

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

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

For the quarterly period ended June 30, 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 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

48,167,389 shares

Class

Outstanding at July 31, 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	JUNE 30, 1997
	-----	-----
		(UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$204 and \$209 respectively	\$ 11,954	\$ 15,320
Short term investments	43,063	17,317
Accounts receivable, net of allowance for uncollectable accounts of \$558 and \$546	13,921	8,730
Inventories	13,863	7,999
Other current assets	3,913	11,763
	-----	-----
Total current assets	86,714	61,129
	-----	-----
Property, plant and equipment, net of accumulated depreciation of \$8,383 and \$9,865, respectively	10,517	10,662
Patents, net of accumulated amortization of \$4,152 and \$4,513 respectively	9,753	9,520
Long term deposits	3,822	4,035
Other	1,830	1,834
	-----	-----
	25,922	26,051
	-----	-----
	\$ 112,636	\$ 87,180
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 790	\$ 807
Accounts payable	15,127	5,775
Accrued compensation and related expenses	3,551	4,498
Deferred revenue	4,790	3,105
Other accrued expenses	5,380	6,107
	-----	-----
Total current liabilities	29,638	20,292
	-----	-----
LONG TERM DEBT	4,221	3,929
	-----	-----
OTHER LONG TERM LIABILITIES	6,270	4,657
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 3)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value, 14,399 shares authorized \$2.50 Convertible Preferred, 103 shares and 102 shares issued and outstanding	10	10
Common Stock, \$.01 par value, 75,000 shares authorized, 48,109 shares and 48,167 shares issued and outstanding	481	481
Additional paid-in capital	234,245	234,496
Accumulated deficit	(162,229)	(176,685)
	-----	-----
Total shareholders' equity	72,507	58,302
	-----	-----
	\$112,636	\$ 87,180
	=====	=====

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		FOR THE SIX MONTHS	
	ENDED JUNE 30,		ENDED JUNE 30,	
	----- 1996 -----	----- 1997 -----	----- 1996 -----	----- 1997 -----
REVENUES:				
UltraPhone product revenues	\$ 5,007	\$ 16,442	\$ 6,834	\$ 40,218
Licensing and alliance	9,107	1,768	24,707	3,955
	----- 14,114	----- 18,210	----- 31,541	----- 44,173
OPERATING EXPENSES:				
Cost of UltraPhone revenues	5,020	14,765	7,897	35,731
Sales and marketing	1,143	2,118	1,916	4,191
General and administrative	2,283	3,367	5,453	6,638
Product development	4,835	6,451	9,166	12,702
	----- 13,281	----- 26,701	----- 24,432	----- 59,262
Income (loss) from operations	833	(8,491)	7,109	(15,089)
OTHER INCOME (EXPENSE):				
Interest income	956	665	2,071	1,023
Interest and financing expenses	(44)	(108)	(77)	(228)
	----- 1,744	----- (7,934)	----- 9,103	----- (14,294)
INCOME TAX PROVISION	(998)	(17)	(3,505)	(34)
	----- 747	----- (7,951)	----- 5,598	----- (14,328)
Income (loss) before minority interest	747	(7,951)	5,598	(14,328)
MINORITY INTEREST	(4)	--	(891)	--
	----- 743	----- (7,951)	----- 4,707	----- (14,328)
Net income (loss)	743	(7,951)	4,707	(14,328)
PREFERRED STOCK DIVIDENDS	(66)	(63)	(132)	(128)
	----- 677	----- (8,014)	----- 4,575	----- (14,456)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ 677	\$ (8,014)	\$ 4,575	\$ (14,456)
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ 0.01	\$ (0.17)	\$ 0.10	\$ (0.30)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	48,572	48,161	47,931	48,138
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the six months ended June 30,	
	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 4,707	\$(14,456)
Adjustments to reconcile net income (loss) to net cash used for operating activities-		
Minority interest in subsidiary	891	--
Depreciation and amortization	898	2,346
Other	(80)	(1,614)
Decrease (increase) in assets-		
Receivables	(2,942)	5,191
Inventories	102	5,865
Other current assets	(4,195)	(7,850)
Increase (decrease) in liabilities-		
Accounts payable	2,367	(9,351)
Accrued compensation	(301)	947
Deferred revenue	7,601	(1,685)
Other accrued expenses	6,012	727
Net cash used for operating activities	\$ 15,060	\$(19,880)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in short-term investments	\$ (7,262)	\$ 25,746
Additions to property and equipment, net of non-cash additions of \$0 and \$ 141, respectively	(2,110)	(1,486)
Additions to patents	(248)	(489)
Other non-current assets	(2,881)	(360)
Net cash provided by investing activities	\$(12,501)	\$ 23,411
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	\$ 8,621	\$ 251
Payments on long-term debt, including capital lease obligations	(301)	(416)
Net cash provided by financing activities	\$ 8,320	\$ (165)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 10,879	\$ 3,366
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,427	11,954
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,306	\$ 15,320
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 63	\$ 158
Income taxes paid, excluding foreign withholding taxes	\$ 308	\$ 104

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 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 June 30, 1997, the Company has sold over 345 UltraPhone systems worldwide, with aggregate UltraPhone product revenue totaling over \$200 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. 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.

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 June 30, 1997 and the results of their operations for the three and six month periods ended June 30, 1996 and 1997 and cash flows for the six month periods ended June 30, 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., a Court of Appeals has partially overturned a U.S. District Court decision by reinstating two claims that had previously been held invalid. The Court of Appeals also affirmed the validity of three other claims, affirmed the invalidity of nineteen claims, and denied ITC's request for a new trial as to validity and infringement issues. ITC is presently requesting a rehearing in the Court of Appeals, and is considering an appeal to the United States Supreme Court. In another action, the Court had stayed the proceeding at the request of the parties pending a decision by the Court of Appeals on the Motorola case. The parties are in the process of requesting a continuance of the stay pending a decision by the Court of Appeals on ITC's Petition for Rehearing. 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	June 30, 1997
	-----	-----
Money market funds and demand deposits	\$ 2,871	\$11,049
Certificates of deposit	204	---
Repurchase agreements	1,457	437
Commercial paper	7,422	3,834
	-----	-----
	\$11,954	\$15,320
	=====	=====

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 June 30, 1997 consisted of \$7.7 million in government-issued discount notes, \$2.9 million in municipal securities and \$6.7 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 June 30, 1996, the Company's Philippine and Puerto Rican customers accounted for 66% and 14% of UltraPhone product revenues, respectively. For the three months ended June 30, 1997, the Company's Indonesian customer accounted for 83% of UltraPhone product revenues. For the six months ended June 30, 1996, the Company's Philippine, Puerto Rican and Myanmarian customers accounted for 54%, 15% and 12%, respectively, of UltraPhone product revenues. For the six months ended June 30, 1997, the Company's Indonesian customer accounted for 80% of UltraPhone product revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996 ----	1997 ----	1996 ----	1997 ----
Domestic	\$ 491	\$ 330	\$ 940	\$ 578
Foreign	4,516	16,112	5,894	39,640
	=====	=====	=====	=====
	\$ 5,007	\$16,442	\$ 6,834	\$40,218
	=====	=====	=====	=====

Licensing and Alliance Revenue:

During the three months ended June 30, 1996, ITC recognized \$7.5 million related to the Samsung agreements and \$1.6 million related to the Siemens agreements. The Licensing and Alliance revenues for the three months ended June 30, 1997 include \$704,000 from Samsung, \$264,000 of recurring royalty revenue from one licensee and \$800,000 from Siemens. During the six months ended June 30, 1996, the Company recognized \$21.5 million of revenue related to its agreements with Siemens. During the six months ended June 30, 1997, Licensing and Alliance revenues include \$1.4 million from Samsung, \$1.6 million from Siemens and \$947,000 of recurring royalty revenue from one licensee.

6. 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 and six month periods 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; there was no effect of this accounting change on previously reported EPS for the three and six months ended June 30, 1996.

7. INVENTORIES:

	December 31, 1996	June 30, 1997
	----	----
	(In thousands)	
Component parts and work-in-progress	\$11,640	\$7,715
Finished goods	2,223	284
	=====	=====
	\$13,863	\$7,999
	=====	=====

Inventories are stated net of valuation reserves of \$5.9 million and \$6.3 million as of December 31, 1996 and June 30, 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 \$95,000 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 provision for the three months ended June 30, 1996 consists of a current foreign withholding tax provision of \$990,000, a current state tax provision of \$3,000 and a Federal Alternative Minimum Tax provision of \$5,000. The income tax provision for the three months ended June 30, 1997 consisted of a current state tax provision of \$17,000. For the six months ended June 30, 1996, the income tax provision consisted of a foreign withholding tax provision of \$3.3 million, a current state tax provision of \$114,000 and a Federal Alternative Minimum Tax provision of \$91,000. The income tax provision for the six months ended June 30, 1997 consisted of a current state provision of \$34,000. 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 June 30, 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 June 30, 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.

10. MYANMAR CONTRACT:

On May 16, 1997, the Company signed a contract with Myanma Posts and Telecommunications (MPT) in the Union of Myanmar, for UltraPhone systems, B-CDMA equipment and related telecommunications equipment. The value in the agreement is \$250 million, including UltraPhone systems, infrastructure equipment and services, as well as capital costs for a manufacturing facility to be built in Myanmar. The agreement calls for establishment of a joint venture in Myanmar between InterDigital and MPT for local manufacture of UltraPhone systems and other infrastructure equipment. In addition, the agreement provides an option for the joint venture to manufacture InterDigital's B-CDMA technology products. The agreement is subject to certain Myanmar governmental approvals, and finalization of the financing documents, the joint venture agreement, certain pricing, payment and other terms.

11. SHAREHOLDER RIGHTS PLAN

In December 1996, the Company's Board of Directors adopted a Shareholder Rights Plan and declared a distribution of one right ("Right") for each outstanding common share of the Company to shareholders of record as of the close of business on January 3, 1997. In addition, each share of common stock issued after January 3, 1997 will receive one right for each common share. Each right entitles the registered holder, subject to the terms of a Rights Agreement, to buy one one-thousandth of a share of Series B Junior Participating Preferred Stock at a purchase price of \$45 per Right, subject to adjustment. The Plan provides that the threshold for triggering subsequent distribution of the rights is 10 days following the acquisition by a non-exempt person as a result of which such person becomes the beneficial owner of 15% or more of the then outstanding shares of Company Common Stock, or 10 days following commencement of an offer to acquire 15% or more of the then outstanding shares of Company Common Stock. In May and July 1997, the Company's Board of Directors increased the percentage applicable to one of its investors, provided that investor remains a passive investor eligible to file a Schedule 13G, to 16% and 18%, respectively. In the event that (i) the Company is the surviving corporation in a merger with an acquiring person and shares of Company Common Stock shall remain outstanding,

(ii) a person becomes the beneficial owner of 15% (or with respect to the aforementioned investor, 18%) or more of the then outstanding shares of Company Common Stock, (iii) an acquiring person engages in one or more "self-dealing" transactions as set forth in the Rights Agreement, or (iv) during such time there is an acquiring person, an event occurs which results in such acquiring person's ownership interest being increased by more than 1% (e.g. by means of a reverse stock split or recapitalization), then in each case, each holder of a Right (other than those held by an acquiring person) will thereafter have the right to receive, upon exercise, Units of Preferred Stock (or, in certain circumstances, Company Common Stock, cash, property or other securities of the Company) having a current market value equal to two times the exercise price of the Right.

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, including \$43 million subsequently removed from backlog for the Pakistan contract (See "Backlog"), 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 prior to delivery of the order, 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 selling 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.

The Company does not currently have a material backlog of product orders. (See "Backlog".) Accordingly, the Company cannot predict with certainty when it will begin shipping any significant orders, and the volume of production and shipments prior to that time may not fully absorb fixed manufacturing costs, which would negatively affect gross margins. Additionally, the Company signed a contract with MPT for \$250 million which is currently not included in backlog. The contract amount includes UltraPhone systems, infrastructure equipment and services, as well as capital costs for a manufacturing facility to be built in Myanmar. The contract is subject to certain Myanmar governmental approvals, and finalization of the financing documents, the joint venture agreement, certain pricing, payment and other terms.

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 \$40.8 million at June 30, 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 related 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, absent significant increases in cash generated by operations, the Company will, 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 related 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 June 30, 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 June 30, 1997 balance sheets.

Backlog

At June 30, 1997, the Company's backlog of orders for UltraPhone telephone equipment and services was \$1.4 million. All of the backlog is scheduled to be delivered during the remainder of fiscal year 1997. Previously, the Company included in backlog a \$43 million order from Pakistan Telecommunications Company Limited ("PTCL"). PTCL allowed the contract to lapse on July 17, 1997, when it did not accept

InterDigital's proposal to finance the order. The Company continues to work through the issues associated with the contract but the Company cannot say with any degree of certainty whether it will be able to reestablish the agreement.

Additionally, the Company signed a contract with MPT for \$250 million which is currently not included in backlog. The contract amount includes UltraPhone and B-CDMA systems, infrastructure equipment and services, as well as capital costs for a manufacturing facility to be built in Myanmar. The contract is subject to certain Myanmar governmental approvals, and finalization of the financing documents, the joint venture agreement, certain pricing, payment and other terms. In any event, shipments during the remainder of 1997 will not be significant due to lengthy materials procurement lead times.

At June 30, 1996, the Company's backlog of orders for UltraPhone telephone equipment and services was \$53.0 million.

Cash Flows and Financial Condition

The Company has experienced negative cash flows from operations during the six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 1997, the Company experienced negative cash flows of \$165,000 from financing activities. The funds were used for payments on long-term debt (including capital lease obligations) but were partially offset by proceeds from the exercise of stock options and warrants and the sale of stock through the Company's Employee Stock Purchase Plan.

Cash, cash equivalents and short-term investments of \$32.6 million as of June 30, 1997 includes \$209,000 of restricted cash. The UltraPhone product accounts receivable of \$8.7 million at June 30, 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 June 30, 1997, \$3.2 million has been collected through July 31, 1997.

Inventory levels at June 30, 1997 of \$8.0 million have decreased 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 June 30, 1997 are stated net of valuation reserves of \$5.9 million and \$6.3 million, respectively.

Included in other accrued expenses at June 30, 1997 are professional fees, consulting and other accruals as well as sales taxes payable.

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

Total Revenues. Total revenues in the second quarter ended June 30, 1997 increased to \$18.2 million from \$14.1 million in the second quarter ended June 30, 1996 due to an increase in UltraPhone product sales. UltraPhone product sales increased in the second quarter of 1997 to \$16.4 million from \$5.0 million in the comparable quarter of 1996, partially offset by a decline in licensing and alliance revenues to \$1.8 million in the second quarter of 1997 as compared to \$9.1 million in the comparable quarter of the prior year.

During the second 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 \$264,000 of recurring royalty revenue during the second 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 second quarter of 1996, the Company recognized \$7.5 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 second quarter of 1997 increased to \$14.8 million from \$5.0 million for the second quarter of 1996, primarily due to the increase in UltraPhone product revenues. The Company had approximately 10.2% positive gross margin on UltraPhone system sales for the quarter ended June 30, 1997 as compared to a break-even gross margin for the quarter ended June 30, 1996. Due to the increased volume of UltraPhone product revenues, manufacturing overhead expenses were more 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 85% to \$2.1 million during the second quarter of 1997 as compared to \$1.1 million during the second quarter of 1996. The increase is primarily due to an increase in commission expense due to the increase in UltraPhone product revenues in the three month period of 1997 and increased staff and activity levels, including costs associated with increasing activity related to the Company's B-CDMA based product.

General and administrative expenses for the second quarter of 1997 increased 47% to \$3.4 million from \$2.3 million for the second quarter of 1996. The increase is primarily due to an increase in expenses related to severance costs for the Company's former CEO during the 1997 period and corporate communications activities.

Product development expenses for the second quarter of 1997 increased 33% to \$6.5 million as compared to \$4.8 million during the second 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 second quarter of 1997 was \$664,000 as compared to \$1.0 million for the second 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 June 30, 1997 was \$108,000 as compared to \$44,000 for the quarter ended June 30, 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 second quarter of 1996 of \$4,000. 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.

Results of Operations -- Six Months Ended June 30, 1997 Compared to Six Months Ended June 30, 1996

Total Revenues. Total revenues for the six months ended June 30, 1997 increased 40% to \$44.2 million from \$31.5 million for the six months ended June 30, 1996 primarily due to an increase in the amount of UltraPhone product revenues partially offset by a decrease in Licensing and Alliance revenues. UltraPhone equipment sales increased 488% during the six months ended June 30, 1997 to \$40.2 million from \$6.8 million in the comparable period of 1996 primarily due to the completion of shipments of the Indonesian order. License and Alliance revenues for the six months ended June 30, 1997 includes \$1.4 million as part of the Samsung Agreements, \$1.6 million as part of the Siemens Agreements and \$947,000 of recurring royalty revenue from one licensee. Licensing and Alliance revenues for the six months ended June 30, 1996 includes \$21.5 million as part of the Samsung agreements and \$3.2 million as part of the Siemens agreements.

Cost of UltraPhone Sales. The cost of UltraPhone equipment sales for the six months ended June 30, 1997 increased 349% to \$35.7 million from \$7.9 million for the six months ended June 30, 1996. The Company incurred a positive gross margin on UltraPhone equipment sales of 11.1% for the six months ended June 30, 1997 as compared to a negative gross margin of 15.5% for the six month period ended June 30, 1996. Included in cost of UltraPhone equipment 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, as well as the overhead expenses the Company has incurred in maintaining its production resources that were not absorbed into inventory due to the low volume of production. At low production levels, such as those experienced in the first half of 1996, the Company incurs substantial negative gross profit margins because production costs are spread over only a limited number of units of production.

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

Sales and marketing expenses increased 119% to \$4.2 million during the six months ended June 30, 1997 compared from \$1.9 million during the six months ended June 30, 1996. The increase is primarily due to increased commissions expense, commensurate with the increase in UltraPhone system revenues and increased levels of marketing and sales activities.

General and administrative expenses for the six months ended June 30, 1997 increased 22% to \$6.6 million from \$5.5 million for the six months ended June 30, 1996. The increase in general and administrative expense is due primarily to higher activity levels.

Product development expenses increased 39% for the six months ended June 30, 1997 to \$12.7 million from \$9.2 million for the six months ended June 30, 1996. The increase over the prior year period is due primarily to increased staff and activity levels devoted to the development of the B-CDMA technology and the continued development of the Company's UltraPhone product.

Other Income and Expense. Interest income for the six months ended June 30, 1997 was \$1.0 million as compared to \$2.1 million for the six months ended June 30, 1996. The decrease is due primarily to lower average invested cash and investment balances in 1997 compared to 1996. Interest expense for the six month period ended June 30, 1997 was \$228,000 as compared to \$77,000 for the six month period ended June 30, 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 Patents Corp., which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded \$891,000 as an increase in minority interest in the six months ended June 30, 1996 representing the minority interest's portion of the net income of Patents Corp. for the six months ended June 30, 1996. 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.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The foregoing Management's Discussion and Analysis and discussions of the Company's business contain forward looking statements reflecting, among other things, the Company's current beliefs, intentions and expectations as to its objectives, including with respect to its contract with MPT, its contract with PTCL and its backlog. Such statements are subject to risks and uncertainties. The Company cautions the readers that important factors in some case have affected and, in the future, could materially affect the Company's actual results and cause the Company's actual results to differ materially from the results expressed in any such forward looking statement. These factors include but are not limited to: difficulties or delays in the development, production, testing and marketing or sale of the Company's products; failure to consummate the Myanmar contract due to inability to finalize the documentation, secure acceptable financing, lack of governmental or regulatory approval, U.S. sanctions or other governmental prohibitions, or other factors; the failure to reestablish negotiations or renegotiate a mutually acceptable contract with PTCL; the effects of, and changes in, foreign trade, monetary and fiscal policies, laws and regulations or other activities of foreign and the United States governments, agencies and similar organizations; and the availability of competitive products superior on a perceived, relative or actual basis with the Company's products. The Company undertakes no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In July, 1997, the U.S. Court of Appeals for the Federal Circuit partially overturned a U.S. District Court decision in the patent infringement case between ITC and Motorola, Inc. by reinstating two claims that had previously been held invalid. The Court of Appeals also affirmed the validity of three other claims, affirmed the invalidity of nineteen claims, and denied ITC's request for a new trial as to validity and infringement issues. ITC is presently requesting a rehearing in the Court of Appeals, and is considering an appeal to the United States Supreme Court.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Shareholders held on June 20, 1997, the shareholders of the Company elected two directors of the Company and ratified the appointment of Arthur Andersen LLP as the Company's independent accountants for the year ending December 31, 1997. Messrs. William A. Doyle and D. Ridgely Bolgiano were elected to serve as directors at the meeting. 45,400,867 shares were voted in favor of Mr. Doyle, 483,684 shares being withheld, and 45,383,708 shares were voted in favor of Mr. Bolgiano, 500,843 shares being withheld. Messrs. Harry G. Campagna, Barney Cacioppo and Robert S. Roath also continued to serve their terms as directors. The vote ratifying the appointment of Arthur Andersen LLP was 45,555,890 shares for, 161,444 shares against and 167,217 shares abstaining.

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 4.1	Rights Agreement between InterDigital Communications Corporation and American Stock Transfer and Trust (Exhibit 4 to the Company's Current Report on Form 8-K filed on December 13, 1987).
Exhibit 4.2	Amendment No. 1 to the Rights Agreement between InterDigital Communications Corporation and American Stock Transfer and Trust Company
Exhibit 4.3	Amendment No. 2 to the Rights Agreement between InterDigital Communications Corporation and American Stock Transfer and Trust Company
Exhibit 10.33	Employment Agreement dated May 7, 1997 by and between InterDigital Communications Corporation and Joseph Gifford
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 second quarter of 1997:

The Company filed a Current Report on Form 8-K dated April 7, 1997 under

Item 5 - Other Events, with a copy of its quarterly letter to shareholders.

No financial statements were filed with this report.

SIGNATURES

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

INTERDIGITAL COMMUNICATIONS CORPORATION

Date: August 8, 1997

/s/ William A. Doyle

William A. Doyle, President

Date: August 8, 1997

/s/ James W. Garrison

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

Exhibit 4.2

AMENDMENT NO. 1
to the
RIGHTS AGREEMENT
Between
INTERDIGITAL COMMUNICATIONS CORPORATION
and
AMERICAN STOCK TRANSFER AND TRUST COMPANY
dated as of
DECEMBER 31, 1996

THIS AMENDMENT NO. 1, dated May 6, 1997, to the RIGHTS AGREEMENT between
INTERDIGITAL COMMUNICATIONS CORPORATION and AMERICAN STOCK TRANSFER AND TRUST COMPANY dated
as of DECEMBER 31, 1996

WHEREAS, InterDigital Communications Corporation ("InterDigital") and American Stock Transfer and Trust Company ("ASTT") entered into a Rights Agreement, dated as of December 31, 1996, (the "Agreement") dealing with, among other things, the voting rights of the holders of InterDigital Common Stock; and

WHEREAS, InterDigital has entered into an agreement with Heartland Advisors dated May 5, 1997 (the "Letter Agreement") under which the Company, in exchange for other consideration, has agreed to permit Heartland not to become and "Acquiring Person", as defined under the Agreement, subject to the terms and conditions of the Agreement and the Letter Agreement; and

WHEREAS, to implement the requirements of the Letter Agreement, InterDigital and ASTT, pursuant to Section 26 of the Agreement, have agreed to amend the Agreement as set forth herein.

NOW THEREFORE, the parties, intending to be legally bound, agree as follows:

1. The definition of "Acquiring Person" set forth in Section 1, paragraph (a), is amended by adding a new clause at the end of the definition reading as follows:

;provided, however, that Heartland Advisors shall not be an Acquiring Person unless and until Heartland Advisors (i) is the Beneficial Owner of more than 16% of the shares of Common Stock then outstanding, or (ii) is the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding and Heartland is not permitted to file a Schedule 13G, in lieu of Schedule 13D, pursuant to the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

2. All other terms conditions remained unaltered and in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment No. 1 to be duly executed, all as of the date first written above.

ATTEST: INTERDIGITAL COMMUNICATIONS

CORPORATION

BY: /s/ *Lisa Axt Alexande*

Lisa Axt Alexander
Assistant Secretary

BY: /s/ *William A. Doyle*

William A. Doyle
President

ATTEST: AMERICAN STOCK TRANSFER AND TRUST

COMPANY

BY: /s/ *Susan Silber*

Susan Silber
Assistant Secretary

BY: /s/ *Herbert J. Lemmer*

Herbert J. Lemmer
Senior Vice President and
General Counsel

Exhibit 4.3

AMENDMENT NO. 2
to the
RIGHTS AGREEMENT
Between
INTERDIGITAL COMMUNICATIONS CORPORATION
and
AMERICAN STOCK TRANSFER AND TRUST COMPANY
dated as of
DECEMBER 31, 1996

THIS AMENDMENT NO. 2, dated July 29, 1997, to the RIGHTS AGREEMENT between **INTERDIGITAL COMMUNICATIONS CORPORATION and AMERICAN STOCK TRANSFER AND TRUST COMPANY dated as of DECEMBER 31, 1996**

WHEREAS, InterDigital Communications Corporation ("InterDigital") and American Stock Transfer and Trust Company ("ASTT") entered into a Rights Agreement, dated as of December 31, 1996, (the "Agreement") dealing with, among other things, the voting rights of the holders of InterDigital Common Stock; and

WHEREAS, InterDigital has entered into an agreement with Heartland Advisors dated July 8, 1997 (the "Letter Agreement") under which the Company, in exchange for other consideration, has agreed to permit Heartland not to become and "Acquiring Person", as defined under the Agreement, subject to the terms and conditions of the Agreement and the Letter Agreement; and

WHEREAS, to implement the requirements of the Letter Agreement, InterDigital and ASTT, pursuant to Section 26 of the Agreement, have agreed to amend the Agreement as set forth herein.

NOW THEREFORE, the parties, intending to be legally bound, agree as follows:

1. The definition of "Acquiring Person" set forth in Section 1, paragraph (a), is amended by adding a new clause at the end of the definition reading as follows:

;provided, however, that Heartland Advisors shall not be an Acquiring Person unless and until Heartland Advisors (i) is the Beneficial Owner of more than 18% of the shares of Common Stock then outstanding, or (ii) is the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding and Heartland is not permitted to file a Schedule 13G, in lieu of Schedule 13D, pursuant to the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

2. All other terms conditions remained unaltered and in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment No. 2 to be duly executed, all as of the date first written above.

ATTEST:

INTERDIGITAL COMMUNICATIONS
CORPORATION

BY: /s/ Jane S. Schultz

BY: /s/ William A. Doyle

Jane S. Schultz
Assistant Secretary

William A. Doyle
President

ATTEST: AMERICAN STOCK TRANSFER AND TRUST

COMPANY

BY: /s/ Susan Silber

BY: /s/ Herbert J. Lemmer

Susan Silber
Assistant Secretary

Herbert J. Lemmer
Senior Vice President and
General Counsel

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 stead 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 S. Schultz

Title: Assistant Secretary

By: /s/ William A. Doyle

Title: President

[CORPORATE SEAL]

/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)

COMPUTATION OF PRIMARY EARNINGS (LOSS) PER SHARE:	THREE MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1996
Net Income (Loss) Applicable to Common Shareholders	\$ 677 =====	\$ 4,575 =====
Weighted Average of Primary Shares:		
Common Stock	46,138	45,522
Assumed Conversion of Options and Warrants	2,434	2,409
	----- 48,572 =====	----- 47,931 =====
Net Income (Loss) Per Share	\$.01 =====	\$.10 =====

A calculation for the three and six month periods ended June 30, 1997 have not been presented since the effect of the options and warrants would be anti-dilutive.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	JUN 30 1997
CASH	15,320
SECURITIES	17,317
RECEIVABLES	8,730
ALLOWANCES	546
INVENTORY	7,999
CURRENT ASSETS	61,129
PP&E	20,527
DEPRECIATION	9,865
TOTAL ASSETS	87,180
CURRENT LIABILITIES	20,292
BONDS	3,929
PREFERRED MANDATORY	0
PREFERRED	10
COMMON	481
OTHER SE	57,811
TOTAL LIABILITY AND EQUITY	87,180
SALES	40,218
TOTAL REVENUES	44,173
CGS	35,731
TOTAL COSTS	35,731
OTHER EXPENSES	12,702
LOSS PROVISION	27
INTEREST EXPENSE	228
INCOME PRETAX	(14,294)
INCOME TAX	34
INCOME CONTINUING	(14,328)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(14,328)
EPS PRIMARY	(.30)
EPS DILUTED	(.30)

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