as are customarily carried under similar circumstances by such other Persons and providing for not less than 30 days' prior notice to the Administrative Agent of termination, lapse or cancellation of such insurance.

6.08 Compliance with Laws. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith would not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records. (a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Subsidiary, as the case may be; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower or such Subsidiary, as the case may be.

6.10 Inspection Rights. Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided , however , that so long as no Event of Default exists, each Lender may conduct not more than one inspection per year, and the expense of such inspection shall be borne by the Lender conducting such inspection; provided, further that when an Event of Default exists the Administrative Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

6.11 Use of Proceeds. Use the proceeds of the Credit Extensions for general corporate purposes (including capital expenditures, working capital, Permitted Acquisitions and repurchases of Equity Interests) not in contravention of any Law or of any Loan Document.

6.12 Additional Subsidiary Guarantors.

Notify the Administrative Agent at the time that any Person either becomes a Subsidiary (other than an Excluded Subsidiary) or ceases to be an Excluded Subsidiary, and, unless such Person is a Joint Venture that has not Guaranteed any obligations of any Person other than itself, promptly thereafter (and in any event within 30 days), cause such Person to (a) become a Subsidiary Guarantor by executing and delivering to the Administrative Agent a counterpart of the Subsidiary Guarantee or such other document as the Administrative Agent shall deem appropriate for such purpose, and (b) deliver to the Administrative Agent documents of the types referred to in clauses (iii) and (iv) of Section 4.01(a) and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clause (a)), all in form, content and scope reasonably satisfactory to the Administrative Agent, provided , however , that in the case of any Subsidiary that is a Joint Venture, the Borrower's obligation shall be to use commercially reasonable efforts to provide to the Administrative Agent a Guarantee on terms comparable to those of the Guarantee provided by such Joint Venture to such other Person.

6.13 Accounts. Maintain a deposit account with Bank of America.

ARTICLE VII.
NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

7.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Liens pursuant to any Loan Document;

(b) Liens existing on the date hereof and listed on Schedule 7.01 and any renewals or extensions thereof, provided that (i) the property covered thereby is not changed, (ii) the amount secured or benefited thereby is not increased, (iii) the direct or any contingent obligor with respect thereto is not changed, and (iv) any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.03(b) ;

(c) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(f) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(h) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.01(h) ;

(i) Liens securing Indebtedness permitted under Section 7.03(e) ; provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition;

(j) Liens of purchase and sale documents entered into in connection with Permitted Acquisitions;

(k) defects of title and adverse claims of third parties with respect to IP Rights, which defects of title and adverse claims are not, individually or in the aggregate, material in relation to the Borrower and its Subsidiaries, taken as a whole; and

(l) other Liens securing obligations not to exceed $250,000 in the aggregate at any one time.

7.02 Investments. Make any Investments, except:

(a) Investments held by the Borrower or such Subsidiary in the form of cash or Cash Equivalents;

(b) advances to officers, directors and employees of the Borrower and its Subsidiaries in an aggregate amount not to exceed $250,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments of the Borrower in any wholly-owned Subsidiary and Investments of any wholly-owned Subsidiary in the Borrower or in another wholly-owned Subsidiary; provided , however , that neither the Borrower nor any Subsidiary thereof shall make any additional Investment in any Excluded Domestic Subsidiary except as necessary to pay the expenses of disposing of its assets and its merger or dissolution in accordance with the terms hereof;

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) Guarantees permitted by Section 7.03 ;

(f) Permitted Acquisitions;

(g) Investments in joint ventures or other business arrangements involving the Investment in any Person any Equity Interests of which are held by any Person other than the Borrower or any wholly-owned Subsidiary (each, a " Joint Venture ") not exceeding $20,000,000 in the aggregate over the term of this Agreement (valuing each Investment in a Joint Venture, whether or not made under this subsection (g), at the maximum aggregate liabilities of the applicable Loan Party under the Organization Documents of such Joint Venture or any Contractual Obligation related to such Joint Venture (all such liabilities, to the extent not satisfied at any date of determination, " Deferred JV Liabilities ")); provided that (i) no Default or Event of Default exists or will be caused by such Investment, (ii) on the date of consummation of

such Investment, the Borrower shall deliver a certificate of a Responsible Officer as to the satisfaction of the condition set forth in the foregoing clause (i), and (iii) not less than 10 Business Days prior to the consummation of any such Investment, the Borrower shall provide to the Administrative Agent, (A) copies of the documentation governing such Investment and (B) in the case of any Investment or series of related Investments in excess of $10,000,000, (1) in form and substance satisfactory to the Administrative Agent, financial calculations specifically demonstrating the Borrower's compliance on a Pro forma Basis with Section 7.11 hereof after giving effect to such Investment and (2) in form and substance reasonably satisfactory to the Administrative Agent, financial projections for the Borrower for a two (2) year period after the closing of such Investment after giving effect to such Investment, including, without limitation, a statement of sources and uses of funds for such Investment showing, among other things, the sources of financing for such Investment, and demonstrating the Borrower's ability to meet its repayment obligations hereunder through the Maturity Date.

(h) other Investments not exceeding $5,000,000 in the aggregate in any fiscal year of the Borrower, provided that no Default shall exist at the time of, or result from, any such Investment.

7.03 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed on Schedule 7.03 and any refinancings, refundings, renewals or extensions thereof; provided that (i) the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder, (ii) the terms relating to principal amount, amortization, maturity, collateral (if any) and subordination (if any), and other material terms taken as a whole, of any such refinancing, refunding, renewing or extending Indebtedness, and of any agreement entered into and of any instrument issued in connection therewith, are no less favorable in any material respect to the Loan Parties or the Lenders than the terms of any agreement or instrument governing the Indebtedness being refinanced, refunded, renewed or extended and the interest rate applicable to any such refinancing, refunding, renewing or extending Indebtedness does not exceed the then applicable market interest rate and (iii) any such Indebtedness that is subordinated to the Obligations may not be refinanced except on subordination terms at least as favorable to the Lenders and no more restrictive on the Borrower than the subordinated Indebtedness being refinanced, and in an amount not less than the amount outstanding at the time of refinancing;

(c) Guarantees of the Borrower or any Subsidiary Guarantor in respect of Indebtedness otherwise permitted hereunder of the Borrower or any other Subsidiary Guarantor;

(d) obligations (contingent or otherwise) of the Borrower or any Subsidiary existing or arising under any Swap Contract, provided that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably

anticipated by such Person, or changes in the value of securities issued by such Person, and not for purposes of speculation or taking a "market view;" and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party;

(e) Indebtedness in respect of Capital Lease Obligations, Synthetic Lease Obligations and purchase money obligations for fixed or capital assets within the limitations set forth in Section 7.01(i) ; provided , however , that the aggregate amount of all such Indebtedness at any one time outstanding shall not exceed $2,000,000;

(f) Indebtedness of the Borrower to any Subsidiary Guarantor and Indebtedness of any Subsidiary to the Borrower or any Subsidiary Guarantor; and

(g) other unsecured Indebtedness in an aggregate principal amount not to exceed $10,000,000 at any time outstanding, provided that no Default shall exist at the time of, or result from, the incurrence of any Indebtedness in reliance upon this subsection (g);

provided that no Excluded Domestic Subsidiary shall incur any Indebtedness.

7.04 Fundamental Changes. Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Subsidiary may merge with (i) the Borrower, provided that the Borrower shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries, provided that when any Subsidiary Guarantor is merging with another Subsidiary that is not a Subsidiary Guarantor, the Subsidiary Guarantor shall be the continuing or surviving Person;

(b) any Subsidiary may merge with another Person in order to effect a Permitted Acquisition, provided that the surviving Person shall be a wholly-owned Subsidiary of the Borrower and shall take all action required under Section 6.12 ; and

(c) any Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation, dissolution or otherwise) to the Borrower or to another Subsidiary; provided that (x) if the transferor in such a transaction is a Subsidiary Guarantor, then the transferee must either be the Borrower or a Subsidiary Guarantor and (y) any Excluded Domestic Subsidiary may only Dispose of its property to the Borrower or any wholly-owned Subsidiary Guarantor.

7.05 Dispositions. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;

(d) Dispositions of property by the Borrower to any Subsidiary Guarantor for consideration other than Equity Interests in (or otherwise as a contribution to the capital of) such Subsidiary Guarantor, and Dispositions of property by any Subsidiary to the Borrower or to a wholly-owned Subsidiary; provided that if the transferor of such property is an Excluded Domestic Subsidiary or a Subsidiary Guarantor, the transferee thereof must either be the Borrower or a Subsidiary Guarantor;

(e) Dispositions of property permitted under Section 7.02(c) ;

(f) Dispositions permitted by Section 7.04 ;

(g) Dispositions of IP Rights in the ordinary course of business; and

(h) Dispositions by the Borrower and its Subsidiaries not otherwise permitted under this Section 7.05 ; provided that (i) at the time of such Disposition, no Default shall exist or would result from such Disposition and (ii) the aggregate book value of all property Disposed of in reliance on this clause (g) in any fiscal year shall not exceed $5,000,000;

provided , however , that (x) any Disposition pursuant to clauses (a) through (d) or clauses (f) through (h) (in either case, when taken together with any other Dispositions in any series of related transactions) shall be for fair market value, in the reasonable judgment of the Borrower, and (y) Excluded Domestic Subsidiaries may only make Dispositions pursuant to subsection (d) above.

7.06 Restricted Payments. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that, so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(a) each Subsidiary may make Restricted Payments to the Borrower, the Subsidiary Guarantors and any other Person that owns an Equity Interest in such Subsidiary, ratably according to their respective holdings of the type of Equity Interest in respect of which such Restricted Payment is being made, provided that no Excluded Domestic Subsidiary may make any Restricted Payment other than to the Borrower or a wholly-owned Subsidiary Guarantor;

(b) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(c) the Borrower and each Subsidiary may purchase, redeem or otherwise acquire Equity Interests issued by it with the proceeds received from the substantially concurrent issue of new shares of its common stock or other common Equity Interests; and

(d) the Borrower may declare or pay cash dividends to its stockholders and purchase, redeem or otherwise acquire for cash common Equity Interests issued by it.

7.07 Change in Nature of Business. Engage in any business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the date hereof or any business substantially related or incidental thereto (provided that no Excluded Domestic Subsidiary may conduct any business other than the Disposition of its assets and its merger or dissolution in accordance with the terms hereof).

7.08 Transactions with Affiliates. Enter into any transaction of any kind with any Affiliate of the Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Borrower or such Subsidiary as would be obtainable by the Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate (and, if the aggregate value of the consideration to be paid to any Affiliate under any such transaction or series of related transactions would reasonably be expected to exceed $1,000,000 in any fiscal year of the Borrower, the Borrower shall furnish to the Administrative Agent a certificate of a Responsible Officer of the Borrower as to compliance with this Section 7.08 , which certificate shall be in form and substance reasonably satisfactory to the Administrative Agent), provided that the foregoing restriction shall not apply to transactions between or among the Borrower and any Subsidiary Guarantor or between and among any Subsidiary Guarantors.

7.09 Burdensome Agreements. Enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments to the Borrower or any Subsidiary Guarantor or to otherwise transfer property to the Borrower or any Subsidiary Guarantor, (ii) of any Subsidiary to Guarantee the Indebtedness of the Borrower or (iii) of the Borrower or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person; provided , however , that this clause (iii) shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under Section 7.03(e) solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

7.10 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

7.11 Financial Covenants.

(a) The Borrower and its wholly-owned Subsidiaries shall maintain at all times cash and Cash Equivalents in the United States (excluding any such cash or Cash Equivalents subject to any Lien or other restriction in favor of any Person, and any cash or Cash Equivalents held by any Person other than the Borrower and its wholly-owned Subsidiaries, but including cash and Cash Equivalents standing to the credit of any Reserve Account) having a value at least equal to

115% of the sum (without duplication) of (i) the Total Outstandings, (ii) all Litigation Liabilities, (iii) all Deferred JV Liabilities and (iv) the aggregate principal amount of Indebtedness incurred by the Borrower and its Subsidiaries in reliance on Section 7.03(g) , each as of the date of determination.

(b) The Borrower shall not prove, as of the last day of any fiscal quarter, to have had a Consolidated Loss Before Taxes of (i) more than ($7,500,000) for such fiscal quarter or (ii) more than ($15,000,000) for the four fiscal quarters then ended.

7.12 Excluded Domestic Subsidiaries.

Notwithstanding anything to the contrary herein, no Excluded Domestic Subsidiary shall conduct any business or activity, or incur any Lien, obligation or liability, except for the Disposition of its assets and its merger or dissolution in accordance with the terms hereof.

ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default. Any of the following shall constitute an Event of Default:

(a) Non-Payment . The Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or (ii) within three Business Days after the same becomes due, any interest on any Loan or on any L/C Obligation, or any fee due hereunder, or (iii) within five Business Days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants . The Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 6.01 , 6.02 , 6.03 , 6.05 , 6.10 , 6.11 or 6.12 or Article VII , or any Subsidiary Guarantor fails to perform or observe any term, covenant or agreement contained in Section 2 of the Subsidiary Guarantee; or

(c) Other Defaults . Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days after the earlier of (i) the Borrower's or any Loan Party's knowledge thereof or (ii) notice thereof from the Administrative Agent; or

(d) Representations and Warranties . Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default . (i) The Borrower or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn

committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, and such failure shall continue beyond any applicable grace or cure period, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, and such failure shall continue beyond any applicable grace or cure period, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment . (i) The Borrower or any Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 30 days after its issue or levy; or

(h) Judgments . There is entered against the Borrower or any Subsidiary (i) a final judgment or order of any Governmental Authority for the payment of money in an aggregate amount exceeding the Threshold Amount (other than Covered Litigation Liabilities not exceeding $40,000,000 over the term of this Agreement) (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 10 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA . (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or would reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents . Any provision of any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document; or

(k) Change of Control . There occurs any Change of Control.

8.02 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents;

provided , however , that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Administrative Agent or any Lender.

8.03 Application of Funds. After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C

Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by the Administrative Agent in the following order:

First , to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second , to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal, interest and Letter of Credit Fees) payable to the Lenders and the L/C Issuer (including fees, charges and disbursements of counsel to the respective Lenders and the L/C Issuer (including fees and time charges for attorneys who may be employees of any Lender or the L/C Issuer) and amounts payable under Article III), ratably among them in proportion to the respective amounts described in this clause Second payable to them;

Third , to payment of that portion of the Obligations constituting accrued and unpaid Letter of Credit Fees and interest on the Loans, L/C Borrowings and other Obligations, ratably among the Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Third payable to them;

Fourth , (i) to payment of that portion of the Obligations constituting unpaid principal of the Loans and L/C Borrowings, (ii) to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit, (iii) to payment of amounts due under any Treasury Management Agreement between any Loan Party and any Secured Party and (iv) to payment of breakage, termination or other amounts owing in respect of any Swap Contract between any Loan Party and any Secured Party, to the extent such Swap Contract is permitted hereunder, ratably among the Secured Parties in proportion to the respective amounts described in this clause (d) held by them; and

Last , the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

Subject to Section 2.03(c) , amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

ARTICLE IX. ADMINISTRATIVE AGENT

9.01 Appointment and Authority. Each of the Lenders and the L/C Issuer hereby irrevocably appoints Bank of America to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such

powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders and the L/C Issuer, and neither the Borrower nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions.

9.02 Rights as a Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.03 Exculpatory Provisions. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower, a Lender or the L/C Issuer.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

9.04 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the L/C Issuer, the Administrative Agent may presume that such condition is satisfactory to such Lender or the L/C Issuer unless the Administrative Agent shall have received notice to the contrary from such Lender or the L/C Issuer prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

9.06 Resignation of Administrative Agent. The Administrative Agent may at any time give notice of its resignation to the Lenders, the L/C Issuer and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders and the L/C Issuer, appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the

Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and the L/C Issuer directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Any resignation by Bank of America as Administrative Agent pursuant to this Section shall also constitute its resignation as L/C Issuer. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer, (b) the retiring L/C Issuer shall be discharged from all of their respective duties and obligations hereunder or under the other Loan Documents, and (c) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to the retiring L/C Issuer to effectively assume the obligations of the retiring L/C Issuer with respect to such Letters of Credit.

9.07 Non-Reliance on Administrative Agent and Other Lenders. Each Lender and the L/C Issuer acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the L/C Issuer also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.08 [Omitted].

9.09 Administrative Agent May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and

payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, the L/C Issuer and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the L/C Issuer and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders, the L/C Issuer and the Administrative Agent under Sections 2.03(i) and (j) , 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and the L/C Issuer to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders and the L/C Issuer, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 10.04 .

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender or the L/C Issuer any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

9.10 Subsidiary Guarantee Matters. The Lenders and the L/C Issuer irrevocably authorize the Administrative Agent, at its option and in its discretion, to release any Subsidiary Guarantor from its obligations under the Subsidiary Guarantee if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release any Subsidiary Guarantor from its obligations under the Subsidiary Guarantee pursuant to this Section 9.10 .

ARTICLE X.
MISCELLANEOUS

10.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrower or the applicable Loan Party, as the case may be, and acknowledged by the

Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided , however , that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any mandatory reduction of the Aggregate Commitments hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (iv) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided , however , that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest or Letter of Credit Fees at the Default Rate;

(e) change Section 2.13 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Lender;

(g) release all or substantially all of the value of the Subsidiary Guarantee without the written consent of each Lender; or

(h) have the effect of permitting the Borrower or any of its Subsidiaries to be an Eligible Assignee without the written consent of each Lender;

and, provided further , that (i) no amendment, waiver or consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; (iv) Section 10.06(h) may not be amended, waived or otherwise modified without the consent of each Granting Lender all or any part of whose Loans are being funded by an SPC at the time of such amendment, waiver or other modification; and (v) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to

approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

10.02 Notices; Effectiveness; Electronic Communication.

(a) Notices Generally . Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrower, to the address, telecopier number, or electronic mail address specified for such Person on Schedule 10.02 ;

(ii) the Administrative Agent or the L/C Issuer, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.02 ; and

(iii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications . Notices and other communications to the Lenders and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or the L/C Issuer pursuant to Article II if such Lender or the L/C Issuer, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender’s receipt of an acknowledgement from the intended recipient (such as by the “return receipt requested” function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the

next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform . THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the " Agent Parties ") have any liability to the Borrower, any Lender, the L/C Issuer or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided , however , that in no event shall any Agent Party have any liability to the Borrower, any Lender, the L/C Issuer or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc . Each of the Borrower, the Administrative Agent and the L/C Issuer may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent and the L/C Issuer. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent, L/C Issuer and Lenders . The Administrative Agent, the L/C Issuer and the Lenders shall be entitled to rely and act upon any notices (including telephonic Loan Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Administrative Agent, the L/C Issuer, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower, except to the extent that such losses, costs, expenses and liabilities are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of

the party seeking indemnification. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

10.03 No Waiver; Cumulative Remedies. No failure by any Lender, the L/C Issuer or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses . The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the L/C Issuer in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, any Lender or the L/C Issuer (including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, any Lender or the L/C Issuer), and shall pay all reasonable fees and time charges for attorneys who may be employees of the Administrative Agent, any Lender or the L/C Issuer, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit; provided , however , that so long as no Event of Default shall have occurred and be continuing, the Borrower shall not be obligated to pay any amount for work performed by in-house counsel or other in-house legal staff of the Administrative Agent.

(b) Indemnification by the Borrower . The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and the L/C Issuer, and each Related Party of any of the foregoing Persons (each such Person being called an " Indemnitee ") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the reasonable fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all reasonable fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions

contemplated hereby or thereby, or, in the case of the Administrative Agent (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrower or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Reimbursement by Lenders . To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof), the L/C Issuer or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the L/C Issuer or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the L/C Issuer in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or L/C Issuer in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d) .

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby unless the same are determined by a court of competent jurisdiction by final and nonapplicable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(e) Payments . All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(f) Survival . The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

10.05 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, the L/C Issuer or any Lender, or the Administrative Agent, the L/C Issuer or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, the L/C Issuer or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and the L/C Issuer severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

10.06 Successors and Assigns.

(a) Successors and Assigns Generally . The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Borrower nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the L/C Issuer and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders . Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that

(i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund with respect to a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided , however , that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned;

(iii) any assignment of a Commitment must be approved by the Administrative Agent and the L/C Issuer unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee (which shall not, except in the case of any transfer effected pursuant to Section 10.13 , be paid by the Borrower) in the amount, if any, required as set forth in Schedule 10.06 , and the Eligible Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01 , 3.04 , 3.05 , and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to

the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register . The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the " Register "). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by each of the Borrower and the L/C Issuer at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender may request and receive from the Administrative Agent a copy of the Register.

(d) Participations . Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person, the Borrower or any of the Borrower's Affiliates or Subsidiaries or a Person known by such Lender to be a competitor of the Borrower) (each, a " Participant ") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the L/C Issuer shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01 , 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender.

(e) Limitations upon Participant Rights . A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A

Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges . Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments . The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) [Omitted.]

(i) Resignation as L/C Issuer after Assignment . Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to subsection (b) above, Bank of America may, upon 30 days' notice to the Borrower and the Lenders, resign as L/C Issuer. In the event of any such resignation as L/C Issuer, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer hereunder; provided , however , that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer. If Bank of America resigns as L/C Issuer, it shall retain all the rights, powers, privileges and duties of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). Upon the appointment of a successor L/C Issuer, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

10.07 Treatment of Certain Information; Confidentiality. Each of the Administrative Agent, the Lenders and the L/C Issuer agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and be obligated to keep such

Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or any other confidentiality obligation of the Administrative Agent, the L/C Issuer or any Lender disclosing the same or (y) becomes available to the Administrative Agent, any Lender, the L/C Issuer or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower unless such party actually knows that such Information was disclosed or received by it in violation of a confidentiality obligation owed to the Borrower or its Subsidiaries.

For purposes of this Section, " Information " means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the L/C Issuer on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary, provided that, in the case of information received from the Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential or is actually known by the employee of the Person receiving the same to be confidential information. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the L/C Issuer acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

10.08 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender, the L/C Issuer and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, the L/C Issuer or any such Affiliate to or for the credit or the account of the Borrower or any other Loan Party against any and all of the obligations of the Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to such Lender or the L/C Issuer, irrespective of whether or not such Lender or the L/C Issuer shall have made any demand under this Agreement or any other Loan Document and although such

obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch or office of such Lender or the L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender, the L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, the L/C Issuer or their respective Affiliates may have. Each Lender and the L/C Issuer agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the " Maximum Rate "). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01 , this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

10.11 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the

remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.13 Replacement of Lenders. If any Lender requests compensation under Section 3.04 , or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01 , if any Lender is a Defaulting Lender or if any other circumstance exists hereunder that gives the Borrower the right to replace a Lender as a party hereto, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 10.06(b) ;

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01 , such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

10.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW . THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION . THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY, THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA SITTING IN PHILADELPHIA OR

MONTGOMERY COUNTY, THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK AND OF THE UNITED STATES DISTRICT COURT OF THE EASTERN DISTRICT OF PENNSYLVANIA AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK OR PENNSYLVANIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE L/C ISSUER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE . THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS . EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02 . NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.15 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND

(B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.16 USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the " Act "), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

IN WITNESS WHEREOF , the parties hereto have caused this Agreement to be duly executed as of the date first above written.

INTERDIGITAL COMMUNICATIONS CORPORATION

By: /s/ William J. Merritt
Name: William J. Merritt
Title: President & Chief Executive Officer

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ John B. Desmond
Name: John B. Desmond
Title: Managing Director

BANK OF AMERICA, N.A., as a Lender and L/C Issuer

By: /s/ John B. Desmond
Name: John B. Desmond
Title: Managing Director

CITIZENS BANK OF PENNSYLVANIA, as a Lender

By: /s/ Daniel J. Astolf
Name: Daniel J. Astolf
Title: Senior Vice President

EXHIBIT 21

Subsidiaries of InterDigital Communications Corporation

Company	Jurisdiction/State of Incorporation
InterDigital Asia KK	Japan
InterDigital Canada Ltee	Delaware
InterDigital Communications (Europe) Ltd.	United Kingdom
InterDigital Facility Company	Delaware
InterDigital Finance Corporation	Delaware
InterDigital Germany GmbH	Germany
InterDigital Advanced Technologies, Inc.	Delaware
InterDigital Technology Corporation	Delaware
InterDigital Telecom, Inc.	New York
IPR Licensing, Inc.	Delaware
Tantivy Communications, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-96781, 333-66626, 333-85560, 333-63276 and 333-56412) and Form S-3 (No. 333-85692) of InterDigital Communications Corporation of our report dated March 14, 2006 relating to the financial statements and financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Philadelphia, PA
March 14, 2006

EXHIBIT 31.1

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 Annual Report on Form 10-K of InterDigital Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 15d-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 statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/ William J. Merritt
William J. Merritt
President and Chief Executive Officer

EXHIBIT 31.2

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 Annual Report on Form 10-K of InterDigital Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 15d-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 statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/ R.J. Fagan
Richard J. Fagan
Chief Financial Officer

EXHIBIT 32.1

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 Annual Report on Form 10-K of InterDigital Communications Corporation (the "Company") for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Merritt, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 14, 2006

/s/ William J. Merritt
William J. Merritt
President and Chief Executive Officer

EXHIBIT 32.2

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 Annual Report on Form 10-K of InterDigital Communications Corporation (the "Company") for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 14, 2006

/s/ R.J. Fagan
Richard J. Fagan
Chief Financial Officer