

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

Filed 05/14/97 for the Period Ending 03/31/97

Address	781 THIRD AVE KING OF PRUSSIA, PA 19406-1409
Telephone	6108787800
CIK	0000354913
SIC Code	6794 - Patent Owners and Lessors
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 1997

or

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

For the transition period from _____ to _____

Commission File Number 1-11152

**INTERDIGITAL COMMUNICATIONS
CORPORATION**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-1882087

(State or other jurisdiction of
incorporation or organization)

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

781 Third Avenue, King of Prussia, PA 19406
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

Common Stock, par value \$.01 per share

48,158,630 shares

Class

Outstanding at May 9, 1997

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

ASSETS	DECEMBER 31, 1996 -----	MARCH 31, 1997 ----- (UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$204 and \$290 respectively	\$ 11,954	\$ 15,316
Short term investments	43,063	22,421
License fees receivable	990	1,083
Accounts receivable, net of allowance for uncollectable accounts of \$558	12,931	15,197
Inventories	13,863	12,465
Other current assets	3,913	12,065
	-----	-----
Total current assets	86,714	78,547
	-----	-----
Property, plant and equipment, net of accumulated depreciation of \$8,383 and \$9,107, respectively	10,517	10,615
Patents, net of accumulated amortization of \$4,152 and \$4,513 respectively	9,753	9,665
Long term deposits	3,822	4,035
Other	1,830	1,698
	-----	-----
	25,922	26,013
	-----	-----
	\$ 112,636	\$ 104,560
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 790	\$ 803
Accounts payable	15,127	11,151
Accrued compensation and related expenses	3,551	3,664
Deferred revenue	4,790	6,512
Other accrued expenses	5,380	6,562
	-----	-----
Total current liabilities	29,638	28,692
	-----	-----
LONG TERM DEBT	4,221	4,147
	-----	-----
OTHER LONG TERM LIABILITIES	6,270	5,450
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 3)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value, 14,399 shares authorized - \$2.50 Convertible Preferred, 103 shares and 103 shares issued and outstanding	10	10
Common Stock, \$.01 par value, 75,000 shares authorized, 48,109 shares and 48,158 shares issued and outstanding	481	481
Additional paid-in capital	234,245	234,450
Accumulated deficit	(162,229)	(168,670)
	-----	-----
Total shareholders' equity	72,507	66,271
	-----	-----
	\$ 112,636	\$ 104,560
	=====	=====

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)

(unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	1996	1997
REVENUES:		
UltraPhone Product Revenues	\$ 1,827	\$ 23,776
Licensing and Alliance	15,600	2,187
	-----	-----
	17,427	25,963
	-----	-----
OPERATING EXPENSES:		
Cost of UltraPhone revenues	2,877	20,965
Sales and marketing	773	2,074
General and administrative	3,170	3,271
Product development	4,331	6,251
	-----	-----
	11,151	32,561
	-----	-----
Income (loss) from operations	6,276	(6,598)
OTHER INCOME (EXPENSE):		
Interest income	1,115	358
Interest and financing expenses	(33)	(119)
	-----	-----
Income (loss) before income taxes and minority interest	7,358	(6,359)
INCOME TAX PROVISION	(2,507)	(17)
	-----	-----
Income (loss) before minority interest	4,851	(6,376)
MINORITY INTEREST	(887)	--
	-----	-----
Net income (loss)	3,964	(6,376)
PREFERRED STOCK DIVIDENDS	(66)	(65)
	-----	-----
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ 3,898	\$ (6,441)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ 0.08	\$ (0.13)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	48,982	48,114
	=====	=====

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the three months ended March 31,	
	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,898	\$ (6,441)
Adjustments to reconcile net income (loss) to net cash used for operating activities -		
Minority interest in subsidiary	887	--
Depreciation and amortization	461	1,157
Other	(35)	(820)
Decrease (increase) in assets-		
Receivables	(14,247)	(2,359)
Inventories	94	1,398
Other current assets	(687)	(8,152)
Increase (decrease) in liabilities-		
Accounts payable	865	(3,976)
Accrued compensation	392	113
Deferred revenue	1,060	1,722
Other accrued expenses	1,921	1,181
	\$ (5,391)	\$ (16,177)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in short-term investments	\$ (338)	\$ 20,642
Additions to property and equipment, net of non-cash additions of \$0 and \$141, respectively	(767)	(681)
Additions to patents	(70)	(273)
Other non-current assets	(248)	(152)
	\$ (1,423)	\$ 19,536
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	\$ 7,054	205
Payments on long-term debt , including capital lease obligations	(124)	\$ (202)
	\$ 6,930	\$ 3
 NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 116	\$ 3,362
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,427	11,954
 CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 9,543	\$ 15,316
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 27	\$ 81
Income taxes paid, excluding foreign withholding taxes	\$ 270	\$ 15

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1997

(UNAUDITED)

1. BACKGROUND:

InterDigital Communications Corporation ("InterDigital(R)" or the "Company"), a public corporation incorporated in the Commonwealth of Pennsylvania, develops and markets advanced digital wireless telecommunications systems using proprietary technologies for voice and data communications and has developed an extensive patent portfolio related to those technologies. The Company offers its customers, licensees and alliance partners what it believes is unique access to both time division multiple access ("TDMA") and Broadband Code Division Multiple Access(TM) ("B-CDMA(TM)") proprietary digital wireless technology.

The Company's principal product is the UltraPhone(R) system, a radio telephone system providing businesses and households access to basic telephone service through a wireless local loop. The UltraPhone system offers greater flexibility and ease of installation than conventional wireline-based systems and is designed to provide high transmission quality, capacity and spectrum efficiency. The UltraPhone system, which incorporates the Company's proprietary TDMA technology, is sold predominantly to foreign telephone companies to provide basic telephone service to their customers, primarily in rural and near-urban areas, where the cost of, or time required for, installing, upgrading or maintaining conventional wireline telephone service supports selection of an UltraPhone system. Sales of UltraPhone systems accounted for approximately 40%, 20% and 47%, respectively, of the total revenues of the Company during 1994, 1995 and 1996. Through March 31, 1997, the Company has sold over 315 UltraPhone systems worldwide, with aggregate UltraPhone product revenue totaling over \$185 million.

The Company and its alliance partners are developing a new air interface technology and products, based on the Company's patented B-CDMA technology and other proprietary technologies. The initial phases of the development effort are oriented towards development of wireless local loop products with performance and cost characteristics applicable to a market segment distinct from the Company's UltraPhone system. The Company has started to market its new TrueLink(TM) wireless local loop product based on the Company's proprietary B-CDMA technology.

InterDigital Technology Corporation ("ITC"), a wholly-owned subsidiary, and the Company, together, offer non-exclusive, royalty-bearing patent, technology and know-how licenses to telecommunications manufacturers that manufacture, use or sell, or intend to manufacture, use or sell, equipment that utilizes the Company's extensive portfolio of TDMA, code division multiple access ("CDMA") and other patented technologies. ITC implemented a strategy during 1993 of negotiation and, where necessary, litigation with certain entities which it believed were representative of the broader number of entities infringing ITC's patents. These efforts have resulted in patent license agreements with a total of thirteen entities, the recognition of \$28.7 million, \$67.7 million and \$28.7 million of licensing revenue in 1994, 1995 and 1996, respectively, and the initiation of litigation against major telecommunications companies.

2. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly the Company's financial position as of March 31, 1997 and the results of their operations for the three month periods ended March 31, 1996 and 1997 and cash flows for the three month periods ended March 31, 1996 and 1997. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and accordingly do not include all of the detailed

schedules, information and notes necessary for a fair presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest annual report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

3. CONTINGENCIES:

IDC and ITC are variously parties to certain patent-related litigation in which ITC is asserting that certain third parties infringe ITC's patents. ITC generally is seeking injunctive relief and monetary damages. The alleged infringers generally seek declarations that their products do not infringe ITC's patents or that ITC's patents in suit are invalid. In one such action involving Motorola Inc., ITC has received an adverse jury verdict and is in the post-trial appeal process. In another action, the Court has stayed the proceeding, at the request of the parties, pending a decision by the appeals court on the Motorola case. ITC is also involved in administrative proceedings in which various parties have challenged the validity of ITC's patents.

In addition to litigation associated with patent enforcement and licensing activities and the other litigation described above, the Company is a party to certain legal actions arising in the ordinary course of its business.

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

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

	December 31, 1996 -----	March 31, 1997 -----
Money market funds and demand deposits	\$ 2,871	\$10,407
Certificates of deposit	204	--
Repurchase agreements	1,457	1,991
Commercial paper	7,422	2,918
	-----	-----
	\$11,954	\$15,316
	=====	=====

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

Short-term investments available for sale as of December 31, 1996 consisted of \$26.0 million in government-issued discount notes, \$2.8 million in municipal securities and \$14.2 million in corporate debt securities. Short-term investments available for sale as of March 31, 1997 consisted of \$11.8 million in government-issued discount notes, \$2.9 million in municipal securities and \$7.7 million in corporate debt securities.

5. MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

UltraPhone Equipment Revenue:

In fiscal 1996, the Company's Philippine and Indonesian customers represented 56% and 16%, of UltraPhone product revenues, respectively. For the three months ended March 31, 1996, the Company's Puerto Rican and Philippine customers accounted for 45% and 21% of UltraPhone product revenues, respectively. For the three months ended March 31, 1997, the Company's Indonesian and Philippine customers accounted for 78% and 11% of UltraPhone product revenues, respectively.

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

	Three Months Ended March 31,	
	1996	1997
Domestic	\$ 449	\$ 256
Foreign	1,378	23,250
	-----	-----
	\$1,827	\$23,776
	=====	=====

Licensing and Alliance Revenue:

The Licensing and Alliance revenues for the three months ended March 31, 1997 include \$704,000 from Samsung, \$683,000 of recurring royalty revenue from one licensee and \$800,000 from Siemens. During the three months ended March 31, 1996, ITC recognized \$14 million related to the Samsung agreements and \$1.6 million related to the Siemens agreements.

6. NET INCOME PER COMMON SHARE:

The net income per share is based upon the weighted average common shares outstanding during the period adjusted for cumulative dividends on \$2.50 Preferred Stock. Stock options and warrants have been considered as common stock equivalents and have been included in the computation for the three month period for 1996 since their effect is dilutive. (See Item 6, Exhibit 11 - Computation of Net Income Per Share.)

Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share," which supersedes APB Opinion No. 15 "Earnings per Share," was issued in February 1997. SFAS 128 requires dual presentation of basic and diluted earnings per share (EPS) for complex capital structures on the face of the income statement. Basic EPS is computed by dividing income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of stock options and other securities into common stock. SFAS 128 is required to be adopted for year end 1997; earlier application is not permitted. The Company does not expect any material change to the current period presentation of EPS; the effect of this accounting change on previously reported EPS for the three months ended March 31, 1996 was as follows:

Primary EPS as reported	\$.08
Effect of SFAS 128	.01

Basic EPS as restated	\$.09
	====

7. INVENTORIES:

	December 31, 1996	March 31, 1997
	-----	-----
	(In thousands)	
Component parts and work-in-progress	\$11,640	\$11,687
Finished goods	2,223	778
	-----	-----
	\$13,863	\$12,465
	=====	=====

Inventories are stated net of valuation reserves of \$5.9 million and \$6.0 million as of December 31, 1996 and March 31, 1997, respectively.

8. LONG-TERM DEBT

During the second quarter of 1996, the Company purchased its King of Prussia facility for \$3.7 million. The Company paid cash of \$930,000 and arranged a 16 year mortgage of \$2.8 million with interest payable at a rate of 8.28% per annum. The entire cost of the land and buildings purchased, as well as the improvements made to the building, have been classified as Land, Building and Improvements within the property section of the balance sheet. The mortgage has been classified as long-term debt on the balance sheet, with \$93,000 classified as current portion of Long-term Debt.

9. INCOME TAXES:

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

The income tax provision for the three months ended March 31, 1996 includes a current foreign withholding tax of \$2.3 million and current state tax provision of \$111,000. The income tax provision for the three months ended March 31, 1997 consisted of a current state tax expense of \$17,000. At December 31, 1996, the Company had net operating loss carryforwards of approximately \$100 million. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit is recorded as of March 31, 1997.

Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The annual limitation is generally equal to the product of (x) the aggregate fair market value of the Company's stock immediately before the ownership change times (y) the "long-term tax exempt rate" (within the meaning of Section 382(f) of the Code) in effect at that time. The Company believes that no ownership change for purposes of Section 382 occurred up to and including March 31, 1997. The Company's calculations reflect the adoption of new Treasury Regulations which became effective on November 4, 1992 and which have beneficial effects regarding the treatment of options and other aspects of the ownership change calculation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

OVERVIEW

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto, contained elsewhere in this document.

The Company's ability to derive revenue from product sales will be affected by, among other things, the intensified competition for sales of wireless local loop telephone systems. Competing products and technologies have proliferated and competitors, many of which have significantly greater resources than the Company, are more actively promoting their products in the Company's target markets. In spite of this competitive environment, the Company increased UltraPhone system revenues in 1996 compared to 1995 by over 50% to nearly \$25 million and built 1996 year-end product backlog to \$80.7 million from \$20.0 million at December 31, 1995. These successes were achieved by lowering UltraPhone system prices, offering the UltraPhone system in conjunction with alliance partners, focusing on larger scale telecommunications infrastructure programs and successfully marketing to the Company's existing customer base in Indonesia. On large scale opportunities when commencement of product delivery significantly lags contract negotiation and where deliveries are expected to extend over a significant period of time, the Company is actively marketing the UltraPhone system at sales prices which would generate little, if any, margin based on the current cost characteristics of the system configurations being proposed. In these situations, and in any additional situations where the Company elects to accept similarly margined orders, it would do so because of collateral profit potential, as next enumerated, or because of other strategic positioning considerations. The Company believes that any profit potential would primarily relate to design engineering to reduce produce costs, the expected positive effects on vendor pricing of the increased production volume, change orders (including post contract systems reconfiguration), post contract add-ons and systems expansions and servicing, as well as follow on orders.

The Company anticipates that it will continuously need to reduce prices and expand product features due to industry demands which will result in continued pressure upon gross profit margins until such time as the Company is able to reduce product costs by amounts significantly greater than the price reductions. The Company has experienced and may continue to experience engineering delays in the introduction of new, more efficient, lower cost system components and other new enhancements or features. Given the possibility of engineering delays and difficulties, and the continuing inability to sell UltraPhone systems with a high cluster utilization, the Company can give no assurance that it will be able to achieve sufficient product cost reductions or otherwise achieve satisfactory gross profit margins. In addition, there can be no assurance that the development costs necessary to achieve such potential product cost reductions will be acceptable to the Company.

An order comprising a significant portion of the Company's current backlog (see, "Backlog") is subject to completion of adequate financing and final provision of radio frequencies. Accordingly, the Company cannot predict with certainty when it will begin shipping that order, and the volume of production and shipments prior to that time may not fully absorb fixed manufacturing costs, which would negatively affect gross margins.

In addition to the effects of varying selling prices and product material costs, the Company's gross profit margin ratios are ordinarily affected by the relative proportions of direct and distributor sales, by the average number of subscribers per system sold, by its ability to absorb manufacturing overhead costs through generation of sufficient production volume, and by the field service costs for installation, warranty, training and post-sale support. Consistent with industry practices, distributor commissions have been included in both revenues and cost of sales. Historically, the Company's gross profit margin from UltraPhone system sales has been inadequate to support its operating and other expenses. The low sales volumes experienced in recent years have resulted in production volumes which were inadequate to fully absorb fixed production overhead costs, producing negative gross margins.

Liquidity

The Company had working capital of \$49.9 million at March 31, 1997 compared to working capital of \$57.1 million at December 31, 1996. The decrease in working capital since December is due primarily to the operating cash needs of the Company.

Demands on working capital in 1997 and beyond are expected to increase. The Company expects to continue its B-CDMA technology development expenditures at significant levels in order to commercialize its technology. Additional expenditures are being incurred for marketing and other activities and subsequent, substantial additional expenditures will be required to support later stage development. Engineering efforts required to support the UltraPhone product are also continuing at significant levels as the Company continues its efforts to reduce the cost of the UltraPhone product and increase its market share. Marketing, administrative and other costs are expected to increase as well, as the Company seeks to more effectively support its alliance and licensing program.

The Company's working capital requirements will depend on numerous additional factors, including but not limited to the success of the Siemens and Samsung relationships and the broader alliance strategy, the level of demand and related margins for the UltraPhone system, the ability to generate license fees and royalties, and the need to expend funds in connection with its patent enforcement activities. In addition, when the Company builds to specification to complete an order, it traditionally experiences negative cash flows from inception of its production ordering through customer payment at the time of, or increasingly subsequent to, order shipment. If the Company were to experience additional sudden and significant increases in orders to be built to specification, it would intensify the need for significant short to intermediate term financing arrangements. Also, the Company has ordered, and may continue to order, inventory in support of anticipated shipments not currently supported by shippable backlog (see "Backlog"). Should the Company incur a significant delay in securing the applicable shippable backlog it would have a negative impact on its cash resources.

Accordingly, the Company may, at some future date, require additional debt or equity capitalization to fully support its technical and product development and marketing activities and to fund its patent enforcement activities. The Company does not presently maintain bank lines of credit and may therefore, in such event, seek to meet such needs through the sale of debt or equity securities. There can be no assurance that the Company will be able to sell any such securities when it needs to, or, if it can, that it will be able to do so on terms acceptable to the Company.

The Company believes that its investment in inventories and non-current assets are stated on its December 31, 1996 and March 31, 1997 balance sheets at realizable values based on expected selling price and order volumes. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no additional write-downs are required at this time due to lack of use or technological obsolescence. With respect to other assets, the Company believes that the value of its patents is at least equal to the value included in the December 31, 1996 and March 31, 1997 balance sheets.

Backlog

At April 30, 1997, the Company's backlog of orders for UltraPhone telephone equipment and services was \$44.8 million, which includes the Company's first order from its Pakistani customer of \$42.9 million. The Pakistan order is subject to completion of adequate financing and the final provision of radio frequencies. All of the backlog except the Pakistani order is scheduled to be delivered during the remainder of fiscal year 1997. The Company's Pakistani customer has extended the validity of the contract until June 16, 1997 to allow for the completion of the financing arrangements. Due to the continuing inability to complete such arrangements, the Company cannot predict with any certainty when shipments are expected to commence or if the customer will honor the contract after June 16, 1997 or any subsequent further extension. In any event, however, shipments against this order during the remainder of 1997 will not be significant due to lengthy materials procurement lead times. At April 30, 1996, the Company's backlog of orders for UltraPhone telephone equipment and services was \$55.8 million.

Cash Flows and Financial Condition

The Company has experienced negative cash flows from operations during the quarter ended March 31, 1997. The negative cash flows from operations are primarily due to expenses incurred for UltraPhone engineering and marketing, B-CDMA technology development and the Company's general and administrative activities.

Net cash flows from investing activities were positive for the quarter ended March 31, 1997 due to the conversion of some of the Company's short-term investments into cash or cash equivalents. Notwithstanding the above, the amount of cash used in investing activities has, historically, been low relative to cash used in operations.

During the quarter ended March 31, 1997, the Company generated \$3,000 from financing activities. The funds were primarily from the exercise of stock options and warrants, net of payments on long-term debt (including capital lease obligations).

Cash, cash equivalents and short-term investments of \$15.3 million as of March 31, 1997 includes \$290,000 of restricted cash. The UltraPhone product accounts receivable of \$15.2 million at March 31, 1997 reflect amounts due from normal trade receivables, including non-domestic open accounts, as well as funds to be remitted under letters of credit. Of the outstanding trade receivables as of March 31, 1997, \$1.4 million has been collected through May 7, 1997.

Inventory levels at March 31, 1997 of \$12.5 million have decreased slightly as compared to \$13.9 million as of December 31, 1996, reflecting the shipment of inventory for the Indonesian order. Inventories at December 31, 1996 and March 31, 1997 are stated net of valuation reserves of \$5.9 million and \$6.0 million, respectively.

Included in other accrued expenses at March 31, 1997 are professional fees, consulting and other accruals as well as sales taxes payable.

Results of Operations - First Quarter of 1997 Compared to the First Quarter of 1996

Total Revenues. Total revenues in the first quarter ended March 31, 1997 increased to \$26.0 million from \$17.4 million in the first quarter ended March 31, 1996 due to an increase in UltraPhone product sales. UltraPhone product sales increased in the first quarter of 1997 to \$23.8 million from \$1.8 million in the comparable quarter of 1996, partially offset by a decline in licensing and alliance revenues to \$2.2 million in the first quarter of 1997 as compared to \$15.6 million in the comparable quarter of the prior year.

During the first quarter of 1997, the Company recognized \$704,000 of Samsung revenue that related to the UltraPhone B-CDMA technology development portion of the agreement. The Company also recognized \$683,000 of recurring royalty revenue during the first quarter of 1997 from one of its licensees. Additionally, the Company recognized revenue of \$800,000 as part of the Siemens series of agreements. During the first quarter of 1996, the Company recognized \$14 million as part of the Samsung agreements and \$1.6 million as part of the Siemens series of agreements.

Cost of UltraPhone Product Revenues. The cost of UltraPhone sales for the first quarter of 1997 increased to \$21.0 million from \$2.9 million for the first quarter of 1996, primarily due to the increase in UltraPhone product revenues. The Company had approximately 11.8% positive gross margin on UltraPhone system sales for the quarter ended March 31, 1997 as compared to a negative gross margin of 57.5% for the quarter ended March 31, 1996. Due to the increased volume of UltraPhone product revenues, manufacturing overhead expenses were almost fully absorbed. Additionally, the Company has been successful in reducing the cost of the UltraPhone product and has gained efficiencies in the manufacturing process. Included in cost of UltraPhone system sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to the UltraPhone systems. Also included in the cost of

sales are any manufacturing overhead expenses the Company has incurred that are not absorbed into inventory based on the low volume of production during the quarter.

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

Sales and marketing expenses increased 168% to \$2.1 million during the first quarter of 1997 as compared to \$773,000 during the first quarter of 1996. The increase is primarily due to increased staff and activity levels, including costs associated with increasing activity related to the Company's B-CDMA based product, and included an increase in commission expense due to the increase in UltraPhone product revenues in the three month period of 1997.

General and administrative expenses for the first quarter of 1997 increased 3% to \$3.3 million from \$3.2 million for the first quarter of 1996. The increase is primarily due to an increase in expenses related to corporate communications activities.

Product development expenses for the first quarter of 1997 increased 44% to \$6.3 million as compared to \$4.3 million during the first quarter of 1996. Staff and activity levels devoted to the development of the B-CDMA technology increased significantly.

Other Income and Expense. Interest income for the first quarter of 1997 was \$359,000 as compared to \$1.1 million for the first quarter of 1996. The Company had lower average invested cash balances in the 1997 period as compared to the 1996 period. Interest expense for the quarter ended March 31, 1997 was \$119,000 as compared to \$33,000 for the quarter ended March 31, 1996. The increase is due primarily to the mortgage interest related to the Company's purchase of its King of Prussia facilities in the second quarter of 1996.

Minority Interest. In December 1992, the Company sold 5.76% of the common shares of InterDigital Patents Corporation ("Patents Corp."), which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded an increase in minority interest in the first quarter of 1996 of \$887,000. During September 1996, the Company reacquired the minority interest of Patents Corp. in exchange for shares of the Company's Common Stock and will therefore no longer record a change in the Minority Interest liability.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

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

Exhibit 3.1	Restated Articles of Incorporation
Exhibit 10.32	Employment Agreement dated May 7, 1997 by and between InterDigital Communications Corporation and Mark Lemmo
Exhibit 11	Computation of Net Income Per Share
Exhibit 27	Financial Data Schedule

(b) The following is a list of Current Reports on Form 8-K filed during the first quarter of 1997:

The Company filed a Current Report on Form 8-K dated January 2, 1997 under

Item 5 - Other Events relating to a Rights Agreement between the Company
and its transfer agent. No financial statements were filed with this report.

The Company filed a Current Report on Form 8-K dated January 21, 1997 under

Item 5 - Other Events relating to the date set for the appeal in the
Company's litigation with Motorola. No financial statements were filed with this report.

The Company filed a Current Report on Form 8-K dated January 22, 1997 under

Item 5 - Other Events with a copy of its quarterly letter to shareholders.
No financial statements were filed with this report.

The Company filed a Current Report on Form 8-K dated January 22, 1997 under

Item 5 - Other Events with a statement of factors which could cause the
Company's actual results to vary or ability to achieve goals to differ from those expressed in any forward looking statement. No financial statements were filed with this report.

SIGNATURES

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

INTERDIGITAL COMMUNICATIONS CORPORATION

Date: May 14, 1997

/s/ William A. Doyle

William A. Doyle, President

Date: May 14, 1997

/s/ James W. Garrison

*James W. Garrison, Vice President -
Finance, Chief Financial
Officer and Treasurer*

Articles of Incorporation

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

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

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

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

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

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

- (i) 75,000,000 shares of Common Stock, \$0.01 par value per share ("Common Stock"), and
- (ii) 14,398,600 shares of Preferred Stock, \$0.10 par value per share ("Preferred Stock").

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

A. Preferred Stock

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

B. \$2.50 Cumulative Convertible Preferred Stock

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

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

Section 2. Dividends and Distributions.

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

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

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

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

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

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

is seventy-five percent (75%) of the lowest Closing Sale Price (as previously defined) of the Common Stock during the period beginning on the second consecutive Dividend Payment Date immediately preceding the Penalty Conversion Date and ending five trading days prior to the Penalty Conversion Date (such denominator being referred to herein as the "Penalty Conversion Price"). Upon the occurrence of a Dividend Default, the Corporation shall promptly mail to each holder of shares of Convertible Preferred Stock at such holder's last address as the same appears on the books of the Corporation a notice (a) stating that a Dividend Default has occurred, (b) setting forth the terms of the Penalty Conversion Right and (c) setting forth the time, place and manner of exercise of such Penalty Conversion Right.

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

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

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

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

(F) A holder of shares of Convertible Preferred Stock may surrender for conversion pursuant to a then exercisable Penalty Conversion Right or Extended Penalty Conversion Right (either of which is referred to hereinafter in this Section 2 as a "Conversion Right") all or any portion of such shares. Holders of Convertible Preferred Stock desiring to exercise a Conversion Right shall so elect by presenting to the Corporation at its principal place of business, within the period permitted to exercise such Conversion Right, their stock certificates representing the shares of Convertible Preferred Stock to be so converted pursuant to such conversion right, with the Notice of Election to Convert printed on the reverse side of such certificates appropriately completed, together with appropriate endorsements and transfer documents sufficient to transfer the Convertible Preferred Stock being converted to the Corporation free of any adverse interest, and by paying, at that time, any transfer or similar tax if required pursuant to Section 2(G). A Conversion Right in respect of shares of Convertible Preferred Stock for which certificates are not presented in accordance with the terms of this Section 2(F) within such applicable period of time or in respect of which the election to exercise the Conversion Right is not made in accordance with the terms of this Section 2(F) shall cease to be exercisable, provided, that such a termination of a Conversion Right shall not prejudice any new Conversion Right that may subsequently arise in accordance with the terms of Section 2(D) or 2(E). A conversion pursuant to a Conversion Right shall be deemed to have been made at the close of business on the day on which the converting holder presents to the Corporation the certificates for shares of Convertible Preferred Stock to be converted (assuming that such holder has satisfied all of the requirements set forth in this Section 2(F)), and the rights of such holder with respect to any such converted share shall cease at such time. The person in whose name the Common Stock certificate is registered shall be treated as a shareholder of record on and after the day of conversion. On such day, or as soon thereafter as is practicable, the Corporation shall deliver to the converting holder a stock certificate for the number of shares of Common Stock issuable upon the conversion and a stock certificate representing the number of shares of Convertible Preferred Stock equal to any unconverted portion of the stock certificate surrendered by the holder to the Corporation pursuant to this Section 2(F). Except as set forth in Section 2(D) or 2(E) with respect to the computation of the number of shares of Common Stock issuable upon exercise of a Conversion Right, no payment or adjustment will be made for accrued dividends on any share of Convertible Preferred Stock converted pursuant to a Conversion Right or for dividends on any Common Stock issued pursuant to the exercise of a Conversion Right. All accrued and unpaid dividends on such share shall cease to be payable following conversion of a share of Convertible Preferred Stock.

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

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

(H) The Corporation covenants that it will, after a Dividend Default and prior to any Penalty Conversion Date, use its best efforts to reserve and keep available, free from preemptive rights, out of its authorized Common Stock, solely for the purpose of issuance upon conversion of shares of Convertible Preferred Stock pursuant to Conversion Rights, such number of shares of Common Stock as it then reasonably estimates shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock that may be converted pursuant to Conversion Rights that may be exercisable following the next Penalty Conversion Date. The Corporation covenants that all shares of Common Stock that shall be issuable upon the exercise of Conversion Rights shall be, when issued, duly and validly issued and fully paid and nonassessable, free of all

liens and charges and not subject to any preemptive rights. For purposes of this Section 2(H), the number of shares of Common Stock that shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock shall be computed as if at the time of computation all outstanding shares of Convertible Preferred Stock were held by a single holder. The issuance of shares of Common Stock upon conversion of Convertible Preferred Stock pursuant to exercise of any Conversion Rights is authorized in all respects.

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

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

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

(a) the number of units of an Other Security at the time authorized, unissued and unreserved for all purposes or held in the treasury of the Corporation or its successors, as the case may be, is in sufficient to satisfy the Corporation's or such successor's obligations with respect to the conversion of Convertible Preferred Stock pursuant to any such Penalty Conversion Right; (b) the issuance or delivery of an Other Security in satisfaction of any such Penalty Conversion Right would require registration with or approval of any governmental authority under law or regulation, and such registration or approval has not been effected or obtained;

(c) the Other Security to be issued in payment of a dividend on the Convertible Preferred Stock has not been authorized for listing, upon official notice of issuance, on any United States national or regional securities exchange on which such Common Stock is then listed; or (d) the Other Security is not traded in the over-the-counter market and is not listed on a United States national or regional securities exchange,

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

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

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

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

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

In any case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the holders of shares of Convertible Preferred Stock, to the end that the provisions set forth herein shall thereafter

correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the conversion of shares of Convertible Preferred Stock pursuant to exercise of a Conversion Right.

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

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

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

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

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

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

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

The Board of Directors may fix a record date for the determination of holders of Convertible Preferred Stock entitled to vote for the election of a director pursuant to the terms of this

Section 3 at an annual or special meeting of shareholders, as the case may be, which record date shall not be more than fifty (50) days prior to the date of the meeting.

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

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

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

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

consolidation involving the Corporation or any reclassification of any stock ranking junior to the Convertible Preferred Stock as to dividend and liquidation rights.

Section 4. Certain Restrictions.

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

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

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

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

(iv) redeem pursuant to a sinking fund or otherwise any stock for the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, except (a) by means of a redemption pursuant to which all outstanding shares of Convertible Preferred Stock and all stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends are redeemed or pursuant to which a pro rata redemption is made from all holders of the Convertible Preferred Stock and all stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, the amount allocable to each series of such stock being determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and the shares of each series being redeemed only a pro-rata basis, or

(b) by conversion of such parity stock into, or exchange of such parity stock for, stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up; or

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

the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up.

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

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

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

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

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

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

Section 7. Consolidation, Merger and Sale of Assets.

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

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

Section 8. Optional Redemption.

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

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

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

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

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

(C) Notice of any redemption of the Convertible Preferred Stock shall be mailed, by means of first class mail, postage pre-paid, at least thirty (30), but not more than sixty (60), calendar days prior to the date fixed for redemption to each holder of Convertible Preferred Stock to be redeemed, at such holder's address as it appears on the books of the Corporation. In order to facilitate the redemption of the Convertible Preferred Stock, the Board of Directors may fix a record date for the determination of holders of Convertible Preferred Stock to be redeemed, which shall not be more than fifty (50) days prior to the date fixed for such redemption.

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

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

The holder of any shares of Convertible Preferred Stock redeemed upon any exercise of the Corporation's redemption right shall not be entitled to receive payment of the redemption price for such shares until such holder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificates representing such shares of Convertible Preferred

Stock and (ii) appropriate endorsements and transfer documents sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the redemption price of any share of Convertible Preferred Stock after its redemption date.

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

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

(F) Subject to Section 4 hereof, the Corporation shall have the right to purchase shares of Convertible Preferred Stock in the public market at such prices as may from time to time be available in the public market for such shares and shall have the right at any time to acquire any shares of Convertible Preferred Stock from the owner of such shares on such terms as may be agreeable to such owner. Shares of Convertible Preferred Stock may be acquired for the Corporation from any shareholder pursuant to this paragraph without offering any other shareholder an equal opportunity to sell his stock to the Corporation, and no purchase by the Corporation from any shareholder pursuant to this paragraph shall be deemed to create any right on the part of any shareholder to sell any shares of Convertible Preferred Stock (or any other stock) to the Corporation.

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

Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution and winding up.

Section 9. Conversion Option.

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

(B) In order to exercise the conversion privilege, the holder of shares of Convertible Preferred Stock shall surrender the certificate(s) evidencing such share(s), accompanied by instruments of transfer satisfactory to the Corporation and sufficient to transfer the Convertible Preferred Stock being converted to the Corporation free of any adverse interest, at any of the offices or agencies maintained for such purpose by the Corporation ("Conversion Agent") and shall be complete and sign the Notice of Election to Convert on the reverse side of the certificate (s). The holder shall also contemporaneously provide to the Corporation a written notice stating the name or names, together with address or addresses, in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. As promptly as practicable after the surrender of such share(s) of Convertible Preferred Stock as aforesaid, the Corporation shall issue and shall deliver, at the offices of such Conversion Agent, to such holder, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such share(s) in accordance with the provisions hereof and any fractional interest in respect of a share of Common Stock arising upon such conversion shall be settled as provided in Section 10 below. A new certificate or certificates will be issued representing the remaining shares of Convertible Preferred Stock in any case in which fewer than all of the shares of Convertible Preferred Stock represented by a certificate are converted. Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which shares of Convertible Preferred Stock shall have been so surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the Common Stock represented thereby at such time, unless the stock transfer books of the Corporation shall be closed on the date on which shares of Convertible Preferred Stock are so surrendered for conversion, in which event such conversion shall be deemed to have been effected immediately prior to the close of business on the next succeeding day on which such stock transfer books are open, and such person or persons shall be deemed to have become such holder or holders of record of the Common Stock at the close of business on such later day. In either circumstance, such conversion shall be at the Conversion Price in effect on the date upon which such share shall have been surrendered and such notice received by the Corporation. No payment or adjustment shall be made on conversion for any dividends accrued on shares of Convertible Preferred Stock surrendered for conversion or for any dividends on the Common Stock delivered on conversion. Effective as of any such conversion, the Corporation shall be excused from paying any dividends on the shares of Convertible Preferred Stock converted, including any dividends past due at the time of conversion; provided that if a share of Convertible Preferred Stock is surrendered for conversion after the record date for a declared dividend payment, such dividend shall nevertheless be paid on such share in the normal course.

(C) If, in lieu of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of any share or shares of Convertible Preferred Stock, the Corporation, pursuant to the terms of Section 10 hereof, shall deliver cash, the fair market value

of a share of Common Stock shall be deemed to be equal to the Closing Sale Price (as defined above) of the Common Stock on the day of conversion or, if such day is not a trading day, on the trading day immediately prior to the day of conversion. If more than one certificate representing shares of Convertible Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Convertible Preferred Stock represented by such certificates, or the specified portions thereof to be converted, so surrendered.

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

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

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

(b) In case the Corporation shall hereafter issue rights or warrants to holders of its outstanding shares of Common Stock generally entitling them (for a period expiring within 45 days after the record

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 11. Elimination of Preemptive Rights. No holder of shares of Convertible Preferred Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issues of securities of any class of the Corporation, whether now or hereafter authorized.

Section 12. Cash Dividend Election.

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

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

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

Seventh. (a) The Directors, other than those who may be elected by the holders of any class or series of stock entitled to elect directors separately, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-laws of the Corporation, one class to be originally elected

for a term expiring at the annual meeting of shareholders to be held in 1985, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1986, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1987, with each class to hold office until its successor is elected and qualified. At each annual meeting of the shareholders of the Corporation, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

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

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

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

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

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

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

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

(a)(A) In addition to any affirmative vote required by law or the Articles of Incorporation or any resolution adopted pursuant to Article Fifth of the Articles of Incorporation, and except as otherwise expressly provided in (b) of this Article Ninth, a Business Combination shall not be consummated without the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of stock of all

classes and series of the Corporation entitled to vote generally in the election of Directors ("Voting Stock"), in each case voting together as a single class (it being understood that for purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article Fifth of the Article of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or by the Articles of Incorporation or any resolution or resolutions adopted pursuant to Article Fifth of the Articles of Incorporation or in any agreement with any national securities exchange or otherwise.

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

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

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

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

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

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

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

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

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

through (6) shall have been met:

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

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

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

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

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

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

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

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

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

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

(ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors,

and (y) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split) recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate was approved by a majority of the Disinterested Directors; and

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

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

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

(c) For the purposes of this Article Ninth:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EMPLOYMENT AGREEMENT

BETWEEN

MARK LEMMO

AND

INTERDIGITAL COMMUNICATIONS CORPORATION

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made this 7th day of May, 1997, by and between Mark Lemmo, a Pennsylvania resident (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company").

WHEREAS, the Company is engaged in the business of developing and marketing certain types of advanced digital wireless telecommunications systems using proprietary technologies for voice and data communications, as more particularly described in the Company's Form 10-K as filed from time to time, and the licensing of wireless digital telephone technology (the "Business").

WHEREAS, Employee serves in the position of Senior Vice President
- UltraPhone(R) Operations of the Company (Employee's "Position").

WHEREAS, the Company has offered Employee a substantial increase in base salary on the condition that Employee enter into this Agreement with Company in order to set forth certain terms and conditions relating to Employee's continued employment with the Company.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. Salary Increase. The Company hereby grants Employee an increase to his base salary as set forth in Section 4 below and Employee hereby accepts such increase.
2. Term and Duties. Until such time as Employee's employment hereunder is terminated pursuant to the provisions of Section 9 hereto (the "Term"), Employee shall serve the Company faithfully and to the best of his ability and shall devote his

full time, attention, skill and efforts to the performance of the duties required by or appropriate for his Position. Employee agrees to assume such duties and responsibilities as may be customarily incident to such position, and as may be reasonably assigned to Employee from time to time by the President or the Chief Executive Officer of the Company. Employee shall report to the President and the Chief Executive Officer of the Company.

3. Other Business Activities. During the Term, Employee will not, without the prior written consent of the Company, directly or indirectly engage in any other business activities or pursuits whatsoever, except activities in connection with any charitable or civic activities, personal investments and serving as an executor, trustee or in other similar fiduciary capacity; provided, however, that such activities do not interfere with his performance of his responsibilities and obligations pursuant to this Agreement.

4. Compensation. The Company shall pay Employee, and Employee hereby agrees to accept, as compensation for all services rendered hereunder and for Employee's covenant not to compete as provided for in Section 8 hereof, a base salary at the annual rate of One Hundred and Seventy Thousand Dollars (subject to any increase from time to time, the "Base Salary"). The Base Salary shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company or which are requested to be withheld by Employee, and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated employees from time to time in effect. In addition to the Base Salary, Employee shall be eligible to participate in whatever bonus plan, if any, the Company shall adopt for its executive officers, including without limitation, the Executive Bonus Plan the Company currently intends to develop and implement with the assistance of Ernst & Young. Notwithstanding the foregoing sentence, the Company shall be under no obligation to develop and/or implement any bonus plan, including without limitation, the aforesaid Executive Bonus Plan, or to continue any such plan, if adopted.

5. Benefits and Expenses. Employee shall be entitled to receive those employee benefits (including expense reimbursement) as shall be provided to similarly situated executive employees of the Company ("Benefits").

6. Confidentiality. Employee recognizes and acknowledges that the Proprietary Information (as hereinafter defined) is a valuable, special and unique asset of the Business of the Company. As a result, both during the Term and thereafter, Employee shall not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for his own benefit, or for any purpose other than the exclusive benefit of the Company, any confidential, proprietary, business and technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Proprietary Information") revealed, obtained or developed in the course of his employment with the Company. Such Proprietary Information shall include, but shall not be limited to, the intangible personal property described in Section 7(b) hereof, any information relating to methods of production and manufacture, research, computer codes or instructions (including source and object code listings, program logic algorithms, subroutines, modules or other subparts of computer programs and related documentation, including program notation), computer processing systems and techniques, concepts, layouts, flowcharts, specifications, know-how, any associated user or service manuals or other like textual materials (including any other data and materials used in performing the Employee's duties), all computer inputs and outputs (regardless of the media on which stored or located), hardware and software configurations, designs, architecture, interfaces, plans, sketches, blueprints, and any other materials prepared by the Employee in the course of, relating to or arising out of his employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers (including information and other material relating to the ASIC), costs, business studies, business procedures, finances, marketing data, methods, plans and efforts, the identities of licensees, strategic partners, customers, contractors and suppliers and prospective licensees, strategic partners, customers, contractors and suppliers, the terms of contracts and agreements with licensees, strategic partners, customers, contractors and suppliers, the Company's relationship with actual and prospective licensees, strategic partners, customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective licensees, strategic partners, customers, contractors and suppliers, personnel information, customer and vendor credit information,

and any other materials that have not been made available to the general public, provided, that nothing herein contained shall restrict Employee's ability to make such disclosures during the course of his employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for his Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Employee from divulging or using for his own benefit or for any other purpose any Proprietary Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Employee's breach of this Section 6. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information under the terms of this Agreement.

7. Property.

(a) All right, title and interest in and to Proprietary Information shall be and remain the sole and exclusive property of the Company. During the Term, Employee shall not remove from the Company's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing Proprietary Information, or other materials or property of any kind belonging to the Company unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for his Position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. Employee shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of his assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which he may have access or with which for any reason he may become familiar, except as disclosure shall be necessary in the performance of his duties; and upon the termination of his employment with the Company, he shall leave with or return to the Company all originals and copies of the foregoing then in his possession, whether prepared by Employee or by others.

(b) (i) Employee agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by Employee (1) at any time and at any place while the Employee is employed by Company and which, in the case of any or all of the foregoing, are related to and used in connection with the Business of the Company, (2) as a result of tasks assigned to Employee by the Company, or (3) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Company. The Employee shall promptly disclose to the Company all Intellectual Property, and the Employee shall have no claim for additional compensation for the Intellectual Property.

(ii) The Employee acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Employee may retain an interest in any Intellectual Property that is not copyrightable, the Employee hereby irrevocably assigns and transfers to the Company any and all right, title, or interest that the Employee may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Company shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(iii) Employee further agrees to reveal promptly all information relating to the same to an appropriate officer of the Company and to cooperate with the Company and execute such documents as may be necessary or appropriate
(1) in the event that the Company desires to seek copyright, patent or trademark protection, or other analogous protection, thereafter relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (2) to defend any

opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(iv) In the event the Company is unable after reasonable effort to secure Employee's signature on any of the documents referenced in Section 7 (b)(iii) hereof, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact, to act for and in his behalf and to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by Employee.

8. Covenant Not to Compete. The Employee shall not, during the Term and thereafter for the Restricted Period (as defined below), do any of the following, directly or indirectly, without the prior written consent of the Company:

(a) engage or participate in any product business directly competitive with the Company's Business, or the business of any of the Company's subsidiaries or affiliates, as same are conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter;

(b) become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any person, firm, corporation, association or other entity engaged in any business that is competitive with the Business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter, or become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any portion of the business of any person, firm, corporation, association or other entity where such portion of such business is competitive with the business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during

the Term, or upon termination of Employee's employment hereunder with respect to any period thereafter. Notwithstanding the foregoing, Employee may hold not more than one percent (1%) of the outstanding securities of any class of any publicly-traded securities of a company that is engaged in activities referenced in Section 8(a) hereof;

(c) influence or attempt to influence any licensee, strategic partner, supplier, or customer of the Company or potential licensee, strategic partner, supplier or customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; or

(d) influence or attempt to influence any person to either

(i) terminate or modify his employment, consulting, agency, distributorship or other arrangement with the Company, or (ii) employ or retain, or arrange to have any other person or entity employ or retain, any person who has been employed or retained by the Company as an employee, consultant, agent or distributor of the Company at any time during the twelve (12) month period immediately preceding the termination of Employee's employment hereunder.

For purposes of this Section 8, the Restricted Period shall constitute (as applicable) (i) the period, if any, that Employee shall receive severance as set forth in Section 9 hereof, (ii) in the event Employee's employment hereunder is terminated for cause pursuant to Section 9 hereof, a period of one (1) year following such termination, or (iii) in the event that Employee terminates this Agreement without Good Reason, so long as the Company voluntarily pays severance to Employee (which the Company shall be under no obligation to do), for the period that Employee shall receive such severance, but in no event for a period longer than one (1) year. In the case of (iii) above, Employee's termination notice shall specify the name of any employer that Employee intends to accept employment with and the nature of the proposed position. Company shall render its decision whether or not to enforce the Restricted Period and notify Employee thereof within one week of Employee's notice of termination to Company. In the event Company elects to enforce the Restricted Period, Employee may rescind his notice of termination by notice to Company within one week of the Company's decision. Notwithstanding the foregoing, if Employee fails to provide Company with at least thirty (30) days prior notice of his termination, then Company shall so render its decision and notify Employee within thirty (30) days

of the date of termination. In the event Company elects to enforce the Restricted Period, Company may elect to terminate its voluntary severance payments to Employee prior to the end of the one (1) year period by providing at least ninety (90) days prior notice to Employee.

9. Termination. Employee's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this

Section 9. Upon termination, Employee shall be entitled only to such compensation and benefits as described in this Section 9.

9.1. Termination for Disability.

(a) In the event of a long-term disability of the Employee (as such term is defined in the Company's Long-Term Disability Plan) such that the Employee is not otherwise qualified to perform the essential functions of the job with or without reasonable accommodation ("Disability"), Employee's employment hereunder may be terminated by the Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.1(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other forms of compensation and bonus payable or provided in accordance with the terms of any then existing compensation, bonus or benefit plan or arrangement ("Other Compensation"), including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, for a period of one year following such termination, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.1(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage

is not provided under other Company policies, plans or programs relating to Disability. Except as specifically set forth in this Section 9.1(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

(c) For purposes of this Section 9.1, the determination as to whether Employee has a long-term disability (as such term is defined in the Company's Long-Term Disability Plan) shall be made by a licensed physician selected by the Company (and reasonably acceptable to Employee) and shall be based upon a full physical examination and good faith opinion by such physician.

9.2. Termination by Death. In the event that Employee dies during the Term, Employee's employment hereunder shall be terminated thereby and the Company shall pay to Employee's executors, legal representatives or administrators an amount equal to the accrued and unpaid portion of his Base Salary, Benefits and Other Compensation up through the date on which he dies. Except as specifically set forth in this Section 9.2, the Company shall have no liability or obligation hereunder to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Employee's death, except that Employee's executors, legal representatives or administrators will be entitled to receive the payment prescribed under any death or disability benefits plan in which he is a participant as an employee of the Company, and to exercise any rights afforded under any compensation or benefit plan then in effect.

9.3. Termination for Cause.

(a) The Company may terminate Employee's employment hereunder at any time for "cause" upon written notice to Employee. For purposes of this Agreement, "cause" shall mean: (i) any material breach by Employee of any of his obligations under this Agreement, which breach is not cured within thirty (30) days after Employee's receipt of written notification from the Company of such breach, (ii) other conduct of Employee involving any type of willful misconduct with respect to the Company, including without limitation fraud, embezzlement,

theft or proven dishonesty in the course of his employment or conviction of a felony.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.3(a), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. All Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.3, the Company shall have no liability or obligation hereunder, including without limitation for any severance whatsoever, by reason of such termination.

9.4. Termination Without Cause.

(a) The Company may terminate Employee's employment hereunder at any time, for any reason, without cause, effective upon the date designated by the Company upon thirty (30) days prior written notice to Employee. Company may elect to have Employee remain absent from the workplace and cease Company business during all or part of such thirty (30) day period.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.4(a) (including by the Company's delivery of written notice not to renew the Term in accordance with the provisions of Section 1 hereof in the event such termination is not for cause), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, Employee shall be entitled to receive (i) severance in an amount equal to Employee's Base Salary and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of one year commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its executives from time to time in effect. All Base Salary, Benefits and Bonuses shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in

force and applicable to Employee. Except as specifically set forth in this Section 9.4, the Company shall have no liability or obligation hereunder by reason of such termination.

9.5. Termination by Employee.

(a) Employee may terminate Employee's employment hereunder at any time, for Good Reason or without Good Reason, effective upon the date designated by Employee in written notice of the termination of his employment hereunder pursuant to this Section 9.5(a); provided that, such date shall be at least thirty (30) days after the date of such notice. For purposes of this Agreement, Good Reason shall mean: (i) the failure by the Company to pay in a timely manner Base Salary or any other material form of compensation or material benefit to be paid or provided to Employee hereunder, or (ii) any material breach, not encompassed within clause (i) of this Section 9.5(a), of the obligations of the Company under this Agreement which breach is not cured within thirty (30) days after the Company's receipt of written notification from the Employee of such breach.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.5(a) hereof, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, solely if such termination is for Good Reason, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's Base Salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of one year commencing upon the date of such termination. Such severance shall be payable as set forth in Section 9.4(b) hereof. Except as specifically set forth in this Section 9.5(b), all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.5, the Company shall have no liability or obligation hereunder by reason of such termination.

9.6. Change of Control.

(a) If there is a Change of Control during the Term, and Employee's employment with the Company hereunder is terminated within one (1) year following such Change of Control by the Company (except for cause) or by Employee (whether or not for Good Reason), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, (i) Employee shall be entitled to receive, on the date of such termination, an amount equal to two years' worth of Employee's Base Salary, and (ii) all stock options granted to Employee by Company which pursuant to the terms of the applicable stock option plan vest upon a Change in Control (e.g., Section 17(b) of the 1995 Stock Option Plan for Employees and Outside Directors) shall vest. Except as specifically set forth in this Section 9.6, all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plans then in force and applicable to Employee, and the Company shall have no liability or obligation hereunder by reason of such termination.

(b) For purposes of this Section 9.6, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company 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 the Company on the date hereof. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

9.7. Termination for Absenteeism

(a) Regular attendance at work or in conducting work is an essential element of Employee's job. Without limiting the Company's right to terminate Employee pursuant to Section 9.1 or 9.3 herein, in the event that Employee is absent for more than one hundred and fifty (150) days within any twelve (12) month period, Employee's employment hereunder may be terminated by Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.8(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other forms of compensation and bonus payable or provided in

accordance with the terms of any then existing compensation, bonus or benefit plan or arrangement ("Other Compensation"), including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, for a period of one year following such termination, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.8(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage is not provided under other Company policies, plans or programs relating to Disability. Except as specifically set forth in this Section 9.8(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

10. Other Agreements. Employee represents and warrants to the Company that:

- (a) There are no restrictions, agreements or understandings whatsoever to which Employee is a party which would prevent or make unlawful Employee's execution of this Agreement or Employee's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Employee's employment hereunder, or would prevent, limit or impair in any way the performance by Employee of his obligations hereunder,
- (b) Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party or by which Employee is bound, and
- (c) Employee is free to execute this Agreement and to enter into the employ of the Company pursuant to the provisions set forth herein.

(d) Employee shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer that the Employee may work for during the term of this Agreement (which employment is not hereby authorized) or after the termination of the Employee's employment at the Company.

11. Survival of Provisions. The provisions of this Agreement set forth in Sections 6, 7, 8, 9 (solely with respect to the payment obligations of the Company to Employee, if any, set forth therein), 10 and 21 hereof shall survive the termination of Employee's employment hereunder. If for any reason Employee shall continue to be employed by the Company following the termination of Employee's employment hereunder, Employee shall have no right to receive any severance or other payments hereunder until Employee ceases to be employed by the Company, whereupon Employee's right to severance or other payments, if any, shall be governed by the provisions of Section 9 hereof with respect to the particular circumstances involved in the Employee's termination of employment.

12. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; provided, however, that neither Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other parties hereto.

13. Employee Benefits. This Agreement shall not be construed to be in lieu or to the exclusion of any other rights, benefits and privileges to which Employee may be entitled as an employee of the Company under any retirement, pension, profit-sharing, insurance, hospital or other plans or benefits which may now be in effect or which may hereafter be adopted.

14. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, by hand delivery, or by recognized overnight courier, addressed as follows:

If to Employee:

Mark Lemmo
c/o InterDigital Communications Corporation
781 Third Avenue
King of Prussia, Pennsylvania 19406

If to Company:

InterDigital Communications Corporation
781 Third Avenue
King of Prussia, Pennsylvania 19406
Attn: Harry Campagna, Chairman

with a copy to:

Pepper, Hamilton & Scheetz
3000 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103
Barry M. Abelson, Esquire

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

15. Entire Agreement; Amendments. This Agreement contain the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Employee with the Company.

16. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

17. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

18. Invalidity. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

19. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

20. Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and legal holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or day which is a holiday in the Commonwealth of Pennsylvania, then such final day shall be deemed to be the next day which is not a Saturday, Sunday or legal holiday.

21. Specific Enforcement; Extension of Period.

(a) Employee acknowledges that the restrictions contained in Sections 6, 7, and 8 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee also acknowledges that any breach by him of Sections 6, 7, or 8 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Employee shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Employee, the Company shall have the right to enforce the provisions of Sections 6, 7, and 8 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this

Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements. In the event that the provisions of Sections 6, 7, or 8 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

(b) In the event that Employee shall be in breach of any of the restrictions contained in Section 8 hereof, then the Restricted Period shall be extended for a period of time equal to the period of time that Employee is in breach of such restriction.

22. Consent to Suit. Any legal proceeding arising out of or relating to this Agreement shall be instituted in the District Court of the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in the Commonwealth of Pennsylvania, and the Employee hereby consents to the personal and exclusive jurisdiction of such court and hereby waives any objection that the Employee may have to the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

23. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

ATTEST: INTERDIGITAL COMMUNICATIONS

CORPORATION

By: /s/ Jane Schultz

Title: Asst. Secretary

[CORPORATE SEAL]

By: /s/ William A. Doyle

Title: President

/s/ Mark Lemmo

Mark Lemmo

EXHIBIT 11

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

COMPUTATION OF NET INCOME (LOSS) PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

THREE MONTHS
ENDED
MARCH 31,
1996

COMPUTATION OF PRIMARY
EARNINGS (LOSS) PER SHARE:

Net Income (Loss) Applicable to Common Shareholders	\$ 3,898
	=====
Weighted Average of Primary Shares:	
Common Stock	44,905
Assumed Conversion of Options and Warrants	4,077

	48,982
	=====
	\$.08
	=====

A calculation for the three month period ended March 31, 1997 has not been presented since the effect of the options and warrants would be anti-dilutive.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	MAR 31 1997
CASH	15,316
SECURITIES	22,421
RECEIVABLES	16,838
ALLOWANCES	558
INVENTORY	15,197
CURRENT ASSETS	78,547
PP&E	19,722
DEPRECIATION	9,107
TOTAL ASSETS	104,560
CURRENT LIABILITIES	28,692
BONDS	4,147
PREFERRED MANDATORY	0
PREFERRED	10
COMMON	481
OTHER SE	65,780
TOTAL LIABILITY AND EQUITY	104,560
SALES	23,776
TOTAL REVENUES	25,963
CGS	20,965
TOTAL COSTS	20,965
OTHER EXPENSES	6,251
LOSS PROVISION	27
INTEREST EXPENSE	119
INCOME PRETAX	(6,359)
INCOME TAX	17
INCOME CONTINUING	(6,376)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(6,376)
EPS PRIMARY	(.13)
EPS DILUTED	(.13)

End of Filing

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