

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

Filed 11/13/97 for the Period Ending 09/30/97

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

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

For the quarterly period ended September 30, 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
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes x No

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

Common Stock, par value \$.01 per share 48,215,224 shares Class Outstanding at October 24, 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 -----	SEPTEMBER 30, 1997 ----- (UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$204 and \$311 respectively	\$ 11,954	\$ 5,193
Short term investments	43,063	16,805
Accounts receivable, net of allowance for uncollectable accounts of \$558 and \$556	13,921	6,689
Inventories	13,863	11,050
Other current assets	3,913	10,593
	--	--
	-----	-----
Total current assets	86,714	50,330
	-----	-----
Property, plant and equipment, net of accumulated depreciation of \$8,383 and \$10,586, respectively	10,517	10,749
Patents, net of accumulated amortization of \$4,152 and \$5,236 respectively	9,753	9,433
Long term deposits	3,822	4,035
Other	1,830	1,771
	-----	-----
	25,922	25,988
	-----	-----
	\$ 112,636	\$ 76,318
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Current portion of long term debt	\$ 790	\$ 831
Accounts payable	15,127	4,071
Accrued compensation and related expenses	3,551	4,949
Deferred revenue	4,790	3,238
Other accrued expenses	5,380	5,476
	-----	-----
Total current liabilities	29,638	18,565
	-----	-----
LONG TERM DEBT	4,221	3,737
	-----	-----
OTHER LONG TERM LIABILITIES	6,270	3,835
	-----	-----

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)	(184,806)
	-----	-----
Total shareholders' equity	72,507	50,181
	-----	-----

\$ 112,636
=====

\$ 76,318
=====

The accompanying notes are an integral part of these statements.

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

(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1996	1997
REVENUES:				
Product revenues	\$ 7,522	\$ 1,933	\$ 14,356	\$ 42,151
Licensing and alliance	1,868	1,227	26,575	5,182
	9,390	3,160	40,931	47,333
OPERATING EXPENSES:				
Cost of UltraPhone revenues	8,755	2,181	16,652	37,912
Sales and marketing	1,216	1,362	3,132	5,553
General and administrative	2,627	2,870	8,080	9,508
Product development	5,888	5,469	15,054	18,171
	18,486	11,882	42,918	71,144
Income (loss) from operations	(9,096)	(8,722)	(1,987)	(23,811)
OTHER INCOME (EXPENSE):				
Interest income	892	745	2,963	1,768
Interest and financing expenses	(55)	(81)	(132)	(309)
	Income (loss) before income taxes and minority interest	(8,260)	(8,058)	844
	(8,260)	(8,058)	844	(22,352)
INCOME TAX PROVISION	(14)	--	(3,519)	(34)
	Income (loss) before minority interest	(8,273)	(8,058)	(2,675)
	(8,273)	(8,058)	(2,675)	(22,386)
MINORITY INTEREST	1	--	(890)	--
	Net income (loss)	(8,272)	(8,058)	(3,565)
	(8,272)	(8,058)	(3,565)	(22,386)
PREFERRED STOCK DIVIDENDS	(64)	(64)	(196)	(192)
	NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ (8,336)	\$ (8,122)	\$ (3,761)
	\$ (8,336)	\$ (8,122)	\$ (3,761)	\$ (22,578)
	NET INCOME (LOSS) PER COMMON SHARE	\$ (0.18)	\$ (0.17)	\$ (0.08)
	\$ (0.18)	\$ (0.17)	\$ (0.08)	\$ (0.47)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	46,709	48,167	45,922	48,148
	46,709	48,167	45,922	48,148

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 nine months ended September 30,	
	----- 1996 -----	----- 1997 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (3,565)	\$ (22,385)
Adjustments to reconcile net income (loss) to net cash used for operating activities-		
Minority interest in subsidiary	890	--
Depreciation and amortization	2,179	3,546
Other	(145)	(2,627)
Decrease (increase) in assets-		
Receivables	(9,491)	7,232
Inventories	(3,728)	2,813
Other current assets	(2,563)	(6,680)
Increase (decrease) in liabilities-		
Accounts payable	5,007	(11,056)
Accrued compensation	(1,009)	1,398
Deferred revenue	12,822	(1,552)
Other accrued expenses	756	96
	-----	-----
Net cash used for operating activities	\$ 1,153	\$ (29,215)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in short-term investments	\$ 3,639	\$ 26,258
Additions to property and equipment, net of non-cash additions of \$0 and \$352, respectively	(4,746)	(2,092)
Additions to patents	(429)	(764)
Other non-current assets	(2,178)	(404)
	-----	-----
Net cash provided by investing activities	\$ (3,714)	\$ 22,998
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	\$ 9,597	\$ 251
Payments on long-term debt , including capital lease obligations	(452)	(795)
	-----	-----
Net cash provided by financing activities	\$ 9,145	\$ (544)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 6,584	\$ (6,761)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,427	11,954
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,011	\$ 5,193
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 128	\$ 107
	=====	=====
Income taxes paid, excluding foreign withholding taxes	\$ 389	\$ 127
	=====	=====

The accompanying notes are an integral part of these statements.

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 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 and intellectual property.

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 September 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 proprietary technology know-how. 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. The Company obtained approximately \$600,000 of Product Revenue for the TrueLink(TM) product during the third quarter of 1997. These sales included both ASICs and B-CDMA components sold to alliance partners for their integration into pre-production products.

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, and 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 September 30, 1997 and the results of their operations for the three and nine month periods ended September 30, 1996 and 1997 and cash flows for the nine month periods ended September 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, as amended, 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 requested a rehearing in the Court of Appeals, which request was denied. ITC has decided not to pursue an appeal to the United States Supreme Court. In another action with Ericsson GE Mobile Communications, Inc., its Swedish parent, Telefonaktieboletet LM Ericsson and Ericsson Radio Systems, Inc. the Court has stayed the proceeding at the mutual request of the parties until December 15, 1997. ITC is also involved in administrative proceedings in which various parties have challenged the validity of ITC's patents or patent applications, variously on either a pre- or post-issuance basis.

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	September 30, 1997
	-----	-----
Money market funds and demand deposits	\$ 2,871	\$ 3,466
Certificates of deposit	204	--
Repurchase agreements	1,457	1,726
Commercial paper	7,422	--
	-----	-----
	\$11,954	\$ 5,193
	=====	=====

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 September 30, 1997 consisted of \$7.8 million in

government-issued discount notes, \$2.4 million in municipal securities and \$6.6 million in corporate debt securities.

5. MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

Product Revenue:

In fiscal 1996, the Company's Philippine and Indonesian customers represented 56% and 16%, of Product Revenues, respectively. For the three months ended September 30, 1996, the Company's Philippine customer accounted for 77% of Product Revenues. Starting in the quarter ended September 30, 1997, the Company began shipping prototype units of the TrueLink (B-CDMA) product to its European alliance partner. These shipments, which approximated \$600,000, are recorded in Product Revenues as the alliance partner is purchasing these units on a cost plus profit basis. For the three months ended September 30, 1997, the Company's Indonesian customer and its European alliance partner accounted for 43% and 31%, respectively, of Product Revenues. For the nine months ended September 30, 1996, the Company's Philippine and Puerto Rican customers accounted for 66% and 10%, respectively, of Product Revenues. For the nine months ended September 30, 1997, the Company's Indonesian customer accounted for 78% of Product Revenues.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996 ----	1997 ----	1996 ----	1997 ----
Domestic	\$ 581	\$ 377	\$ 1,521	\$ 951
Foreign	6,941	1,556	12,835	41,200
	-----	-----	-----	-----
	\$ 7,522	\$ 1,933	\$ 14,356	\$ 42,151
	=====	=====	=====	=====

Licensing and Alliance Revenue:

During the three months ended September 30, 1996, ITC recognized \$754,000 related to agreements with Samsung Electronics Co., LTD. ("Samsung"), \$800,000 related to agreements with Siemens Aktiengesellschaft ("Siemens") and \$314,000 of royalty revenue from one licensee under ITC's TDMA related patents. The Licensing and Alliance Revenues for the three months ended September 30, 1997 include \$704,000 from Samsung and \$523,000 of royalty revenue from one licensee under ITC's TDMA related patents. During the nine months ended September 30, 1996, the Company recognized \$22.3 million of revenue related to its agreements with Samsung and \$4.0 million from Siemens. During the nine months ended September 30, 1997, Licensing and Alliance Revenues include \$2.1 million from Samsung, \$1.6 million from Siemens and \$1.5 million of royalty revenue from one licensee under its TDMA related patents.

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 not been considered as common stock equivalents in the computation for the three and nine month periods for 1996 and 1997 since their effect is anti-dilutive.

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 nine months ended September 30, 1996.

7. INVENTORIES:

	December 31, 1996	September 30, 1997
	-----	-----
	(In thousands)	
Component parts and work-in-progress	\$ 11,640	\$ 9,726
Finished goods	2,223	1,324
	-----	-----
	\$ 13,863	\$ 11,050
	=====	=====

Inventories are stated net of valuation reserves of \$5.9 million and \$6.5 million as of December 31, 1996 and September 30, 1997, respectively.

8. 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 September 30, 1996 consisted of a current state tax provision of \$14,000. For the three months ended September 30, 1997 there was no income tax provision. For the nine months ended September 30, 1996, the income tax provision consisted of a foreign withholding tax provision of \$3.3 million, a current state tax provision of \$133,000 and a Federal Alternative Minimum Tax provision of \$87,000. The income tax provision for the nine months ended September 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 September 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 September 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.

9. 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, B-CDMA equipment, 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. Implementation of the ministerial details of the agreement is subject to certain Myanmar governmental approvals as well as finalization of the financing documents.

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 and economic conditions in the Company's principal markets. 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 production costs prior to delivery of the order, the expected positive effects on vendor pricing of 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, in order to maintain or increase its UltraPhone order rate, 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, or that the Company may not, in the future, choose to reallocate resources, in whole or in part to other corporate uses.

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 which includes, in part, product orders, which are currently not included in backlog. The contract amount includes UltraPhone systems, B-CDMA equipment, infrastructure equipment and services, as well as capital costs for a manufacturing facility to be built in Myanmar. Implementation of the ministerial details of the agreement is subject to certain Myanmar governmental approvals as well as finalization of the financing documents, and orders under the contract will not be subject to production until such time as these events have taken place. The Company currently believes that these events will take place during the fourth quarter of 1997 or the first quarter of 1998.

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 \$31.8 million at September 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. Field trials have been scheduled domestically and abroad. Additional expenditures are being incurred for marketing and other activities and subsequent, substantial additional expenditures will be required to support later stage development. The Company presently intends that later stage development will result in a product with limited mobility and, in the next stage, a technology enabling full mobility. However, the Company has not yet committed resources or entered into contractual commitments to develop mobility-based products. Engineering efforts required to support the UltraPhone product have recently been expended at significant levels as the Company continues its efforts to reduce the cost of the UltraPhone product and increase its market share; future scopes of effort will be based upon market conditions and the economic attractiveness of competing usages of Company resources. 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. Further, there can be no assurance that the Company will be able to sell additional debt or equity 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 September 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 September 30, 1997 balance sheets.

Backlog

At September 30, 1997, the Company's backlog of orders for UltraPhone telephone equipment and services was \$888,000. 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. Implementation of the ministerial details of the contract is subject to certain Myanmar governmental approvals as well as finalization of the financing documents. In any event, shipments during the remainder of 1997 may not occur and, if they do, will not be significant due to lengthy materials procurement lead times.

At September 30, 1996, the Company's backlog of orders for UltraPhone telephone equipment and services was \$49.2 million which included an order from the Company's Indonesian customer of \$36.8 million and the balance of another order from the Company's Philippine customer of \$8.3 million. The backlog as of September 30, 1996 has been restated to remove the Pakistan order.

Cash Flows and Financial Condition

The Company has experienced negative cash flows from operations of approximately \$29.2 million during the nine months ended September 30, 1997. The negative cash flows from operations are primarily due to expenses incurred for UltraPhone product 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 nine months ended September 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 nine months ended September 30, 1997, the Company experienced negative cash flows of \$544,000 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 \$22.0 million as of September 30, 1997 includes \$311,000 of restricted cash. The product accounts receivable of \$6.7 million at September 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 September 30, 1997, \$1.3 million has been collected through October 24, 1997.

Inventory levels at September 30, 1997 of \$11.0 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 September 30, 1997 are stated net of valuation reserves of \$5.9 million and \$6.5 million, respectively.

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

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

Total Revenues. Total revenues in the third quarter ended September 30, 1997 decreased 66% to \$3.2 million from \$9.4 million in the third quarter ended September 30, 1996. Product sales decreased in the third quarter of 1997 to \$1.9 million from \$7.5 million in the comparable quarter of 1996. During the third quarter of 1997, the Company included in Product Revenue approximately \$600,000 related to sales of prototype TrueLink product to its European alliance partner.

During the third quarter of 1997, the Company recognized \$704,000 of Samsung revenue that related to the B-CDMA technology development portion of the agreement. The Company also recognized \$523,000 of royalty revenue during the third quarter of 1997 from one of its licensees. During the third quarter of 1996, the Company recognized \$754,000 as part of the Samsung agreements, \$800,000 as part of the Siemens agreements and \$314,000 of royalty revenue from one of its licensees.

Cost of Product Revenues. The cost of Product Revenues for the third quarter of 1997 decreased to \$2.2 million from \$8.8 million for the third quarter of 1996, primarily due to the decrease in Product Revenues. The Company had approximately 13% negative gross margin on product sales for the quarter ended September 30, 1997 as compared to a negative gross margin of 16% for the quarter ended September 30, 1996. The Company has been successful in reducing the cost of the UltraPhone product and has gained efficiencies in the manufacturing process. The Company did not achieve Product Revenues sufficient to fully absorb manufacturing overhead costs at standard, acceptable absorption rates. Included in cost of Product Revenues 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 12% to \$1.4 million during the third quarter of 1997 as compared to \$1.2 million during the third quarter of 1996. The increase is primarily due to an increase in activity levels including costs associated with increasing activity related to the Company's B-CDMA based product but was partially offset by decreased commission expense due to the decrease in UltraPhone Product Revenues in the three month period of 1997.

General and administrative expenses for the third quarter of 1997 increased 9% to \$2.9 million from \$2.6 million for the third quarter of 1996. The increase is primarily due to an increase in patent amortization expense related to the buyout of the minority interest of InterDigital Patents Corporation ("Patents Corp.") in September 1996 and an increase in corporate communications activities.

Product development expenses for the third quarter of 1997 decreased 7% to \$5.5 million as compared to \$5.9 million during the third quarter of 1996. Included in the 1996 period is non recurring engineering charges of \$875,000 related to UltraPhone product engineering partially offset by increased activity levels.

Other Income and Expense. Interest income for the third quarter of 1997 was \$745,000 as compared to \$892,000 for the third 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 September 30, 1997 was \$81,000 as compared to \$55,000 for the quarter ended September 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 third 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 no charge in minority interest in the third quarter of 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.

Results of Operations - Nine Months Ended September 30, 1997 Compared to Nine Months Ended September 30, 1996

Total Revenues. Total revenues for the nine months ended September 30, 1997 increased 16% to \$47.3 million from \$40.9 million for the nine months ended September 30, 1996 primarily due to an increase in the amount of Product Revenues partially offset by a decrease in Licensing and Alliance Revenues. Product Revenues increased 194% during the nine months ended September 30, 1997 to \$42.2 million from \$14.4 million in the comparable period of 1996 primarily due to the completion of shipments of the Indonesian order. Also included in Product Revenues for the nine months ended September 30, 1997 is approximately \$600,000 related to sales of prototype TrueLink product to its European alliance partner. License and Alliance Revenues for the nine months ended September 30, 1997 includes \$2.1 million as part of the Samsung Agreements, \$1.6 million as part of the Siemens Agreements and \$1.5 million of royalty revenue from one licensee. Licensing and Alliance Revenues for the nine months ended September 30, 1996 includes \$22.3 million as part of the Samsung agreements and \$4.3 million as part of the Siemens agreements.

Cost of Product Revenues. The cost of Product Revenues for the nine months ended September 30, 1997 increased 128% to \$37.9 million from \$16.7 million for the nine months ended September 30, 1996. The Company incurred a positive gross margin on Product Revenues of 10% for the nine months ended September 30, 1997 as compared to a negative gross margin of 16% for the nine month period ended September 30, 1996. Included in cost of Product Revenues 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 and the third quarter of 1997, 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 77% to \$5.6 million during the nine months ended September 30, 1997 compared from \$3.1 million during the nine months ended September 30, 1996. The increase is primarily due to increased commissions expense, commensurate with the increase in Product Revenues and increased levels of marketing and sales activities, including activities related to the marketing of the Company's TrueLink product.

General and administrative expenses for the nine months ended September 30, 1997 increased 18% to \$9.5 million from \$8.0 million for the nine months ended September 30, 1996. The increase in general and administrative expense is due primarily to increased patent amortization expense related to the buyout of the minority interest of Patents Corp. in September 1996 and higher corporate communications activity levels.

Product development expenses increased 21% for the nine months ended September 30, 1997 to \$18.2 million from \$15.1 million for the nine months ended September 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 nine months ended September 30, 1997 was \$1.8 million as compared to \$3.0 million for the nine months ended September 30, 1996. The decrease is due primarily to lower average invested cash and investment balances in 1997 compared to 1996. Interest expense for the nine month period ended September 30, 1997 was \$309,000 as compared to \$132,000 for the nine month period ended September 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 \$890,000 as an increase in minority interest in the nine months ended September 30, 1996 representing the minority interest's portion of the net income of Patents Corp. for the nine months ended September 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 the development and commercialization of its B-CDMA technology, objectives and potential for the Company's product business, contract with MPT, contract with PTCL and 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: technical, financial or other difficulties or delays in the development, production, re-engineering, testing and marketing or sale of the Company's products; failure to secure additional working capital; failure to fully and successfully implement the alliance program; failure of alliance partners to meet the Company's expectations; failure of other persons with a business relationship with the Company to secure adequate financing, required frequencies or other things necessary to fulfill their obligations to the Company; failure to perform the Myanmar contract due to inability to secure acceptable financing, lack of governmental or regulatory approval confirming implementation, U.S. sanctions or other governmental prohibitions, failure of MPT to fulfill its obligations to the Company, lack of continuous flow of financing, or other factors; unstable foreign governments and legal systems and inter-governmental disputes; 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; the difficulty or inability to enforce contractual commitments abroad; demand for and pressures on margin on the Company's products; 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

As reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, 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 requested a rehearing in the Court of Appeals, which request was denied. ITC has decided not to pursue an appeal to the United States Supreme Court.

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 10.33	Employment Agreement dated June, 1997 by and between InterDigital Communications Corporation and Joseph Gifford
Exhibit 10.34	1997 Stock Option Plan for Non-Employee Directors
Exhibit 27	Financial Data Schedule

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

None.

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: November 13, 1997

/s/ William A. Doyle, President

William A. Doyle, President

Date: November 13, 1997

/s/ Keith R. Ruck

Keith R. Ruck, Chief Accounting Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made this day of June, 1997, by and between Joseph H. Gifford, a resident of the Commonwealth of Pennsylvania (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 Executive Vice President, Business Development of the Company (Employee's "Position") .

WHEREAS, the Company and Employee desire to enter into arrangements covering the termination of Employee's employment with the Company and the treatment of confidential information by Employee, among other things.

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. Employment, Duties and 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 until his employment hereunder is terminated pursuant to the provisions of Section 8 hereto (the "Term"). During the term of his employment, Employee agrees to assume such duties and responsibilities as may be customarily incident to his Position, and as may be reasonably assigned to Employee from time to time by the President of the Company. Employee shall report to the President of the Company.

2. 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.

3. 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 7 hereof, a base salary at the annual rate of One Hundred and Fifty 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 two sentences, 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.

4. 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").

5. 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 5. 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.

6. 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 6 (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.

7. 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 directly 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 directly 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 7(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 7, the Restricted Period shall constitute (as applicable) (i) the period, if any, that Employee shall receive severance as set forth in Section 8 hereof, (ii) in the event Employee's employment hereunder is terminated for cause pursuant to Section 8 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.

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

8. Upon termination, and in consideration of the restrictions contained in Sections 5, 6 and 7 herein, Employee shall be entitled (but shall only be entitled) to the compensation and benefits as described in this Section 8.

8.1. 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 8.1(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 8.1(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 8.1(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 8.1, 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.

8.2. 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. In addition, subject to the approval of the Compensation and Stock Option Committee of the Board of Directors (or the Board itself), all unvested options previously granted to Employee will

vest on the date of Employee's death. Except as specifically set forth in this Section 8.2, 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.

8.3. 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 8.3(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 8.3, the Company shall have no liability or obligation hereunder, including without limitation for any severance whatsoever, by reason of such termination.

8.4. 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 8.4(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 8.4, the Company shall have no liability or obligation hereunder by reason of such termination.

8.5. 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 8.5(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 8.5(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 8.5(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 8.4(b) hereof. Except as specifically set forth in this Section 8.5(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 8.5, the Company shall have no liability or obligation hereunder by reason of such termination.

8.6. 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 8.6, 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 8.6, 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.

8.7. 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 8.1 or 8.3 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 8.7(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 8.7(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 8.7(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

9. 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.

10. Survival of Provisions. The provisions of this Agreement set forth in Sections 5, 6, 7, 8 (solely with respect to the payment obligations of the Company to Employee, if any, set forth therein), 9 and 20 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 8 hereof with respect to the

particular circumstances involved in the Employee's termination of employment.

11. 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.

12. 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.

13. 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:

Joseph H. Gifford
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.

14. Entire Agreement; Amendments. This Agreement and contains 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. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

15. 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.

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

17. 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.

18. 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.

19. 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.

20. Specific Enforcement; Extension of Period.

(a) Employee acknowledges that the restrictions contained in Sections 5, 6, and 7 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 5, 6, or 7 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 5, 6, or 7 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 5, 6, or 7 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.

21. 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.

22. 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: Asst. Secretary

[CORPORATE SEAL]

By: /s/ William A. Doyle,

Title: President

/s/ Joseph H. Gifford

Joseph H. Gifford

INTERDIGITAL COMMUNICATIONS CORPORATION

**1997 STOCK OPTION PLAN
FOR
NON-EMPLOYEE DIRECTORS**

INTERDIGITAL COMMUNICATIONS CORPORATION

1997 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

Section 1. Purposes.

The purposes of the Plan are (a) to maintain the competitive position of the Company by attracting and retaining directors, and (b) to provide incentive compensation to directors based upon the Company's performance, as measured by the appreciation in the Common Stock. The Options awarded pursuant to the Plan are intended to constitute non-qualified stock options.

Section 2. Definitions.

(a) "Adjusted Fair Market Value" shall mean, in the event of a Change of Control, the greater of (1) highest price per share of Common Stock paid or payable to holders of the Common Stock in any transaction (or series of transactions) constituting or resulting (or as to which approval by shareholders of the Company constitutes or results) in the Change of Control, or (2) the highest Fair Market Value of a share of Common Stock on any business day during the ninety (90) day period ending on the date of the Change of Control.

(b) "Award" shall mean a grant of an Option to a director pursuant to the provisions of the Plan.

(c) "Board" shall mean the Board of Directors of the Company, as constituted from time to time.

(d) "Change of Control" shall mean the happening of any of the following:

(i) the acquisition in one or more transactions by any "Person" (as the term person is used for purposes of Sections 13(d) or 14(d) of the Exchange Act) of "Beneficial Ownership" (as the term beneficial ownership is used for purposes of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities (the "Voting Securities"), provided that for purposes of this paragraph, Voting Securities acquired directly from the Company by any Person shall be excluded from the determination of such Person's Beneficial Ownership of Voting Securities (but such Voting Securities shall be included in the calculation of the total number of Voting Securities then outstanding); or

(ii) approval by shareholders of the Company of (A) a merger, reorganization or consolidation involving the Company if the shareholders of the Company immediately before such merger, reorganization or consolidation do not or will not own directly

or indirectly immediately following such merger, reorganization or consolidation, more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the corporation resulting from or surviving such merger, reorganization or consolidation in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, reorganization or consolidation or (B) (1) a complete liquidation or dissolution of the Company or (2) an agreement for the sale or other disposition of all or substantially all of the assets of the Company; or

(iii) acceptance by shareholders of the Company of shares in a share exchange if the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the corporation resulting from or surviving such share exchange in substantially the same proportion as the ownership of the Voting Securities outstanding immediately before such share exchange.

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

(f) "Common Stock" shall mean common stock of the Company, \$.01 par value per share.

(g) "Company" shall mean InterDigital Communications Corporation, a Pennsylvania corporation.

(h) "Effective Date " shall mean September 4, 1997.

(i) "ERISA " shall mean the Employee Retirement Income Security Act of 1974, as amended.

(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" shall mean the fair market value of a share of Common Stock, as determined pursuant to Section 10 hereof.

(l) "Illness" shall mean the inability of an Optionee to serve as a director of the Company resulting from a mental or physical illness, impairment or any other similar occurrence which can be expected to result in death or which has lasted or can be expected to last for a period of six (6) months, as determined by the Board.

(m) "Non-Employee Director" shall have the meaning set forth in Rule 16b- 3(b)(3)(i) promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission; provided, however, that the Board may, in its sole discretion, determine from time to time whether the rules and regulations under Section 162(m) of the Code shall apply for purposes of determining which individuals are "Non-Employee Directors".

(n) "Option" shall mean a non-qualified stock option to purchase Shares that is Awarded pursuant to the Plan.

(o) "Option Agreement" shall mean a written agreement in such form as the President of the Company (subject to the terms and conditions of this Plan) may from time to time approve evidencing and reflecting the terms of an Option.

(p) "Option Cancellation Date" shall mean, as to each Option, the first business day after the later of: (i) in the event of a Change of Control as defined in Section 2(d)(ii)(A) or Section 2(d)(ii)(B)(2), the date on which the transaction approved by shareholders of the Company (as provided in Section 2(d)(ii)) is consummated; and (ii) in the event of a Change of Control as defined in Section 2(d)(i) or Section 2(d)(iii), the expiration of a period of sixty (60) days after the occurrence of such event.

(q) "Optionee" shall mean the holder of an Option.

(r) "Plan" shall mean this 1997 Stock Option Plan for Non-Employee Directors, as amended from time to time.

(s) "Pool" shall mean the pool of shares of Common Stock subject to the Plan, as described and set forth in Section 4 hereof.

(t) "Securities Act" shall mean the Securities Act of 1933, as amended.

(u) "Shares" shall mean shares of Common Stock contained in the Pool, as adjusted in accordance with Section 11 of the Plan.

(v) "Term Year " shall mean the period between one Annual Meeting of Shareholders of the Company and the next Annual Meeting of Shareholders of the Company.

(w) "Vest " and its correlative terms "vested " and "vesting " mean the right to exercise an Option on or after the time provided in Section 6 of the Plan, or as otherwise provided in the Plan or an Option Agreement.

Section 3. Administration.

(a) General. The Plan shall be administered by the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion:

(i) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable;

(ii) to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); (iii) to determine or modify the terms and conditions, not inconsistent with the terms of the Plan, of any Option granted hereunder, including but not limited to, the share price and any restriction or limitation, any vesting provisions, or any vesting acceleration or forfeiture waiver regarding any Option, or the length of the period following termination of service of any Optionee during which any Option may be exercised, based on such factors as the Board shall determine in its sole discretion; (iv)

to amend the terms of any agreement relating to any Award issued under the Plan;

(v) to authorize any person to execute on behalf of the Company any instrument required to effectuate the Award of an Option previously Awarded or to take such other actions as may be necessary or appropriate with respect to the Company's rights pursuant to Options or agreements relating to the Award or exercise thereof; and (vi) to make such other determinations and establish such other procedures as it deems necessary or advisable for the administration of the Plan. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any award granted in the manner and to the extent it shall deem necessary to carry out the intent of the Plan.

(b) Effect of Board Decisions. All decisions, determinations and interpretations of the Board shall be final and binding on all persons, including the Company and Optionees.

(c) Limitation of Liability. Notwithstanding anything herein to the contrary, no member of the Board shall be liable for any good faith determination, act or failure to act in connection with the Plan or any Option Awarded hereunder.

Section 4. Stock Subject to the Plan.

Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares which may be Awarded and sold under the Plan is Seven Hundred Fifty Thousand (750,000) Shares (collectively, the "Pool"). If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, return to the Plan and become available for future Award under the Plan.

Section 5. Participation.

Only Non-Employee Directors may be awarded Options under the Plan.

Section 6. Awards.

(a) Automatic Grants As of the Effective Date, and upon the conclusion of the Company's Annual Meeting of Shareholders in each year thereafter, each Non-Employee Director shall receive an Option to purchase shares of Common Stock as follows:

(i) as of the Effective Date, each Non-Employee Director then serving as a director of the Company shall receive an Option to purchase a number of shares of Common Stock equal to 16,000, plus 16,000 multiplied by the number of Term Years remaining in the Non-Employee Director's term as a director of the Company after the 1998 Annual Meeting of Shareholders; and

(ii) upon the conclusion of the Company's Annual Meeting of Shareholders in each year commencing after the Effective Date, each person who is elected at such meeting to serve as a director of the Company and who is a Non-Employee Director shall receive an Option to purchase a number of shares of Common Stock equal to 16,000 multiplied by the number of Term Years such Non-Employee Director has been elected to serve as a director of the Company; provided that a person elected or appointed to serve as a Non-Employee Director for a period less than a full Term Years as a director shall receive an Option to purchase a number of shares of Common Stock calculated on a pro rata basis based on such person's term as a director.

(b) Discretionary Grants. Options shall be granted to such Non-Employee Directors as may be selected upon such terms and in such amounts as may be determined from time to time by the Board as set forth herein, all in its sole discretion.

(c) Exercise price of all Options shall be the Fair Market Value on the Grant Date or the Grant Date, as the case may be, of such Options, and the term of all Options shall be 10 years.

Section 7. Terms and Conditions of Options/Vesting.

(a) Option Agreement. Each Option Awarded pursuant to the Plan shall be evidenced by an Option Agreement in such form as the President of the Company may from time to time determine. Each Option Agreement shall incorporate by reference all terms and conditions of the Plan.

(b) Vesting - Automatic Grants. Options Awarded pursuant to Section 6(a) of the Plan shall Vest annually on the date of the Annual Meeting of Shareholders of the Company with respect to 16,000 shares of Common Stock per year (or lesser pro-rata amount as to any Term Year in which a director receives a lesser pro-rata share) commencing on the date of the Annual Meeting of Shareholders following the Annual Meeting of Shareholders at which the Options were granted (or the date of the Annual Meeting of Shareholders following the date of grant), provided that the Non-Employee Director has served during the year (or pro-rata period) preceding such date, including as a member and/or chair of such committees of the Board as the Board shall determine.

(c) Vesting - Discretionary Grants. Options Awards pursuant to Section 6(b) of the Plan shall Vest in accordance with such vesting schedule as the Board shall determine. In the absence of a Board determination as to vesting, such Option Awards shall vest immediately upon grant.

(d) Cessation of Service. An Option shall not Vest with respect to any additional shares of Common Stock not yet vested following the Optionee's cessation of service as a director.

Section 8. Exercise of Options.

(a) **Exercisability.** To the extent then Vested, Options shall be exercisable in full or in part from and after their respective Grant Dates. No Option may be exercised at any time after the 10th anniversary of the date of its Award.

(b) **Manner of Exercise.** An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company at its principal executive office in accordance with the terms of the Option Agreement by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company, accompanied by any other documents required by the terms of the Plan and/or Option Agreement. Full payment may consist of any consideration and method of payment allowable under Section 9 of the Plan.

(c) **Delivery of Shares.** As soon as practicable after any proper exercise of an Option in accordance with the provisions of the Plan, the Company shall, without transfer or issue tax to the Optionee, deliver to the Optionee at the principal executive office of the Company or such other place as shall be mutually agreed upon between the Company and the Optionee, a certificate or certificates representing the Shares for which the Option shall have been exercised. The time of issuance and delivery of the certificate(s) representing the Shares for which the Option shall have been exercised may be postponed by the Company for such period as may be required by the Company, with reasonable diligence, to comply with any applicable listing requirements of any national or regional securities exchange or any law or regulation applicable to the issuance or delivery of such Shares.

(d) **Effect on Plan.** Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for Award under the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

Section 9. Form of Payment.

Subject to Section 20 hereof, the consideration to be paid for the Shares to be issued upon the exercise of the Option may be paid to the Company (i) in cash or certified funds, (ii) by delivery to the Company of Shares having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares to which said Option shall be exercised, (iii) by means of a brokers' cashless exercise procedure, or (iv) any combination of such methods of payment. Where payment of the Option Price is to be made with shares acquired under any compensation plan of the Company, such shares will not be accepted as payment unless the Optionee has acquired the shares at least six (6) months prior to such payment.

Section 10. Determination of Fair Market Value of Common Stock.

(a) Except to the extent otherwise provided in this Section 10, the Fair Market Value of a share of Common Stock shall be determined by the Board in its sole discretion.

(b) In the event Shares are listed on the American Stock Exchange or any other national or regional securities exchange or traded on the Nasdaq Stock Market ("Nasdaq") the Fair Market Value of a share of Common Stock shall be the closing price of a share of Common Stock on the exchange or on Nasdaq, as reported in The Wall Street Journal on the relevant valuation date, or if there is no trading on that date, on the next preceding trading date. In the event that Shares are traded in the over-the-counter market, the Fair Market Value of a share of Common Stock shall be the mean of the bid and asked prices for a share of Common Stock on the relevant valuation date as reported in The Wall Street Journal (or, if not so reported, as otherwise reported by the National Quotation Bureau, Inc.) as applicable or, if there is no trading on such date, on the next preceding trading date.

Section 11. Adjustments.

(a) Stock Splits, Etc. Subject to required action by the shareholders, if any, the number of Shares as to which Options may be Awarded under the Plan and the number of Shares subject to outstanding Options and the option prices thereof shall be adjusted proportionately for any increase or decrease in the number of outstanding shares of Common Stock of the Company resulting from stock splits, reverse stock splits, stock dividends, reclassifications and recapitalizations.

(b) Fractional Shares. No fractional Shares shall be issuable on account of any action aforesaid, and the aggregate number of Shares into which Shares then covered by the Option, when changed as the result of such action, shall be reduced to the number of whole Shares resulting from such action, unless the Board, in its sole discretion, shall determine to issue scrip certificates in respect of any fractional Shares, which scrip certificates, in such event, shall be in a form and have such terms and conditions as the Board in its discretion shall prescribe.

Section 12. Rights as a Shareholder.

The Optionee shall have no rights as a shareholder of the Company and shall not have the right to vote or receive dividends with respect to any Shares subject to an Option until such Option has been exercised and a certificate with respect to the Shares purchased upon such exercise has been issued to him.

Section 13. Purchase for Investment and Other Restrictions.

At the option of the Board, the issuance of Shares on the exercise of an Option may be conditioned on receipt by the Company of such appropriate representations and warranties of the Optionee, including a representation and warranty that the purchase of Shares or the exercise of an Option shall be for investment, and not with a view to the public resale or distribution thereof, unless the Shares subject to the Option are registered under the Securities Act and the transfer or sale of such Shares complies with all other laws, rules and regulations applicable thereto. Unless the Shares subject to the Option are registered under the Securities Act, the Optionee shall acknowledge that the Shares purchased on exercise of the Option are not registered under the Securities Act and may not be sold or otherwise transferred unless the Shares have been registered under the Securities Act in connection with the sale or other transfer thereof, or that counsel satisfactory to the Company has issued an opinion satisfactory to the Company that the sale or other transfer of such Shares is exempt from registration under the Securities Act, and unless said sale or transfer is in compliance with all other applicable laws, rules and regulations, including all applicable federal and state securities laws, rules and regulations. Unless the Shares issued or issuable upon the exercise of an Option are registered under the Securities Act, the certificates representing the Shares shall contain the following legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THESE SHARES HAVE NOT BEEN ACQUIRED WITH A VIEW TO DISTRIBUTION OR RESALE, AND MAY NOT BE SOLD, ASSIGNED, EXCHANGED, MORTGAGED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED OR DISPOSED OF, BY GIFT OR OTHERWISE, OR IN ANY WAY ENCUMBERED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SHARES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS, OR A SATISFACTORY OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT AND UNDER APPLICABLE STATE SECURITIES LAWS.

Section 14. Transferability.

No Option shall be assignable or transferable otherwise than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of ERISA, as amended, except as otherwise permitted by the Board. During the lifetime of the Optionee, his Options shall be exercisable only by him, or, in the event of his

legal incapacity or illness, by his legal guardian or representative, except as otherwise permitted by the Board.

Section 15. Change of Control.

Upon a Change of Control all Options outstanding on the date of such Change of Control shall become immediately and fully Vested and exercisable. In the event of a Change of Control as defined in Section 2(d)(i), Section 2(d)(ii)(A), Section 2(d)(ii) (B)(2) or Section 2(d)(iii), all Options outstanding on the Option Cancellation Date which are not exercised on or before the Option Cancellation Date shall be canceled on such date by the Company, and the Company shall on such date pay to each Optionee of a canceled Option, to the extent then Vested, a cash amount equal to the excess, if any, in respect of each Option canceled, of (i) the Adjusted Fair Market Value of the Common Stock subject to the Option over (ii) the aggregate purchase price for such shares of Common Stock.

Section 16. Amendment of the Plan.

The Board may from time to time suspend, terminate or discontinue the Plan or revise or amend it in any respect.

Section 17. Application of Funds.

The proceeds received by the Company from the sale of Shares pursuant to the exercise of Options shall be used for general corporate purposes.

Section 18. Conditions Upon Issuance of Shares.

Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

Section 19. Reservation of Shares.

The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

Section 20. Taxes, Fees, Expenses and Withholding of Taxes.

(a) **Transfer Taxes.** The Company shall pay all original issue and transfer taxes (but not income taxes, if any) with respect to the Award of Options and/or the issue and transfer of Shares pursuant to the exercise thereof, and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

(b) **Withholding Right.** The Award of Options hereunder and the issuance of Shares pursuant to the exercise thereof is conditioned upon the Company's reservation of the right to withhold in accordance with any applicable law, from any compensation or other amounts payable to the Optionee, any taxes required to be withheld under federal, state or local law as a result of the Award or exercise of such Option or the sale of the Shares issued upon exercise thereof. The Company may, in its sole discretion, require the Optionee (or such other person entitled herein to exercise the Option), as a condition of the exercise of an Option, to pay in cash to the Company an amount sufficient to cover such tax liability or otherwise to make adequate provision for the Company's satisfaction of its withholding obligations under federal, state and local law.

Section 21. Notices.

Any notice to be given to the Company pursuant to the provisions of the Plan shall be addressed to the Company in care of its Secretary (or such other person as the Company may designate from time to time) at its principal executive office, and any notice to be given to an Optionee shall be delivered personally or addressed to him at the address given beneath his signature on his Option Agreement, or at such other address as such Optionee or his permitted transferee (upon the transfer of the Shares) may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified, and deposited, postage and registry or certification fee prepaid, in a post office or branch post office regularly maintained by the United States Postal Service. It shall be the obligation of each Optionee and each permitted transferee holding Shares purchased upon exercise of an Option to provide the Secretary of the Company, by letter mailed as provided herein, with written notice of his direct mailing address.

Section 22. No Enlargement of Rights.

The Plan is purely voluntary on the part of the Company, and the continuance of the Plan shall not be deemed to constitute a contract between the Company and any director for the continuation of his service as a director. Nothing contained in the Plan shall be deemed to give any director the right to be retained in the service of the Company. Upon the Award of an Option to a director, he shall have only such rights and interests as are expressly provided herein,

subject, however, to all applicable provisions of the Company's Certificate of Incorporation, as the same may be amended from time to time.

Section 23. Invalid Provisions.

In the event that any provision of the Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability shall not be construed as rendering any other provisions contained herein as invalid or unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid or unenforceable provision was not contained herein.

Section 24. Termination.

No Option may be awarded under the Plan at any time after the date that is ten years after the Effective Date; however, the Plan shall not be deemed to have terminated until all Options have either expired, been exercised or have otherwise terminated.

Section 25. Applicable Law.

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Amended by action of the Board of Directors on the 22nd day of September, 1997.

**INTERDIGITAL COMMUNICATIONS
CORPORATION**

/s/ William A. Doyle

William A. Doyle, President

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	SEP 30 1997
CASH	5,193
SECURITIES	16,805
RECEIVABLES	6,689
ALLOWANCES	556
INVENTORY	11,050
CURRENT ASSETS	50,330
PP&E	21,335
DEPRECIATION	10,586
TOTAL ASSETS	76,318
CURRENT LIABILITIES	18,565
BONDS	3,737
PREFERRED MANDATORY	0
PREFERRED	10
COMMON	481
OTHER SE	49,690
TOTAL LIABILITY AND EQUITY	76,318
SALES	42,151
TOTAL REVENUES	47,333
CGS	37,912
TOTAL COSTS	37,912
OTHER EXPENSES	18,171
LOSS PROVISION	81
INTEREST EXPENSE	304
INCOME PRETAX	(22,352)
INCOME TAX	34
INCOME CONTINUING	(22,386)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(22,386)
EPS PRIMARY	(.47)
EPS DILUTED	(.47)

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