

INTERDIGITAL INC.

FORM 10-Q (Quarterly Report)

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Sector	Technology
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**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, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 1-11152

INTERDIGITAL COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes No

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

Common Stock, par value \$.01 per share
Class

55,011,416
Outstanding at November 3, 2004

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INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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

GLOSSARY OF TERMS

Air Interface

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

CDMA

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

cdma2000®

A standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne) and which, as amended, includes without limitation CDMA2000 1X, CDMA 1X EV-DO, CDMA-2000 1X_EV-DV and CDMA2000 3X. Although CDMA2000 1X is included under the

IMT-2000 family of 3G standards, its functionality is similar to 2.5G technologies. CDMA2000[®] and cdma2000[®] are registered trademarks of the TIA (USA).

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cdmaOne

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

Digital

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

EDGE

“Enhanced Data for GSM Evolution.” Technology designed to deliver data at rates of up to 473.6 kbps, triple the data rate of most wireless services, and built on the existing GSM/GPRS air interface standard and core networks infrastructure. This is, at times, referred to as EGPRS and is considered to be a 2.5G technology.

802.11

A family of WLAN standards developed by the IEEE which specifies the communication channel and access to such channel for wireless, high-speed, broadband access and IP-based communication (e.g., browsing, Voice Over IP, etc.).

FDMA

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

Frequency

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

GPRS

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

GSM

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

Hertz

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

IEEE

“Institute of Electrical and Electronics Engineers”. A membership organization of engineers that, among other activities, produces data communications standards.

Internet

A network comprised of more than 100,000 interconnected commercial, academic and governmental networks in over 100 countries.

IPR

Intellectual Property Right.

ITC

“InterDigital Technology Corporation”, our wholly-owned Delaware subsidiary.

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Kbps

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

LAN

“Local Area Network”. A private data communications network linking a variety of data services all located in the same geographic area, and which may include a dedicated file server or computer that provides a centralized source of shared files and programs.

Multiple Access

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

Narrowband

A communications channel capable of handling voice, fax, slow-scan, video images and data transmissions; usually less than 64 kpbs.

OFDMA/OFDM

“Orthogonal Frequency Division Multiple Access/Orthogonal Frequency Division Multiplexing.” A next generation high-speed wireless data technology and modulation technique that breaks one high-speed data signal into tens or thousands of lower-speed signals. OFDMA/OFDM creates a system that allows for wide-area, multipoint coverage, is bandwidth efficient and is highly tolerant of noise and multipath.

PDC

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

PHS

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

Smart Antenna

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

Standards

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies.

TDMA

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

Terminal

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

3G

“Third Generation.” A generic term usually used in reference to the next generation digital mobile devices and network, which provide high speed data communications capability along with voice services.

TIA (USA)

“Telecommunications Industry Association.”

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TIA/EIA-95

A 2G CDMA standard.

2G

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

2.5G

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

Wireless

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

Wireless LAN (WLAN)

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

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)**

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 44,249	\$ 20,877
Short-term investments	100,673	85,050
Accounts receivable	6,603	37,839
Deferred tax assets	3,510	—
Prepaid and other current assets	6,168	8,628
	161,203	152,394
Total current assets	161,203	152,394
PROPERTY AND EQUIPMENT, NET	10,711	12,137
PATENTS, NET	37,854	32,246
DEFERRED TAX ASSETS	23,343	—
OTHER ASSETS	12,050	8,388
	83,958	52,771
TOTAL ASSETS	\$ 245,161	\$ 205,165
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 172	\$ 193
Accounts payable	5,890	6,435
Accrued compensation and related expenses	9,051	7,569
Deferred revenue	27,936	22,381
Foreign and domestic taxes payable	94	1,259
Other accrued expenses	4,347	2,232
	47,490	40,069
Total current liabilities	47,490	40,069
LONG-TERM DEBT	1,646	1,777
DEFERRED REVENUE	84,754	64,214
OTHER LIABILITIES	1,620	1,620
	135,510	107,680
TOTAL LIABILITIES	135,510	107,680
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value, 14,399 shares authorized-\$2.50 Cumulative Convertible Preferred, -0- and 53 shares issued and outstanding	—	5
Common Stock, \$.01 par value, 100,000 shares authorized, 59,467 and 58,202 shares issued and 54,962 and 54,702 shares outstanding	595	585
Additional paid-in capital	338,332	305,262
Accumulated deficit	(164,360)	(164,613)
Accumulated other comprehensive income	(573)	(270)
Unearned compensation	(4,520)	(722)
	169,474	140,247
Treasury stock, 4,506 and 3,500 shares of common held at cost	59,823	42,762
	109,651	97,485
Total shareholders' equity	109,651	97,485

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$ 245,161

\$ 205,165

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
REVENUES	\$ 7,358	\$ 26,790	\$ 69,753	\$ 89,891
OPERATING EXPENSES:				
Sales and marketing	1,399	1,330	4,409	3,473
General & administrative	5,046	4,567	15,866	13,305
Patents administration and licensing	7,708	4,263	19,638	11,338
Development	12,349	11,253	38,091	34,054
Repositioning	3	—	607	—
	<u>26,505</u>	<u>21,413</u>	<u>78,611</u>	<u>62,170</u>
(Loss) income from operations	(19,147)	5,377	(8,858)	27,721
OTHER INCOME (EXPENSE):				
Other income	—	—	—	10,580
Interest and net investment income	486	467	1,296	1,476
Interest expense	(50)	(62)	(170)	(178)
	<u>(18,711)</u>	<u>5,782</u>	<u>(7,732)</u>	<u>39,599</u>
INCOME TAX BENEFIT (PROVISION)	12,308	(2,317)	8,051	(6,249)
Net (loss) income	<u>(6,403)</u>	<u>3,465</u>	<u>319</u>	<u>33,350</u>
PREFERRED STOCK DIVIDENDS	—	(34)	(66)	(101)
NET (LOSS) INCOME APPLICABLE TO COMMON SHAREHOLDERS	<u>\$ (6,403)</u>	<u>\$ 3,431</u>	<u>\$ 253</u>	<u>\$ 33,249</u>
NET (LOSS) INCOME PER COMMON SHARE - BASIC	<u>\$ (0.12)</u>	<u>\$ 0.06</u>	<u>\$ —</u>	<u>\$ 0.60</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	<u>55,282</u>	<u>55,912</u>	<u>55,341</u>	<u>55,475</u>
NET (LOSS) INCOME PER COMMON SHARE - DILUTED	<u>\$ (0.12)</u>	<u>\$ 0.06</u>	<u>\$ —</u>	<u>\$ 0.55</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	<u>55,282</u>	<u>60,109</u>	<u>59,421</u>	<u>60,192</u>

The accompanying notes are an integral part of these statements.

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

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before Preferred Stock dividends	\$ 319	\$ 33,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,288	7,206
Deferred revenue recognized	(36,899)	(44,984)
Increase in deferred revenue	62,994	55,988
Deferred income taxes	(17,064)	—
Tax benefit from stock options	5,430	—
Non-cash compensation	3,830	1,179
Decrease (increase) in deferred charges	(4,326)	1,319
Other	(20)	(9)
Decrease (increase) in assets:		
Receivables	31,236	508
Other current assets	3,144	3,043
Increase (decrease) in liabilities:		
Accounts payable	(545)	(771)
Accrued compensation	1,482	686
Other accrued expenses	950	(1,744)
Net cash provided by operating activities	<u>57,819</u>	<u>55,771</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(135,432)	(121,518)
Sales of short-term investments	119,506	88,887
Purchases of property and equipment	(2,654)	(2,579)
Patent costs	(8,816)	(5,995)
Acquisition of Tantivy assets	—	(10,430)
Increase in notes receivable	—	(1,446)
Net cash used by investing activities	<u>(27,396)</u>	<u>(53,081)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	10,250	17,600
Payments on long-term debt, including capital lease obligations	(152)	(141)
Dividends on Preferred Stock	(37)	(42)
Redemption of Preferred Stock	(51)	—
Repurchase of Common Stock	(17,061)	(34,031)
Net cash used by financing activities	<u>(7,051)</u>	<u>(16,614)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,372	(13,924)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,877	22,337
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 44,249	\$ 8,413
SUPPLEMENTAL CASH FLOW INFORMATION:		
Issuance of restricted Common Stock	\$ 450	\$ 389
Accrued purchase of treasury stock	\$ —	\$ 698
Cancellation of note receivable related to acquisition of Tantivy assets	\$ —	\$ 1,446
Interest paid	\$ 121	\$ 145

Income taxes paid, including foreign withholding taxes	\$ 4,187	\$ 7,555
Non-cash dividends on Preferred Stock	\$ 29	\$ 25

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004
(UNAUDITED)

1. BASIS OF PRESENTATION :

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the financial position of InterDigital Communications Corporation (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) as of September 30, 2004, and the results of its operations for the three and nine month periods ended September 30, 2004 and 2003, and the cash flows for the nine months ended September 30, 2004 and 2003. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and accordingly do not include all of the detailed schedules, information and notes necessary to present fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission (SEC) on March 15, 2004, as amended (Form 10-K). The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. The Company has one reportable segment.

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

There have been no material changes in our existing accounting policies or estimates from the disclosure included in our Form 10-K. However, circumstances related to accelerated SEC filing deadlines, combined with the timing in which we receive royalty reports from our licensees, now require the Company to recognize revenue associated with per-unit royalties in the quarter when royalty reports are received from licensees. This transition is effective for third quarter 2004. As a result of this transition, our royalty revenue for third quarter 2004 consists mainly of amortization related to paid-up royalties and fixed obligations. Commencing in fourth quarter 2004, revenue will include both fixed and amortized amounts, as well as per-unit royalties reported to the Company during that quarter. There have been no changes to the timing of revenue recognition related to royalties that are amortized over a defined period, such as paid-up licenses and license fees. In addition, revenue relating to past infringement from licensees, technology product sales and engineering services will continue to be recognized in the quarter in which all elements required for revenue recognition are met.

The Company accounts for stock-based employee compensation under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-option-based employee compensation cost is reflected in net income, as all options granted have an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-option-based employee compensation (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net (loss) income applicable to common shareholders—as reported	\$ (6,403)	\$ 3,431	\$ 253	\$33,249
Add: Stock-based employee compensation expense included in reported net income	1,589	273	3,830	1,179
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,850)	(2,743)	(10,771)	(9,429)
Tax effect (a)	14,063	—	15,219	—
Net income applicable to common shareholders – pro forma	\$ 6,399	\$ 961	\$ 8,531	\$24,999
Net (loss) income per share – as reported – basic	(0.12)	0.06	—	0.60
Net (loss) income per share – as reported – diluted	(0.12)	0.06	—	0.55
Net income per share – pro forma – basic	0.12	0.02	0.15	0.45
Net income per share – pro forma – diluted	0.11	0.02	0.14	0.42

a) If we had always recorded expense associated with stock option grants, the character of the tax benefits associated with these option exercises would allow us to recognize the related benefits in our statements of operations rather than as a direct increase to equity. Therefore, we have adjusted our income tax provision to reflect the recognition of these assets in the statement of operations as they are utilized to offset current period tax expense. This includes the recognition of an additional benefit to the statement of operations of approximately \$10 million associated with our recognition of approximately \$27 million in deferred tax assets in third quarter 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Expected option life (in years)	4.80	4.61	4.80	4.61
Risk-free interest rate	3.53%	3.08%	3.43%	2.86%
Volatility	90%	106%	90%	106%
Dividend yield	—	—	—	—
Weighted average fair value	\$ 12.60	\$ 14.19	\$ 19.50	\$ 16.21

During first quarter 2004, 6,000 shares of the Company's restricted Common Stock were returned to treasury upon their surrender.

2. SIGNIFICANT EVENTS :

Sanyo

In second quarter 2004, we entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with Sanyo Electric Co., Ltd (Sanyo) covering terminal units and infrastructure compliant with all 2G and 3G standards. This new patent license agreement updated and expanded a 1998 agreement between Sanyo and one of our wholly-owned subsidiaries, InterDigital Technology Corporation (ITC), covering products compliant with TDMA-based standards. Under the new patent license agreement, Sanyo paid us an upfront amount of \$27.0 million in third quarter 2004. We applied \$750,000 of the upfront amount toward the satisfaction of royalties previously recognized as revenue in first quarter 2004 under the original 1998 patent license agreement. For sales of 2G and 3G products (excluding cdma2000[®] in Japan, the United States and the People's Republic of China and single mode PHS/PDC worldwide), we will recognize revenue based on Sanyo's reported sales of such products. Sanyo may apply its royalty obligation for such products against a \$5.0 million credit provided to Sanyo under the patent license agreement, until such credit is exhausted. Upon exhaustion, Sanyo is required to pay royalties on a current basis. Due to the inherent difficulty in establishing reliable and objectively determinable evidence of fair value of the remaining portions of the patent license agreement covering sales of cdma2000[®] in Japan, the United States and the People's Republic of China, as well as worldwide sales of single mode PHS/PDC, and consistent with our revenue recognition policy, we will amortize evenly the remaining portion (\$21.3 million) of the upfront payment from second quarter 2004 through fourth quarter 2008, the effective term of the patent license agreement for such products.

We and Sanyo have agreed on a process for negotiating additional payments covering cdma2000[®] sales in Japan after the expiration of the prepaid period and for sales in the People's Republic of China and the United States in excess of an allotted number of prepaid units.

Nokia and Samsung Arbitrations

We believe that the patent license agreements we entered into in 2003 with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (together, Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) establish the financial terms necessary to define the royalty obligations of Nokia Corporation (Nokia) and Samsung Electronics Co. Ltd. (Samsung) on sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under their existing patent license agreements. Under the most favored licensee (MFL) provisions applicable to their respective patent license agreements, we believe both Nokia and Samsung are obligated to pay royalties on sales of covered products from January 1, 2002 by reference to the terms of the Ericsson (for infrastructure products) and Sony Ericsson (for terminal unit products) patent license agreements. The MFL provisions include terms for a period of review, negotiation, and dispute resolution with regard to the determination of the royalty obligations of both Nokia and Samsung. Nokia and Samsung each dispute our position. We are currently engaged in separate arbitration proceedings regarding these disputes as more fully discussed in Note 5.

We have not recorded revenue associated with the Nokia and Samsung patent license agreements related to sales of covered products during any period subsequent to January 1, 2002, and will not record any such revenue until all elements required for revenue recognition are met.

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Acquisition

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

The purchase price for the acquisition was \$11.5 million, consisting of approximately \$10.0 million in cash and cancellation of approximately \$1.5 million in outstanding indebtedness owed to us by Windshift. In addition, under the terms of the Asset Purchase Agreement, Windshift will be entitled to receive, for a period of approximately five years, 1% and 4%, respectively, of amounts we receive from either the licensing or sale of smart antenna and 802.11 intellectual property acquired from Windshift. We have not incurred any royalty obligation for the nine months ended September 30, 2004. In addition to the purchase price, we incurred approximately \$0.4 million of acquisition related costs.

We accounted for this asset acquisition under SFAS 141 "Business Combinations." In connection with our acquisition, we opened an engineering design center in Melbourne, Florida and hired 10 individuals that were formerly employed by Windshift. Beginning July 31, 2003, we have included in our results of operations the expenses of the Melbourne, Florida design center, amortization of the acquired patents, and depreciation of the acquired fixed assets.

The following unaudited pro forma combined results of operations is provided for illustrative purposes only and assumes this acquisition of assets occurred as of January 1, 2003. The unaudited pro forma combined financial results do not purport to be indicative of the results of operations for future periods or the results that actually would have been realized had the entities been a single entity during these periods (in thousands, except per share data):

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Pro forma revenue	\$ 26,790	\$ 89,891
Pro forma net income	\$ 2,767	\$ 29,687
Diluted net income per share, as reported	\$ 0.06	\$ 0.55
Diluted net income per share, pro forma	\$ 0.05	\$ 0.49

3. INCOME TAXES :

At December 31, 2003, we had federal net operating loss (NOL) credit carryforwards of approximately \$123 million which will expire, if unused, in the years 2005 through 2021. Of this total, approximately \$96 million is associated with the exercise of non-qualified stock options.

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

A more-than-50% cumulative change in ownership occurred in 1992. As a result of such change, approximately \$26 million of our federal NOL credit carryforwards may be limited as of December 31, 2003. If we experience an additional more-than-50% cumulative ownership change, the full amount of the federal NOL credit carryforwards may become subject to annual limitation under Section 382. There can be no assurance that we will realize the benefit of any federal NOL credit carryforward.

The value of our deferred tax assets at December 31, 2003, including a net deferred tax asset of \$42.1 million relating to our federal NOL credit carryforwards, was \$81.3 million. At December 31, 2003, we provided a full valuation allowance on all deferred tax assets. In third quarter 2004, we determined that our recent operating performance and our current expectations to generate future taxable income indicated that it was more likely than not that we would utilize a portion of our deferred tax assets. Accordingly, we recognized an increase in the value of our deferred tax assets of approximately \$27 million, through a partial reversal of the valuation allowance. Of the \$27 million benefit, approximately \$17 million was recognized as income in the statement of operations and approximately \$10

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million was credited directly to additional paid-in-capital. Our assessment of the value of our deferred tax assets did not take into consideration potential income sources such as impacts from litigation or arbitration proceedings. We will continue to evaluate the potential use of our deferred tax assets and, depending on various factors, could reverse all or a portion of the remaining valuation allowance in the future.

The income tax provision in first nine months 2004 consisted of approximately \$3.5 million of withholding taxes associated with patent licensing royalties, principally from Japan, and an accrual of approximately \$5.5 million based on our estimated book income tax expense for full year 2004. Our estimated book income tax expense for full year 2004 is driven by our expected utilization of a portion of our federal NOL credit carryforwards that resulted from stock option exercises. The utilization of these credits will offset any cash obligation we may have had, however because these credits are recorded in additional paid-in capital, they do not offset the related book income tax expense.

4. INCOME PER SHARE :

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

	(In thousands, except per share data)					
	Three Months Ended September 30, 2004			Three Months Ended September 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
(Loss) income per share—basic: (Loss) income available to Common Shareholders	\$ (6,403)	55,282	\$ (0.12)	\$ 3,431	55,912	\$ 0.06
Effect of dilutive options, warrants and restricted stock units	—	—	—	—	4,197	—
(Loss) income per share—diluted: (Loss) income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	\$ (6,403)	55,282	\$ (0.12)	\$ 3,431	60,109	\$ 0.06
	(In thousands, except per share data)					
	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share—basic: Income available to Common Shareholders	\$ 253	55,341	\$ 0.00	\$ 33,249	55,475	\$ 0.60
Effect of dilutive options, warrants and restricted stock units	—	4,080	—	—	4,717	(0.05)
Income per share—diluted: income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	\$ 253	59,421	\$ 0.00	\$ 33,249	60,192	\$ 0.55

For the three and nine months ended September 30, 2004, options and warrants to purchase approximately 2.2 million and 1.7 million shares of Common Stock, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of these options and warrants were greater than the weighted average market price of our Common Stock during these periods and, therefore, their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2003, options and warrants to purchase approximately 1.2 million and 1.1 million shares of Common Stock, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of these options and warrants were greater than the weighted average market price of our Common Stock during these periods and, therefore, their effect would have been anti-dilutive.

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5. LEGAL PROCEEDINGS :

Nokia

As previously reported in the Company's Form 10-K for the year ended December 31, 2003, as amended (Form 10-K) and Form 10-Q for the quarter ended June 30, 2004 (June 30, 2004 Form 10-Q), in July 2003 Nokia requested binding arbitration regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under its existing patent license agreement. Pursuant to the dispute resolution provisions of the patent license agreement, the arbitration has been filed in the International Court of Arbitration of the International Chamber of Commerce (ICC).

The binding arbitration relates to ITC's and the Company's claim that the patent license agreements ITC signed with Ericsson and Sony Ericsson in March 2003 defined the financial terms under which Nokia would be required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products commencing January 1, 2002. Nokia is seeking, among other things, a determination that their obligation under the existing patent license agreement is not defined by our license agreements with Ericsson and Sony Ericsson or has been discharged and a ruling that no royalty rate for its sales after January 1, 2002 can be determined by the panel until certain contractual conditions precedent have been satisfied. Nokia has additionally claimed that, in any event, the panel cannot award money damages.

In addition, Nokia sought to have reinstated certain reports, recommendations, and orders previously vacated by the United States District Court for the Northern District of Texas (Texas District Court). On June 8, 2004, the Texas District Court issued an order which reinstated certain reports, recommendations, and orders (which remain under seal) relating to, among other things, claim construction and non-infringement of certain ITC patents by certain Ericsson products. We have appealed the Texas District Court's decision to the Court of Appeals Federal Circuit. The Texas District Court's June 8, 2004 order does not have any effect on the March 2003 resolution of the litigation with Ericsson or the patent license agreements signed by Ericsson and Sony Ericsson in March 2003.

Nokia also maintains that the validity and infringement of the patents are factors the arbitration panel should consider in determining Nokia's royalty obligations under the patent license agreement. We do not believe that the issues of patent validity or infringement are relevant to the arbitrable royalty dispute and we continue to vigorously contest Nokia's position.

The arbitration panel has informed the parties that January 2005 is the month during which the panel will conduct the arbitration evidentiary hearing and, absent a resolution of this matter or unexpected changes in the arbitration schedule approved by the arbitration panel, we expect a decision to be rendered thereafter.

Samsung

As previously reported in the Company's Form 10-K and June 30, 2004 Form 10-Q, in 2002 during an arbitration proceeding, Samsung elected under its 1996 patent license agreement (1996 Samsung License Agreement) to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA wireless communications products, be determined in accordance with the terms of the Nokia patent license agreement, including its MFL provision. Similar to Nokia, the Company believes that Samsung's royalty obligation for sales commencing January 1, 2002 have been defined by the Ericsson and Sony Ericsson patent license agreements. In November 2003, Samsung initiated a binding arbitration against the Company and ITC. The arbitration has been filed with the ICC. Samsung is seeking to have an ICC arbitration panel determine that Samsung's obligations under the 1996 Samsung License Agreement are not defined by the license agreements with Ericsson and Sony Ericsson or, in the alternative, to determine the amount of the appropriate royalty due. We have counterclaimed for an arbitration decision requiring that Samsung pay us royalties on equivalent terms and conditions as those set forth in the Ericsson and Sony Ericsson patent license agreements for the period January 1, 2002 to December 31, 2006, and determining the amount of the royalty and payment terms. We are also seeking a declaration that the parties' rights and obligations are governed by the 1996 Samsung License Agreement, and that the Nokia patent license agreement dictates only Samsung's royalty obligations and most favored licensee rights for those products licensed under the 1996 Samsung License Agreement. Samsung has replied to our answer and counterclaim, maintaining Samsung's position (as set forth in its arbitration demand) and arguing that it has succeeded to all of Nokia's license rights. In the alternative, Samsung asserts that its royalty obligations should be governed by the MFL clause in the 1996 Samsung License Agreement. The parties are in the discovery phase of the arbitration at this time. A tentative hearing date of February 2005 has been scheduled by the arbitration panel. The tentative hearing date is subject to timing of events in the arbitration involving the Company, ITC and Nokia (as referenced in the Form 10-K) and unexpected delays in the arbitration schedules.

Lucent

As previously reported in the Company's Form 10-K and June 30, 2004 Form 10-Q, in March 2004 Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000[®] equipment. The amended complaint alleges infringement of nine United States patents. The lawsuit seeks damages for past infringement and an injunction against future infringement as well as interest, costs, and attorney's fees. Lucent has responded to the lawsuit denying any infringement, seeking both a declaration that the patents are invalid and a dismissal of the lawsuit, and requesting attorneys' fees and costs.

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The Court has issued a final trial schedule with mandatory mediation to commence in January 2005 and the trial to commence on September 6, 2005. The parties are currently in the discovery phase of the litigation at this time.

Federal

As previously reported in the Company's Form 10-K and June 30, 2004 Form 10-Q, in November 2003 Federal Insurance Company (Federal), the insurance carrier for the settled litigation involving Ericsson Inc., delivered to us a demand for arbitration under the Pennsylvania Uniform Arbitration Act. Federal claims, based on their determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement requires us to reimburse Federal approximately \$28.0 million for attorneys' fees and expenses it claims were paid by it. On November 4, 2003, the Company filed an action in the United States District Court for the Eastern District of Pennsylvania (Pennsylvania District Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement is found to be valid and enforceable, the Company is seeking a declaratory judgment that Federal is entitled to reimbursement based only on certain portions of amounts received by the Company from Ericsson Inc. pursuant to the settlement of the litigation involving Ericsson Inc. Federal has requested the Pennsylvania District Court to dismiss the action and/or to have the matter referred to arbitration. We have opposed such requests. Prior to Federal's demand for arbitration, we had accrued a contingent liability of \$3.4 million related to the insurance reimbursement agreement. If this matter results in us paying Federal substantially more than the amount accrued, it could have a material impact on our financial results.

Other

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

6. REPOSITIONING CHARGE :

In second quarter 2004, we reduced our headcount by 25 employees as part of a plan to strategically reposition the Company. We recorded a charge of approximately \$0.6 million in second quarter 2004 associated with this repositioning. The charge was primarily comprised of severance and other cash benefits associated with the workforce reduction. In third quarter 2004, we paid down approximately \$58,000 of the accrued liability for severance and other costs and we recorded a small adjustment to further reduce this accrued liability based on our current expectation to incur less severance expense than previously recorded. We may make further adjustments to the repositioning charge if there are changes in the anticipated timing and extent of administrative and other activities associated with the repositioning. Currently, these activities are expected to be completed by the end of 2004.

The following table summarizes the expected total charge related to the repositioning, the repositioning charges incurred to date, and the accrued repositioning liability at September 30, 2004 (in thousands):

	<u>Severance and Related Costs</u>	<u>Other</u>	<u>Total</u>
Expected total repositioning charge	\$ 559	\$ 75	\$634
Repositioning (adjustment) charge recorded during third quarter 2004	(13)	16	3
Repositioning charge recorded during the nine months ended September 30, 2004	559	48	607
Accrued repositioning liability at September 30, 2004	27	5	32

7. STOCK REPURCHASE AND REDEMPTION :

During second quarter 2004, our Board of Directors approved the repurchase of up to one million shares of our outstanding Common Stock (Second Quarter Repurchase Program). We repurchased one million shares of our outstanding common stock in third quarter 2004 under the Second Quarter Repurchase Program at a total cost of approximately \$17 million. Early in fourth quarter 2004, our Board of Directors approved the repurchase of up to an additional one million shares of our outstanding Common Stock.

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

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

OVERVIEW

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto contained elsewhere in this document, in addition to InterDigital Communications Corporation's (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission (SEC) on March 15, 2004, as amended (Form 10-K), other reports filed with the SEC, and the "Statement Pursuant to the Private Securities Reform Act of 1995" below. Please refer to the Glossary of Terms located after the Table of Contents for a list and detailed description of the various technical, industry and other defined terms that are used in this Form 10-Q.

Current and future accelerated SEC filing deadlines, combined with the timing in which we receive royalty reports from our licensees, now require us to recognize revenue associated with per-unit royalties in the quarter when royalty reports are received from licensees, rather than in the quarter in which our licensees' underlying sales occurred. This transition is effective for third quarter 2004. As a result of the transition, our royalty revenue for third quarter 2004 consists mainly of amortization related to paid-up royalties and fixed obligations. Commencing in fourth quarter 2004, royalty revenue should include both fixed and amortized amounts, as well as per-unit royalties reported to the Company during that quarter.

There will be no changes to the timing of revenue recognition related to royalties that are amortized over a defined period, such as paid-up licenses and license fees. In addition, revenue relating to past infringement from licensees, technology product sales and engineering services will continue to be recognized in the quarter in which all elements required for revenue recognition are met.

The value of our deferred tax assets at December 31, 2003, including a net deferred tax asset of \$42.1 million relating to our federal net operating loss (NOL) credit carryforwards, was \$81.3 million. At December 31, 2003, we provided a full valuation allowance on all deferred tax assets. In third quarter 2004, we determined that our recent operating performance and our current expectations to generate future taxable income indicated that it was more likely than not that we would utilize a portion of our deferred tax assets. Accordingly, we recognized an increase in the value of our deferred tax assets of approximately \$27 million through a partial reversal of the valuation allowance. Of the \$27 million benefit, approximately \$17 million was recognized as income in the statement of operations and approximately \$10 million was credited directly to additional paid-in-capital. Our assessment of the value of our deferred tax assets did not take into consideration potential income sources such as impacts from litigation or arbitration proceedings. We will continue to evaluate the potential use of our deferred tax assets and, depending on various factors, could reverse all or a portion of the remaining valuation allowance in the future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K. A discussion of our critical accounting policies, and the related estimates, are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K. There have been no material changes in our existing accounting policies or estimates from the disclosure included in our Form 10-K. However, as discussed above, circumstances related to accelerated SEC filing deadlines now require the Company to recognize revenue associated with per-unit royalties in the quarter when royalty reports are received from our licensees.

There will be no changes to the timing of revenue recognition related to royalties that are amortized over a defined period, such as paid-up licenses and license fees. In addition, revenue relating to past infringement from licensees, technology product sales and engineering services will continue to be recognized in the quarter in which all elements required for revenue recognition are met.

SIGNIFICANT TRANSACTIONS / MATTERS

Nokia and Samsung Arbitrations

We believe that the licensing agreements we entered into in 2003 with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (together, Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) establish the financial terms necessary to define the royalty obligations of Nokia Corporation (Nokia) and Samsung Electronics Co. Ltd. (Samsung) on sales of 2G GSM/TDMA and

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2.5G GSM/GPRS/EDGE/TDMA products under their existing patent license agreements. Under the most favored licensee (MFL) provisions applicable to their respective patent license agreements, we believe both companies are obligated to pay royalties on sales of covered products beginning January 1, 2002 by reference to the terms of the Ericsson (for infrastructure products) and Sony Ericsson (for terminal unit products) license agreements. The MFL provisions include terms for a period of review, negotiation, and dispute resolution with regard to the determination of the royalty obligations of both Nokia and Samsung. Nokia and Samsung each dispute our position. We are currently engaged in separate arbitration proceedings regarding these disputes.

We have not recorded revenue associated with the Nokia and Samsung license agreements related to sales of covered products during any period subsequent to January 1, 2002, and will not record any such revenue until all elements required for revenue recognition are met.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

We generated positive cash flow from operating activities of \$57.8 million in the nine month period ended September 30, 2004 (first nine months 2004) compared to \$55.8 million in the nine month period ended September 30, 2003 (first nine months 2003). The positive operating cash flow in first nine months 2004 arose principally from net receipts of approximately \$123.1 million from patent licensing agreements. This included approximately \$27.0 million from Sanyo Electric Co., Ltd (Sanyo) and \$10.0 million from Toshiba Corporation related to separate 2004 patent license agreements that updated and expanded each licensee's prior agreement, approximately \$23.9 million from NEC Corporation of Japan (NEC) associated with our 3G patent license agreement, approximately \$23.0 million from Sharp Corporation (Sharp) related to our 2G and 3G patent license agreements, \$16.0 million from Ericsson and approximately \$11.6 million from Sony Ericsson under their respective patent license agreements, and approximately \$11.6 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) of \$67.5 million and changes in working capital during first nine months 2004. The positive operating cash flow in first nine months 2003 arose principally from net receipts of approximately \$107.8 million from patent license agreements. This included approximately \$5.3 million from Ericsson and approximately \$32.7 million from Sony Ericsson under their respective 2003 patent license agreements, \$30.6 million from NEC associated with our 2G and 3G patent license agreements, \$29.3 million from Sharp related to our 2G patent license agreement and \$9.9 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses of \$53.8 million and changes in working capital during first nine months 2003.

Net cash used for investing activities in first nine months 2004 was \$27.4 million compared to \$53.1 million in first nine months 2003. Our net purchases of short-term marketable securities in first nine months 2004 were \$15.9 million compared to \$32.6 million in first nine months 2003. The decrease resulted from the timing of cash receipts and their subsequent investment into short-term marketable securities. Our investment in hardware and software of \$2.7 million during first nine months 2004 was in line with our prior year investment of \$2.6 million in the comparable period. Our pace of investment associated with patent filings increased \$2.8 million to \$8.8 million in first nine months 2004 compared to first nine months 2003, reflecting higher 3G patenting activity levels in 2004.

Net cash used in financing activities in first nine months 2004 was \$7.1 million compared to \$16.6 million in first nine months 2003. In each period the use of cash was primarily related to repurchases of our Common Stock and was partially offset by proceeds from option and warrant exercises and our employee stock purchase program.

As of September 30, 2004, we had \$144.9 million of cash, cash equivalents and short-term investments, compared to \$105.9 million as of December 31, 2003. Our working capital, adjusted to exclude cash, cash equivalents, short-term investments, current deferred tax assets, current maturities of debt and current deferred revenue, decreased to negative \$6.6 million at September 30, 2004 from \$29.0 million at December 31, 2003 due primarily to collection of accounts receivable and our transition to reporting per-unit royalties in the period royalty reports are received.

In second quarter 2004 we announced that our Board of Directors had authorized the repurchase of up to one million shares of our outstanding Common Stock from time-to-time through open market purchases or prearranged plans (Second Quarter Repurchase Program). We completed the Second Quarter Repurchase Program during third quarter 2004 at a total cost of approximately \$17.0 million. Early in fourth quarter 2004, our Board of Directors approved the repurchase of up to an additional one million shares of our outstanding Common Stock (Fourth Quarter Repurchase Program). We are capable of supporting our Fourth Quarter Repurchase Program, as well as operating requirements for the near future, through cash and short-term investments on hand, as well as other internally generated funds, primarily from 2G and 3G patent licensing royalties. We do not expect that any resolution of our dispute with Federal (as discussed in our Form 10-K) will prevent us from supporting our operating requirements for the near future. At present, we do not anticipate any need for additional financing through either bank facilities or the sale of debt or equity securities, however we may seek to establish a bank facility to provide us with additional flexibility in managing our business.

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As of December 31, 2003, we had federal NOL credit carryforwards of approximately \$123 million. At September 30, 2004, we have a partial valuation allowance against the related deferred tax assets. Our obligation to pay foreign source withholding taxes to Japan on the collection of Japanese sourced royalties ceased effective July 1, 2004. We will continue to pay local and state income taxes, and alternative minimum taxes (AMT) when applicable. We do not expect to pay federal income tax (other than AMT) until these federal NOL credit carryforwards are fully utilized.

RESULTS OF OPERATIONS

Third Quarter 2004 Compared to Third Quarter 2003

Revenues

Due to the transition in reporting per-unit royalties, third quarter 2004 revenues of \$7.4 million included only the amortization of paid-up royalties and fixed obligations. This compares with revenues of \$26.8 million in third quarter 2003, which consisted of \$20.8 million of per-unit royalties and \$6.0 million related to amortization of paid-up royalties and fixed obligations. Commencing in fourth quarter 2004, royalty revenue will include both fixed and amortized amounts, as well as per-unit royalties reported to the Company during that quarter.

Operating Expenses

Operating expenses increased 24% to \$26.5 million in third quarter 2004 from \$21.4 million in third quarter 2003. Our operating expenses continue to reflect our strong commitment to investing in the development of IPR-rich technologies that have high potential to both enable broad, sustained patent licensing and create product opportunities. The \$5.1 million increase in operating expenses is primarily due to increases in personnel costs (\$2.9 million), legal fees (\$3.0 million), public entity costs including insurance premiums (\$0.5 million), and patent amortization (\$0.3 million). Personnel costs include salaries, benefits and other personnel related expenses such as training and severance. The increase in personnel costs is attributable to company-wide compensation initiatives instituted in first half 2004. These company-wide compensation initiatives included the second quarter 2004 adoption of a long term compensation program (LTCP) applicable to a broad group of managers and executives. The program includes a cash incentive award tied to long-term company performance goals and a grant of restricted stock units. Under the program, we will substantially reduce the use of stock option grants as an equity incentive for these employees. We issued approximately 370,000 restricted stock units under the LTCP in second quarter 2004 with a value of approximately \$6.5 million on the date of the grant. We recognized approximately \$0.9 million and \$1.4 million respectively, of compensation expense related to our accrual for the cash-based incentive and amortization of the restricted stock units during third quarter 2004.

Development expenses in third quarter 2004 increased 10% to \$12.4 million from \$11.3 million in third quarter 2003 due primarily to a \$1.7 million increase in salaries and benefits offset, in part, by decreases in contract services (\$0.4 million) and various other general expenses.

Sales and marketing expenses of \$1.4 million in third quarter 2004 increased slightly from \$1.3 million in third quarter 2003 mainly due to a \$0.4 million increase in personnel costs that was nearly offset by reduced market analysis costs.

General and administrative expenses in third quarter 2004 increased 10% to \$5.0 million from \$4.6 million in third quarter 2003, primarily driven by increases of approximately \$0.5 million each in both personnel costs and public entity costs, including insurance premiums, that were nearly offset by a reduction in costs associated with the 2003 update to our strategic plan.

Patents administration and licensing expenses increased slightly over 80% from \$4.3 million in third quarter 2003 to \$7.7 million in third quarter 2004 almost entirely due to increases in patent enforcement costs. The increase in patent enforcement costs is directly attributable to our respective arbitrations and litigation with Nokia, Samsung and Lucent Technologies, Inc. (Lucent). Increases in personnel and other general costs of approximately \$0.5 million were nearly offset by reduced patent licensing commissions. The reduction in patent licensing commissions is attributable to our third quarter 2004 transition to recognizing per-unit royalties in the period in which the related royalties reports are received.

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Other Income, Interest and Net Investment Income and Interest Expense

Interest and net investment income of \$0.5 million in third quarter 2004 was level compared to third quarter 2003.

Income Taxes

In third quarter 2004 we recorded a net tax benefit of \$12.3 million compared to tax expense of \$2.3 million in third quarter 2003. The benefit results from a credit to the statement of operations of approximately \$17 million related to our recognition of an increase in the value of our deferred tax assets. This benefit was offset by foreign withholding taxes of approximately \$0.4 million and an accrual of approximately \$4.3 million that was based on our estimated book income tax expense for full year 2004. Our estimated book income tax expense for full year 2004 is driven by our expected utilization of a portion of our federal NOL credit carryforwards that resulted from stock option exercises. The utilization of these credits will offset any cash obligation we may have had, but because these credits are recorded in additional paid-in capital, they do not offset the related book expense. The income tax provision in third quarter 2003 of \$2.3 million was principally composed of foreign source withholding taxes.

First Nine Months 2004 Compared to First Nine Months 2003

Revenues

First nine months 2004 revenues were \$69.8 million compared to \$89.9 million in first nine months 2003. The decrease in revenues for first nine months 2004 versus 2003 was due to the absence of per-unit royalty revenue in third quarter 2004 associated with the transition in reporting per-unit royalties. Recurring patent license royalties (which include both fixed and amortized amounts, as well as per-unit royalties reported to the Company) for first nine months 2004 were \$68.7 million. This included \$20.9 million related to nine months of fixed and amortized amounts, as well as \$47.8 million associated with six months of per-unit royalties. First nine months 2003 revenue consisted of \$69.4 million of recurring patent license royalties and \$20.5 of non-recurring revenue primarily associated with Sony Ericsson's pre-2003 handset sales.

Operating Expenses

Operating expenses increased 26% from \$62.2 million in first nine months 2003 to \$78.6 million in first nine months 2004. Our operating expenses continue to reflect our strong commitment to investing in the development of IPR-rich technologies that have high potential to both enable broad, sustained patent licensing and create product opportunities. The \$16.4 million increase in operating expenses is primarily due to increases in personnel costs (\$9.4 million), legal fees (\$6.2 million), insurance premiums (\$1.1 million) and patent amortization (\$0.9 million). Approximately 68% and 13%, respectively, of the increase in personnel costs was due to company-wide compensation initiatives instituted in first half 2004 and the addition of our Melbourne, Florida design center. The remaining increase in personnel costs is primarily due to severance associated with our second quarter repositioning, expanded training and development programs.

Development expenses increased 12% from \$34.1 million in first nine months 2003 to \$38.1 million in first nine months 2004 mainly due to a \$4.8 million increase in salaries and benefits, partially offset by decreases in contract services and other general expenses.

Sales and marketing expenses of \$4.4 million in first nine months 2004 increased 27% from \$3.5 million in first nine months 2003 primarily driven by increased personnel costs.

General and administrative expenses in first nine months 2004 increased 19% to \$15.9 million from \$13.3 million in first nine months 2003. Approximately \$1.5 million of this increase was due to increased personnel costs while the balance resulted from increased public entity costs including audit fees and insurance premiums.

Patents administration and licensing expenses increased 73% from \$11.3 million in first nine months 2003 to \$19.6 million in first nine months 2004. The increase resulted primarily from a \$6.3 million increase in patent enforcement costs related to our respective arbitrations and litigation with Nokia, Samsung and Lucent.

Other Income, Interest and Net Investment Income and Interest Expense

We recognized \$10.6 million as other income in first nine months 2003 related to the settlement of our litigation with Ericsson. Interest and net investment income of \$1.3 million in first nine months 2004 decreased \$0.2 million from first nine months 2003 due to the timing of either sales or maturities of available for sale securities with unrealized gains or losses.

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Income Taxes

The income tax provision in first nine months 2004 consisted of a benefit of approximately \$17 million related to the recognition of an increase in value of our deferred tax assets that was offset by approximately \$3.5 million of withholding taxes associated with patent licensing royalties and an accrual of approximately \$5.5 million that was based on our estimated book income tax expense for full year 2004. Our estimated book income tax expense for full year 2004 is driven by our expected utilization of a portion of our federal NOL credit carryforwards that resulted from stock option exercises. The utilization of these credits will offset any cash obligation we may have had. However because these credits are recorded in additional paid-in capital, they do not offset the related book expense. The income tax provision in first nine months 2003 of \$6.2 million was principally composed of foreign source withholding taxes.

Expected Trends

We expect to provide updated guidance on fourth quarter 2004 revenue shortly, after we receive and review all per-unit royalty reports. Based on reports received to date, we expect that fourth quarter 2004 revenue should exceed \$30 million due to the strength of our licensees in the 3G market. We are also scaling our development efforts to take full advantage of a potential new relationship with General Dynamics and heightened interest in our AIM ANTENNA family of products. As a result of additional investment in technology development and related productization and higher commissions related to per-unit royalty revenue, we expect our fourth quarter operating expenses to increase 10% to 15% over third quarter 2004 levels.

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STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The foregoing Management's Discussion and Analysis contains forward-looking statements reflecting, among other things, the Company's beliefs, plans and expectations as to (i) The use of our deferred tax assets, the potential reversal of all or a portion of our remaining valuation allowance, and our expected utilization of a portion of our federal NOL carryforwards; (ii) the impact of the license agreements with Ericsson and Sony Ericsson on defining the royalty obligations of Nokia and Samsung under their respective patent license agreements with us; (iii) our stock repurchase program; (iv) the impact of any resolution of our dispute with Federal on our ability to meet our operating requirements; (v) our lack of need to seek additional financing; (vi) our future tax obligations and our estimated book tax expense for full year 2004; (vii) the scaling of our development efforts, our selection as a potential supplier to General Dynamics, and heightened interest in our AIM ANTENNA family of products; (viii) increases in our fourth quarter 2004 operating expenses over third quarter 2004 levels and our ability to support our near term operating requirements; (ix) our ability to create IPR-rich technologies and create product opportunities; and (x) our fourth quarter 2004 revenue. Words such as "may," "future," "could," "anticipate," "expect," "potential," "believe," "will," "continue to," "potential," or similar expressions are intended to identify such forward-looking statements.

Such forward-looking statements are subject to risks and uncertainties. We caution readers that actual results and outcomes could differ materially from those expressed in or anticipated by such forward-looking statements. You should not place undue reliance on these forward-looking statements, which are only as of the date of this Form 10-Q. In addition to the associated risks and uncertainties identified in this Form 10-Q as well as other information contained herein, each of the following factors should be considered in evaluating our business and prospects.

The use of our deferred tax assets, the potential reversal of all or a portion of our remaining valuation allowance, and our expected utilization of a portion of our federal NOL carryforwards is dependent on (i) changes in the market share and the performance of our primary licensees in selling their products; (ii) the market acceptance of our technology products; (iii) our ability to effectively manage costs; (iv) the costs and outcome of ongoing litigation/arbitration; (v) our ability to identify and effectively implement effective tax planning strategies; (vi) changes to existing federal tax regulations; and (vii) our ability to enter into new or expand existing patent license agreements.

Nokia's and Samsung's royalty obligations may be affected by (i) resolution of the Nokia and Samsung arbitrations as to the applicability of the terms of the Ericsson and Sony Ericsson licensing agreements on the royalty obligations of Nokia and Samsung under their respective patent license agreements; (ii) the actual processes, decisions, and results from the respective Nokia and Samsung arbitrations; and (iii) any future legal proceedings that could affect the royalty obligations or payments under Nokia's and Samsung's respective patent license agreements. Further, any dispute, including arbitrations and litigations, and the length and resolution of any dispute, could affect the timing and amount of anticipated cash and revenue related to any applicable patent license agreements.

Our ability to support our stock repurchase program may be affected by the potential acquisition price of our stock, our cash requirements, and other market and economic factors relating to the stock repurchase program.

Our lack of need to seek additional financing could change due to unexpected changes in cash flow from our patent license agreements.

Our future tax obligations and our estimated book tax expense for full year 2004 may be affected by (i) changes in federal and/or state tax regulations; (ii) changes to international tax treaties and federal tax regulations; (iii) the amount of royalties paid by new and existing licensees; (iv) the cost of litigation; and, (v) our level of continued self-funding in technology development activities.

The scaling of our development efforts and our expected fourth quarter 2004 operating expenses may be affected by (i) our ability to successfully negotiate and enter into an agreement with General Dynamics, and our ability to successfully negotiate and enter into agreements with parties interested in our AIM ANTENNA technology; (ii) our ability to hire and retain qualified personnel; and (iii) unanticipated development costs, or technical, financial or other difficulties or delays related to the development of our technologies and products.

Our ability to support our operating requirements in the near future, and our belief that any resolution of our dispute with Federal would not affect our operating requirements for the near future may be affected by the factors listed above, as well as our cash flow and our recurring royalties which are dependent on (i) the market share and performance of our primary licensees in realizing our projections for sales of covered products; (ii) the economy and sales trends in the wireless market; (iii) our ability to expand our customer, partner and licensing relationships; (iv) whether new licensees or existing licensees make past payments for royalties due or pre-payments against future royalties; (v) our ability to successfully prosecute, enforce and protect our patents and other intellectual property rights; and (vi) unanticipated changes in the schedule or costs associated with the Nokia and Samsung arbitrations and Lucent litigation. Further, our failure to generate sufficient cash flows over the long-term, based on the factors listed above and those set forth in our Form 10-K could adversely impact operating requirements and our current lack of need to seek additional financing.

Our ability to develop IPR-rich technologies for product and licensing opportunities may be impacted by (i) our ability to successfully develop market relevant technology and patent our technologies; (ii) difficulties or delays in our strategic initiatives; and (iii) sufficient internal technology development resources.

Our expected fourth quarter 2004 revenues may be impacted by the collection and review of final royalty reports from our licensees, as well as the potential additions of new patent license agreements or other revenue streams.

Factors affecting one forward-looking statement may affect other forward-looking statements. We undertake no duty to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Our Repurchase Program may be affected by the potential acquisition price of our stock, our cash requirements, and other market and economic factors relating to the Repurchase Program.

Factors affecting one forward-looking statement may affect other forward-looking statements. We undertake no duty to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in quantitative and qualitative market risk from the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company's management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in rules and forms of the Securities and Exchange Commission. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2004 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Lucent

As previously reported in the Company's Form 10-K and Form 10-Q for the period ended June 30, 2004, in March 2004 Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000[®] equipment. The amended complaint alleges infringement of nine United States patents. The lawsuit seeks damages for past infringement and an injunction against future infringement as well as interest, costs, and attorney's fees. Lucent has responded to the lawsuit denying any infringement, seeking both a declaration that the patents are invalid and a dismissal of the lawsuit, and requesting attorneys' fees and costs.

The Court has issued a final trial schedule with mandatory mediation to commence in 2005 and the trial to commence on September 6, 2005. The parties are currently in the discovery phase of the litigation at this time.

Other

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

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

(c) Issuer Purchases of Equity Securities.

The following table provides information concerning the Company's purchases of its Common Stock, \$0.01 par value, during third quarter 2004:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1, 2004 – July 31, 2004	424,000	\$ 18.19	424,000	576,000
August 1, 2004 – August 31, 2004	576,000	\$ 16.18	576,000	—
September 1, 2004 – September 30, 2004	—	—	—	—
Total	1,000,000	\$ 17.03	1,000,000	—

- (1) On June 10, 2004, we announced that our Board of Directors had authorized the repurchase of up to one million shares of our outstanding Common Stock from time-to-time through open-market purchases or prearranged plans (Second Quarter Repurchase Program). We completed the Second Quarter Repurchase Program during third quarter 2004 at a total cost of approximately \$17.0 million.

Item 6. EXHIBITS.

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

Exhibits

10.61	InterDigital Communications Corporation Long-Term Compensation Program
10.62	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Awarded to Independent Directors Upon Re-Election]
10.63	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Annual Award to Independent Directors]
10.64	1999 Restricted Stock Plan, Form of Restricted Stock Unit Agreement [Periodically Awarded to Members of the Board of Directors]
10.65	1999 Restricted Stock Plan, Form of Restricted Stock Agreement [Awarded to Executives and Management as Part of Annual Bonus]
10.66	2000 Stock Award and Incentive Plan, Form of Option Agreement [Director Awards]
10.67	2000 Stock Award and Incentive Plan, Form of Option Agreement [Executive Awards]
10.68	2000 Stock Award and Incentive Plan, Form of Option Agreement [Inventor Awards]
10.69	2002 Stock Award and Incentive Plan, Form of Option Agreement [Inventor Awards]
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Howard E. Goldberg.

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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 9, 2004

/s/ H OWARD E. G OLDBERG

Howard E. Goldberg
President and Chief Executive Officer

Date: November 9, 2004

/s/ R. J. F AGAN

Richard J. Fagan
Chief Financial Officer

I N T E R D I G I T A L C O M M U N I C A T I O N S C O R P O R A T I O N
L O N G T E R M C O M P E N S A T I O N P R O G R A M

June 2004

The Company implemented the Long Term Compensation Program (the “Program”) to encourage management and executive level employees to continue to exercise their best efforts toward ensuring the success of the Company. All regular full-time or regular part-time employees (as defined in the Employee Handbook) at or above a manager or technical equivalent level are eligible to participate in the Program.

Compensation Components. As further described below, the Program consists of two compensation components: (1) a Long-Term Incentive Plan providing performance-based cash bonuses (the “LTIP”), and (2) an award of restricted stock units (“RSUs”) under the Company’s 1999 Restricted Stock Plan.

The LTIP component of the Program rewards grantees based on the Company’s achievement of performance goals established/approved by the Compensation Committee of the Board of Directors (the “Compensation Committee”).

The RSU awards provide recipients with an opportunity to share in the growth of the Company’s value in the marketplace. An RSU is a contractual right to receive a share(s) of InterDigital Common Stock after completion of a specified vesting period.

Program Cycle. The Program operates in cycles (the “Program cycle”). The first Program cycle began on April 1, 2004 and will end on January 1, 2006. Subsequent Program cycles are intended to be overlapping three-year cycles, beginning January 1, 2005 and recurring every other year thereafter.

LTIP Cash Bonuses . The LTIP cash bonus targets are established based on a percentage of annual base salary and a payout under the LTIP is based on the Company’s achievement of certain performance goals associated with each Program cycle, established by the Compensation Committee at the start of each Program cycle. Your cash LTIP payout may exceed or be less than your targeted amount depending on achievement of the performance goals, or no payout may be made if the Company fails to meet the minimum performance goals for the Program cycle. To be eligible for a cash payout you must remain continuously employed by the Company (or an Affiliate of the Company) through the end of the Program cycle. For purposes of this Program, an Affiliate means any other individual, corporation, partnership, association, trust or other entity that, directly or indirectly, is in control of or is controlled by or is under common control with the Company. Payout of the LTIP cash bonus will be made within the first quarter of the year following the end of each Program cycle.

RSU Terms. RSUs will be granted under, and subject to the terms of, the Company’s 1999 Restricted Stock Plan (the “Plan”). You will receive an RSU Award Agreement setting forth in detail the terms of your RSU grant along with a copy of the prospectus for the Plan. In the event of any conflict between this summary and your RSU award agreement, the RSU award agreement will govern.

For all non-executives/officers, the RSUs granted in connection with each Program cycle will vest incrementally based on the duration of the Program cycle. For the first cycle, vesting will

occur over a two-year period with half of the RSUs vesting on January 1, 2005 and half vesting on January 1, 2006, so long as you remain continuously employed by the Company (or an Affiliate) through the applicable vesting dates. For subsequent Program cycles, currently intended to be three years in duration, vesting will occur 25% at the end of years one and two, and 50% at the end of year three. For all executive/officer level participants, the RSUs granted in connection with each Program cycle will vest 100% at the end of each cycle, so long as you remain employed by the Company or an Affiliate of the Company through the applicable vesting date.

New Hires . If you are hired within the first two years of a three-year Program cycle (or within the first year of a two-year cycle), you will be eligible to receive a pro rata LTIP cash bonus and RSU award. The pro rata target LTIP cash bonus and RSU award will be determined based on the amount of time (number of pay periods) remaining in the LTCP cycle in which you are hired. By way of example, if you are a non-executive employee hired October 1st of the first year of a two year LTCP cycle, you would be eligible to receive 3/12 of that year's LTCP eligibility in addition to the full-year eligibility for the second year of the LTCP cycle. The LTIP (cash) and RSU awards will be paid out and vest respectively, as described under the sections entitled "LTIP Cash Bonuses" and "RSU Terms".

Promotion during Program Cycle. If you are promoted during a Program cycle and such promotion results in an accompanying increase in your Program payout target (LTIP target and RSU award), you will realize the benefit of the Program target increase at the beginning of the next applicable Program cycle unless the Compensation Committee, in its sole discretion, authorizes such an adjustment at a different time.

Effect of Terminations. If, during a Program cycle, your employment with the Company terminates due to your death, "disability," "retirement," or termination by the Company without "cause" (each as defined below), you will earn a pro-rata portion of your LTIP cash bonus and RSU award. That pro-rata portion will be determined by multiplying both the amount of the LTIP cash bonus and the number of RSUs awarded to you under the Program by a fraction equal to the portion of the Program cycle that has transpired prior to the cessation of your employment over the entire Program cycle. Such pro-rata payment and distribution will be made to you (or, if applicable, your estate) at the same time as bonus payments and share distributions are made to active employees participating in the Program.

If your employment ceases due to your termination for "cause" or for any reason *other than* death, "disability", "retirement" or a Terminating Event, all your rights under the Program (other than RSUs that have previously vested) will be forfeited.

For purposes of the Program:

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

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

* “retirement” means resignation after attaining a combination of age plus years of service at the Company (and Affiliates) equal to 70.

Effect of a Terminating Event . If a Terminating Event (meaning a Change of Control - as defined in the Plan - or liquidation of the Company) occurs during the Program cycle and while you are actively employed by the Company, then:

* immediately prior to (but contingent on the occurrence of) that Terminating Event all your RSUs will become fully vested and you will receive a distribution of InterDigital shares with respect to those RSUs; and

* you will be entitled to an early payment of your LTIP cash bonus in an amount equal to the greater of (i) your target LTIP cash bonus, or (ii) the LTIP cash bonus that would have been due to you at the end of the Program cycle (but for the Terminating Event), assuming performance through the remainder of the Program cycle would be consistent with performance in the portion of the Program cycle prior to the Terminating Event. Payment of this amount will be made not later than 30 days after the Terminating Event.

Taxation of Awards. The following is a brief description of the federal income and employment tax treatment of Program awards. The rules governing these awards are complex and their application may vary depending upon your individual circumstances. Moreover, statutory and regulatory provisions and their interpretations are subject to change. You are therefore encouraged to consult with your personal tax advisor regarding the tax consequences of participation in the Program.

For federal income and employment tax purposes, the full amount of any LTIP cash bonus will be taxable to you at the time the cash is paid to you.

For federal income tax purposes, you will recognize ordinary income with respect to the value of shares distributed in respect of RSUs at the time the shares are distributed to you based on the value of those shares at that time. For employment tax and possibly state income tax purposes, you will be taxed on the value of the shares subject to your RSUs at the time those RSUs vest, based on the value of those shares at that time. Further information regarding the taxation of your RSUs is contained in the Plan’s prospectus.

Future Program Cycles . While the Company reserves the right to alter or discontinue the Program at any time, its present intent is to continue the Program for future cycles. The Company expects future Program cycles to include both an LTIP component and an RSU component. If you are eligible to participate in a future Program cycle, additional information will be distributed to you at the start of that cycle.

Administration. The Program is administered by the Compensation Committee. The Compensation Committee has the right to terminate or amend the Program and its components at any time for any reason. The Compensation Committee also has the authority to select employees to receive awards, to create, amend, and rescind rules regarding the operation of the Program, to determine whether LTIP performance goals have been achieved, to reconcile inconsistencies, to supply omissions and to otherwise make all determinations necessary or desirable for the operation of the Program.

No Assignment. You may not assign, pledge or otherwise transfer any right relating to a cash or RSU award under the Program and any attempt to do so will be void.

No Right to Continued Employment. Your participation in the Program does not give you any right to continue in employment or limit in any way the right of the Company to terminate your employment at any time, for any reason.

Questions. If you have questions regarding the Program, please contact Gary Isaacs, Sr. Human Resources Officer, at 610-878-5721.

June 2004

I N T E R D I G I T A L C O M M U N I C A T I O N S C O R P O R A T I O N
L O N G T E R M C O M P E N S A T I O N P R O G R A M

S U P P L E M E N T A L P R O G R A M S U M M A R Y

In addition to the Company's Long Term Compensation Program (the "Program") Terms and Conditions dated June 2004 (the "Terms and Conditions"), the provisions outlined in this Supplemental Program Summary apply to the Program. Taken together, the Terms and Conditions and this supplemental document (along with the terms contained in the Company's 1999 Restricted Stock Plan and associated prospectus (collectively, the "Plan") as such terms relate to the grant of restricted stock units ("RSU") made under the Program), represents a comprehensive written description of the Program.

Program Goals

- Introduces a new compensation program to attract, motivate and retain employees; and
- Ensures alignment with market/industry practices and shareholder interests.

Program Cycles

As described in the Terms and Conditions, the initial Program cycle is a two-year cycle commencing April 1, 2004, with subsequent Program cycles occurring in overlapping three-year cycles commencing January 1, 2005. Under the initial two-year Program cycle, all participants will receive two-thirds of a full three-year cycle. The opportunity for non-executive/officer-level participants as well as executive/officer-level participants to receive the Long-Term Incentive Plan performance-based cash bonus component of the Program ("LTIP") occurs at the end of each Program cycle.

Program Targets

The following Program targets are based on organizational levels (or a specific officer position within the Company) and that organizational level's (or the specific officer's) base salary. The percentages are used to calculate the opportunity to receive the LTIP cash bonus component of the Program and the amount of the RSU award component of the Program:

- Manager/Sr. Manager & Technical Equivalent – 40%
- Director/Sr. Director & Technical Equivalent – 45%
- Functional VP – 50%
- Chief Executive Officer – 120%
- Chief Operating Officer – 100%
- General Patent Counsel – 100%
- Chief Financial Officer – 90%
- Chief Technology Officer – 90%
- Sr. Business Development Officer – 90%
- General Counsel – 80%
- Chief Strategic Standards Officer – 80%
- Sr. Engineering & Programs Officer – 80%
- Sr. Human Resources Officer – 80%
- Fellow, ASIC/DSP – 70%

RSU awards are calculated based on the target percentage of base salary of an eligible participant divided by the Company's closing share price on the date of the RSU award (i.e., April 1, 2004 for the initial Program cycle).

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD

This Restricted Stock Unit Award is made as of _____, _____ (the "Date of Grant") by InterDigital Communications Corporation (the "Company") to _____ ("Grantee").

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

(a) "Account" shall mean a bookkeeping account reflecting Grantee's interest in Restricted Stock Units (as defined below).

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

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

(d) "Dividend Equivalent" means credits arising in respect of dividends paid on shares of common stock of the Company, \$0.01 par value ("Shares"), as described in Section 6 herein.

(e) "Fair Market Value" means the closing price of a Share on the principal stock exchange on which the Company's common stock is then traded, 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.

(f) "Plan" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended from time to time.

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

(h) "Retirement" means resignation by Grantee after attaining a combination of age plus years of service at the Company and/or its Affiliates equal to 70 years.

(i) "Restricted Stock Units" means a right to receive _____ Shares issued pursuant to the Plan.

(j) “ Vesting Date ” means the earlier of (i) _____, _____, or (ii) the consummation of a Terminating Event, as defined in the Plan.

2. Grant of Restricted Stock Units.

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

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

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

4. Vesting and Forfeiture.

(a) Except as otherwise provided in this Section 4, Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) on the Vesting Date if Grantee remains continuously employed by the Company or one of its Affiliates through that date. Each Restricted Stock Unit credited under Section 6 in respect of Dividend Equivalents shall vest at the time of vesting of the Restricted Stock Unit that gives rise, directly or indirectly, to such Dividend Equivalent.

(b) If Grantee’s service as an employee of the Company or one of its Affiliates ends prior to the Vesting Date due to a termination for Cause, or termination of employment for any reason other than death, Disability, Retirement or Terminating Event, all Restricted Stock Units granted hereunder will be forfeited.

(c) If Grantee’s service or employment with the Company or an Affiliate ceases prior to the Vesting Date due to death, Disability, Retirement, or termination by the Company without Cause, Grantee will become vested in a pro-rata portion of his or her Restricted Stock Units. That pro-rata portion will be determined by multiplying the number of

Restricted Stock Units by a fraction equal to the portion of the Restricted Period that has transpired prior to such cessation of service or employment over the entire Restricted Period. Settlement for Restricted Stock Units that become vested pursuant to this Section 4(c) will occur in accordance with Section 5 at the same time settlement would have occurred had Grantee remained employed through the end of the Restricted Period.

5. Settlement and Election to Defer Settlement .

(a) Restricted Stock Units credited hereunder (including Restricted Stock Units credited in respect of Dividend Equivalents) will be settled by delivery of one share of the Company's common stock for each Restricted Stock Unit being settled. Settlement will occur as soon as practicable following the applicable Vesting Date, unless Grantee has elected to defer settlement in accordance with Section 5(b).

(b) By completing, signing and returning Exhibit "A" to this Agreement within thirty (30) days of this Agreement, Grantee may elect to defer the date of settlement of Restricted Stock Units credited hereunder. If a Grantee elects to defer settlement, such deferred settlement must occur on or after _____, ____.

6. Dividend Equivalents and Adjustments .

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

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

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

(iii) *Stock Dividends* . If the Company declares and pays a dividend or distribution on Shares in the form of additional Shares or other shares of the

Company, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend or distribution which number shall be equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the number of additional Shares or other shares of the Company actually paid as a dividend or distribution in respect of each outstanding Share.

7. Other Terms Relating to Restricted Stock Units .

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

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

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

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

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

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

12. Miscellaneous.

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

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

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

(d) The validity, performance, construction and effect of this Restricted Stock Unit Award shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

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

ATTEST:

INTERDIGITAL COMMUNICATIONS CORPORATION

BY: _____

Name

ATTEST:

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT DEFERRAL ELECTION FORM

Grant Date: _____, ____

____ Restricted Stock Units

Check Only One:

- I hereby elect to defer the settlement of my Restricted Stock Units until _____ [insert a date on or after _____, ____], (subject to accelerated settlement upon the consummation of a Terminating Event*).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director and/or employee of the Company (subject to accelerated settlement upon the consummation of a Terminating Event*).

* As defined in the 1999 Restricted Stock Plan, as amended.

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD

This Restricted Stock Unit Award is made as of _____, _____(the "Date of Grant") by InterDigital Communications Corporation (the "Company") to _____("Grantee").

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

(a) "Account" shall mean a bookkeeping account reflecting Grantee's interest in Restricted Stock Units (as defined below).

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

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

(d) "Dividend Equivalent" means credits arising in respect of dividends paid on shares of common stock of the Company, \$0.01 par value ("Shares"), as described in Section 6 herein.

(e) "Fair Market Value" means the closing price of a Share on the principal stock exchange on which the Company's common stock is then traded, 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.

(f) "Plan" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended from time to time.

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

(h) "Retirement" means resignation by Grantee after attaining a combination of age plus years of service at the Company and/or its Affiliates equal to 70 years.

(i) "Restricted Stock Units" means a right to receive _____Shares issued pursuant to the Plan.

(j) “ Vesting Date ” means:

- (i) with respect to one-half of the Restricted Stock Units granted hereunder (_____ Shares), the earlier of (A) _____, _____ (“First Vesting”), or (B) the consummation of a Terminating Event; and
- (ii) with respect to the remaining half of the Restricted Stock Units granted hereunder (_____ Shares), the earlier of (A) _____, _____ (“Second Vesting”), or (B) the consummation of a Terminating Event.

2. Grant of Restricted Stock Units .

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

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

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

4. Vesting and Forfeiture .

(a) Except as otherwise provided in this Section 4, Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) on the Vesting Date if Grantee remains continuously employed by the Company or one of its Affiliates through that date. Each Restricted Stock Unit credited under Section 6 in respect of Dividend Equivalents shall vest at the time of vesting of the Restricted Stock Unit that gives rise, directly or indirectly, to such Dividend Equivalent.

(b) If Grantee’s service as an employee of the Company or one of its Affiliates ends prior to the Vesting Date due to a termination for Cause, or termination of

employment for any reason other than death, Disability, Retirement or Terminating Event, all Restricted Stock Units granted hereunder will be forfeited.

(c) If Grantee's service or employment with the Company or an Affiliate ceases prior to the Vesting Date due to death, Disability, Retirement, or termination by the Company without Cause, Grantee will become vested in a pro-rata portion of his or her Restricted Stock Units. That pro-rata portion will be determined by multiplying the number of Restricted Stock Units by a fraction equal to the portion of the Restricted Period that has transpired prior to such cessation of service or employment over the entire Restricted Period. Settlement for Restricted Stock Units that become vested pursuant to this Section 4(c) will occur in accordance with Section 5 at the same time settlement would have occurred had Grantee remained employed through the end of the Restricted Period.

5. Settlement and Election to Defer Settlement .

(a) Restricted Stock Units credited hereunder (including Restricted Stock Units credited in respect of Dividend Equivalents) will be settled by delivery of one share of the Company's common stock for each Restricted Stock Unit being settled. Settlement will occur as soon as practicable following the applicable Vesting Date, unless Grantee has elected to defer settlement in accordance with Section 5(b).

(b) By completing, signing and returning Exhibit "A" to this Agreement within thirty (30) days of this Agreement, Grantee may elect to defer the date of settlement of Restricted Stock Units credited hereunder. If a Grantee elects to defer settlement, such deferred settlement must occur on or after _____, _____ for the First Vesting and on or after _____, _____ for the Second Vesting.

6. Dividend Equivalents and Adjustments .

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

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

(ii) *Non-Cash Dividends* . If the Company declares and pays a dividend or distribution on Shares in the form of property other than Shares or other shares of the Company, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend or distribution

which number shall be equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution multiplied by the fair market value of such property actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share as of such payment date.

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

7. Other Terms Relating to Restricted Stock Units .

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

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

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

9. Notices . Any notice to the Company under this Agreement shall be made in care of the Committee to the office of the General Counsel, at the Company's main office in King of Prussia, Pennsylvania. All notices under this Agreement shall be deemed to have been

given when hand-delivered or mailed, first class postage prepaid, and shall be irrevocable once given.

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

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

12. Miscellaneous.

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

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

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

(d) The validity, performance, construction and effect of this Restricted Stock Unit Award shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

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

ATTEST:

INTERDIGITAL COMMUNICATIONS CORPORATION

BY: _____
HOWARD E. GOLDBERG

ATTEST:

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT DEFERRAL ELECTION FORM
(Form for Multiple Vesting Periods)

Grant Date: _____, _____
_____ Restricted Stock Units

Please Check Only One Election For Each Vesting Period:

First Vesting Period: _____ **shares:**

- I hereby elect to defer the settlement of my Restricted Stock Units until _____ [insert a date on or after _____, _____], (subject to accelerated settlement upon the consummation of a Terminating Event*).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director and/or employee of the Company (subject to accelerated settlement upon the consummation of a Terminating Event*).

Second Vesting Period: _____ **shares**

- I hereby elect to defer the settlement of my Restricted Stock Units until _____ [insert a date on or after _____, _____], (subject to accelerated settlement upon the consummation of a Terminating Event*).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director and/or employee of the Company (subject to accelerated settlement upon the consummation of a Terminating Event*).

* As defined in the 1999 Restricted Stock Plan, as amended.

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD

This is a Restricted Stock Unit Award dated as of _____ from InterDigital Communications Corporation (the “Company”) to _____ (“Grantee”).

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

- (a) “Account” shall mean a bookkeeping account reflecting Grantee’s ownership interest in restricted stock units.
- (b) “Committee” shall mean the Compensation & Stock Option Committee of the Board or, in the event the Grantee is serving on the Compensation & Stock Option Committee at the relevant time, the Board.
- (c) “Date of Grant” means _____, the date on which the Company awarded the Restricted Stock Units.
- (d) “Dividend Equivalent” means payments equivalent to dividends paid on Shares, as described in Section 7 herein.
- (e) “Fair Market Value” means the closing price of a Share on the exchange or on NASDAQ, as reported in *The Wall Street Journal* on the relevant valuation date or, if there is no trading on that date, on the next preceding trading date.
- (f) “Plan” means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended, incorporated herein by reference.
- (g) “Restricted Period” means, with respect to each Share of Restricted Stock, the period beginning on the Date of Grant and ending on the Vesting Date.
- (h) “Restricted Stock” means Shares of the Company’s common stock issued pursuant to the Plan.
- (i) “Restricted Stock Units” means a right to receive _____ Shares of Restricted Stock, which are the subject of the Award hereby granted.
- (j) “Share” or “Shares” means shares of the common stock of the Company, par value \$0.01.

(k) “ Vesting Date ” means the earliest of (i) _____ (_____ Shares vest); _____ (_____ Shares vest); or _____ (_____ Shares vest), (ii) the consummation of a Terminating Event, as defined in the Plan, (iii) Grantee’s death or disability (as determined by the Committee in its sole discretion) resulting in the end of Grantee’s service as a director of the Company, or (iv) a bonafide emergency in Grantee’s immediate family (as determined by the Committee in its sole discretion).

2. Grant of Restricted Stock Units .

(a) Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to Grantee the Restricted Stock Units. The Company shall maintain an Account for Grantee reflecting the number of Restricted Stock Units credited to Grantee hereunder as a result of this grant of Restricted Stock Units and any crediting of additional Restricted Stock Units to Grantee pursuant to Dividend Equivalents.

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

3. Restrictions on Restricted Stock Units . Subject to the terms and conditions set forth herein and in the Plan, during the Restricted Period, Grantee shall not be permitted to sell, transfer, pledge or assign the Restricted Stock Units except by will or by the laws of descent and distribution.

4. Vesting and Forfeiture .

(a) Unless forfeited under Section 4(b) herein, Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) at the earliest of (i) the Vesting Date, or (ii) to the extent determined by the Committee, in its sole discretion. Each Restricted Stock Unit credited as a result of Dividend

Equivalents under Sections 7(b)(i) and (ii) herein shall be fully vested and nonforfeitable from and after the date of grant, and each Restricted Stock Unit credited as a result of Dividend Equivalents under Section 7(b)(iii) shall vest at the time of vesting of the forfeitable Restricted Stock Unit which gives rise, directly or indirectly, to the crediting of such Dividend Equivalent Restricted Stock Unit.

(b) If Grantee's service as a director of the Company ends prior to the Vesting Date, all unvested Restricted Stock Units shall be forfeited.

5. Nontransferability. Until the Restricted Stock Units become settleable under Section 4 herein, Restricted Stock Units shall not be transferable. No such transfer occurring as a result of the Grantee's death shall be effective to bind the Company unless the Committee shall have been furnished with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

6. Settlement and Election to Defer Settlement. Restricted Stock Units granted hereunder, together with Restricted Stock Units credited as a result of Dividend Equivalents, shall be settled by delivery of one share of the Company's Common Stock for each Restricted Stock Unit being settled. Settlement of a Restricted Stock Unit granted hereunder shall occur upon the lapse of the risk of forfeiture of such Restricted Stock Unit under Section 4 herein, except settlement shall be deferred in certain cases if so elected by Grantee in accordance with this Section 6. Settlement of Restricted Stock Units, which directly or indirectly result from Dividend Equivalents on Restricted Stock Units granted hereunder, shall occur at the time of settlement of the granted Restricted Stock Unit. By filling out, signing, and returning Exhibit "A" to this Agreement, Grantee may elect to defer the date of settlement of Restricted Stock Units vested under Section 4(a) or (b) above as described in Exhibit "A". If Exhibit "A" is not signed and returned, settlement of all Restricted Stock Units will occur upon the lapse of the risk of forfeiture under Section 4 herein. Grantee may elect to defer delivery.

7. Dividend Equivalents and Adjustments.

(a) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited) in accordance with this Section 7.

(b) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited), as follows:

(i) *Cash Dividends*. If the Company declares and pays a dividend or distribution on its Shares in the form of cash, then a number of additional Restricted Stock Units

shall be credited to Grantee's Account as of the payment date for such dividend or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the amount of cash actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share at such payment date.

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

8. Other Terms Relating to Restricted Stock Units.

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

(b) It shall be a condition to the Company's obligation to issue and deliver Shares in settlement of the Restricted Stock Units that the Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying any liability to withhold federal, state, or local income or other taxes. If the amount requested is not paid, the Company may refuse to deliver the Shares in settlement of the Restricted Stock Units until such amount is paid. The Committee may, in its discretion, permit a Grantee (or the person to whom ownership rights may have passed by Will or the laws of descent

and distribution) to pay all or a portion of the amount requested by the Company for such taxes, at such time and in such manner as the Committee shall deem to be appropriate, including by authorizing the Company to withhold from the Shares to be delivered in settlement, or by agreeing to surrender to the Company on or about the date such tax liability is determinable, Shares having a Fair Market Value on such date equal to the amount of such tax liability or a specified portion of such tax liability.

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

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

11. Securities Laws . The Committee may from time to time impose any conditions on the Restricted Stock Units or on the Restricted Stock as it deems necessary or advisable to ensure that Shares are issued and resold in compliance with the Securities Act of 1933, as amended.

12. Award Not to Affect Service . The Award granted hereunder shall not confer upon Grantee any right to continue as a director of the Company.

13. Miscellaneous .

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

(b) The Grantee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, and hereby accepts the Award subject to all of the terms and provisions thereof. Grantee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or this Agreement. Grantee authorizes the Company to withhold in accordance with applicable law from any compensation payable to

him/her any taxes required to be withheld by federal, state or local law in connection with the Award.

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

(d) The validity, performance, construction and effect of this Award shall be governed by the laws of Pennsylvania, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, this Restricted Stock Award has been duly executed.

ATTEST:

INTERDIGITAL COMMUNICATIONS
CORPORATION

BY: _____

GRANTEE

**INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT ELECTION TO DEFER SETTLEMENT
(Form for Multiple Vesting Periods - Directors)**

Grant Date: _____
_____ Shares

Please Check Only One Election For Each Vesting Period:

First Vesting Period: _____ shares

- I hereby elect to have my Restricted Stock Units settled upon the lapse of the risk of forfeiture under Section 4 of the Restricted Stock Units Agreement between myself and InterDigital Communications Corporation dated as of _____ (this election will apply if no box is checked).
- I hereby elect to defer the settlement of my Restricted Stock Units until _____ (subject to accelerated settlement upon the consummation of a Terminating Event * or my cessation of service as a director of the Company).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director of the Company (subject to accelerated settlement upon the consummation of a Terminating Event *).

Second Vesting Period: _____ shares

- I hereby elect to have my Restricted Stock Units settled upon the lapse of the risk of forfeiture under Section 4 of the Restricted Stock Units Agreement between myself and InterDigital Communications Corporation dated as of _____ (this election will apply if no box is checked).
- I hereby elect to defer the settlement of my Restricted Stock Units until _____ (subject to accelerated settlement upon the consummation of a Terminating Event * or my cessation of service as a director of the Company).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director of the Company (subject to accelerated settlement upon the consummation of a Terminating Event *).

Third Vesting Period (if applicable): _____ **shares**

- I hereby elect to have my Restricted Stock Units settled upon the lapse of the risk of forfeiture under Section 4 of the Restricted Stock Units Agreement between myself and InterDigital Communications Corporation dated as of _____ (this election will apply if no box is checked).
- I hereby elect to defer the settlement of my Restricted Stock Units until _____ (subject to accelerated settlement upon the consummation of a Terminating Event * or my cessation of service as a director of the Company).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director of the Company (subject to accelerated settlement upon the consummation of a Terminating Event *).

* As defined in the 1999 Restricted Stock Plan, as amended.

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD

This is a Restricted Stock Unit Award dated as of _____ from InterDigital Communications Corporation (the “Company”) to _____ (“Grantee”).

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

- (a) “Account” shall mean a bookkeeping account reflecting Grantee’s ownership interest in restricted stock units.
- (b) “Committee” shall mean the Compensation & Stock Option Committee of the Board or, in the event the Grantee is serving on the Compensation & Stock Option Committee at the relevant time, the Board.
- (c) “Date of Grant” means _____, _____ the date on which the Company awarded the Restricted Stock Units.
- (d) “Dividend Equivalent” means payments equivalent to dividends paid on Shares, as described in Section 7 herein.
- (e) “Fair Market Value” means the closing price of a Share on the exchange or on NASDAQ, as reported in *The Wall Street Journal* on the relevant valuation date or, if there is no trading on that date, on the next preceding trading date.
- (f) “Plan” means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended, incorporated herein by reference.
- (g) “Restricted Period” means, with respect to each Share of Restricted Stock, the period beginning on the Date of Grant and ending on the Vesting Date.
- (h) “Restricted Stock” means Shares of the Company’s common stock issued pursuant to the Plan.
- (i) “Restricted Stock Units” means a right to receive _____ Shares of Restricted Stock, which are the subject of the Award hereby granted.
- (j) “Share” or “Shares” means shares of the common stock of the Company, par value \$0.01.

(k) “ Vesting Date ” means the earliest of (i) _____, (ii) the consummation of a Terminating Event, as defined in the Plan, (iii) Grantee’s death or disability (as determined by the Committee in its sole discretion) resulting in the end of Grantee’s service as a director of the Company, or (iv) a bonafide emergency in Grantee’s immediate family (as determined by the Committee in its sole discretion).

2. Grant of Restricted Stock Units .

(a) Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to Grantee the Restricted Stock Units. The Company shall maintain an Account for Grantee reflecting the number of Restricted Stock Units credited to Grantee hereunder as a result of this grant of Restricted Stock Units and any crediting of additional Restricted Stock Units to Grantee pursuant to Dividend Equivalents.

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

3. Restrictions on Restricted Stock Units . Subject to the terms and conditions set forth herein and in the Plan, during the Restricted Period, Grantee shall not be permitted to sell, transfer, pledge or assign the Restricted Stock Units except by will or by the laws of descent and distribution.

4. Vesting and Forfeiture .

(a) Unless forfeited under Section 4(b) herein, Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) at the earliest of (i) the Vesting Date, or (ii) to the extent determined by the Committee, in its sole discretion. Each Restricted Stock Unit credited as a result of Dividend Equivalents under Sections 7(b)(i) and (ii) herein shall be fully vested and nonforfeitable from and after the date of grant, and each Restricted Stock Unit credited as a result of Dividend Equivalents under Section 7(b)(iii) shall vest at the time of vesting of the forfeitable Restricted

Stock Unit which gives rise, directly or indirectly, to the crediting of such Dividend Equivalent Restricted Stock Unit.

(b) If Grantee's service as a director of the Company ends prior to the Vesting Date, all unvested Restricted Stock Units shall be forfeited.

5. Nontransferability . Until the Restricted Stock Units become settleable under Section 4 herein, Restricted Stock Units shall not be transferable. No such transfer occurring as a result of the Grantee's death shall be effective to bind the Company unless the Committee shall have been furnished with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

6. Settlement and Election to Defer Settlement . Restricted Stock Units granted hereunder, together with Restricted Stock Units credited as a result of Dividend Equivalents, shall be settled by delivery of one share of the Company's Common Stock for each Restricted Stock Unit being settled. Settlement of a Restricted Stock Unit granted hereunder shall occur upon the lapse of the risk of forfeiture of such Restricted Stock Unit under Section 4 herein, except settlement shall be deferred in certain cases if so elected by Grantee in accordance with this Section 6. Settlement of Restricted Stock Units, which directly or indirectly result from Dividend Equivalents on Restricted Stock Units granted hereunder, shall occur at the time of settlement of the granted Restricted Stock Unit. By filling out, signing, and returning Exhibit "A" to this Agreement, Grantee may elect to defer the date of settlement of Restricted Stock Units vested under Section 4(a) or (b) above as described in Exhibit "A". If Exhibit "A" is not signed and returned, settlement of all Restricted Stock Units will occur upon the lapse of the risk of forfeiture under Section 4 herein. Grantee may elect to defer delivery.

7. Dividend Equivalents and Adjustments .

(a) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited) in accordance with this Section 7.

(b) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited), as follows:

(i) *Cash Dividends* . If the Company declares and pays a dividend or distribution on its Shares in the form of cash, then a number of additional Restricted Stock Units shall be credited to Grantee's Account as of the payment date for such dividend

or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the amount of cash actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share at such payment date.

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

8. Other Terms Relating to Restricted Stock Units .

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

(b) It shall be a condition to the Company's obligation to issue and deliver Shares in settlement of the Restricted Stock Units that the Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying any liability to withhold federal, state, or local income or other taxes. If the amount requested is not paid, the Company may refuse to deliver the Shares in settlement of the Restricted Stock Units until such amount is paid. The Committee may, in its discretion, permit a Grantee (or the person to whom ownership rights may have passed by Will or the laws of descent and distribution) to pay all or a portion of the amount requested by the Company for such taxes,

at such time and in such manner as the Committee shall deem to be appropriate, including by authorizing the Company to withhold from the Shares to be delivered in settlement, or by agreeing to surrender to the Company on or about the date such tax liability is determinable, Shares having a Fair Market Value on such date equal to the amount of such tax liability or a specified portion of such tax liability.

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

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

11. Securities Laws. The Committee may from time to time impose any conditions on the Restricted Stock Units or on the Restricted Stock as it deems necessary or advisable to ensure that Shares are issued and resold in compliance with the Securities Act of 1933, as amended.

12. Award Not to Affect Service. The Award granted hereunder shall not confer upon Grantee any right to continue as a director of the Company.

13. Miscellaneous.

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

(b) The Grantee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, and hereby accepts the Award subject to all of the terms and provisions thereof. Grantee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or this Agreement. Grantee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld by federal, state or local law in connection with the Award.

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

(d) The validity, performance, construction and effect of this Award shall be governed by the laws of Pennsylvania, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, this Restricted Stock Award has been duly executed.

ATTEST:

INTERDIGITAL COMMUNICATIONS
CORPORATION

BY: _____

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT ELECTION FORM

Grant Date: _____
_____ Shares

Check Only One:

- I hereby elect to have my Restricted Stock Units settled upon the lapse of the risk of forfeiture under Section 4 of the Restricted Stock Units Agreement between myself and InterDigital Communications Corporation dated as of _____ (this election will apply if no box is checked).
- I hereby elect to defer the settlement of my Restricted Stock Units until _____ (subject to accelerated settlement upon the consummation of a Terminating Event * or my cessation of service as a director of the Company).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director of the Company (subject to accelerated settlement upon the consummation of a Terminating Event *).

* As defined in the 1999 Restricted Stock Plan, as amended.

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT AWARD

This is a Restricted Stock Unit Award dated as of _____, _____ from InterDigital Communications Corporation (the "Company") to _____ ("Grantee").

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

- (a) "Account" shall mean a bookkeeping account reflecting Grantee's ownership interest in restricted stock units.
- (b) "Committee" shall mean the Compensation & Stock Option Committee of the Board or, in the event the Grantee is serving on the Compensation & Stock Option Committee at the relevant time, the Board.
- (c) "Date of Grant" means _____, _____, the date on which the Company awarded the Restricted Stock Units.
- (d) "Dividend Equivalent" means payments equivalent to dividends paid on Shares, as described in Section 7 herein.
- (e) "Fair Market Value" means the closing price of a Share on the exchange or on NASDAQ, as reported in *The Wall Street Journal* on the relevant valuation date or, if there is no trading on that date, on the next preceding trading date.
- (f) "Plan" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended, incorporated herein by reference.
- (g) "Restricted Period" means, with respect to each Share of Restricted Stock, the period beginning on the Date of Grant and ending on the Vesting Date.
- (h) "Restricted Stock" means Shares of the Company's common stock issued pursuant to the Plan.
- (i) "Restricted Stock Units" means a right to receive _____ Shares of Restricted Stock, which are the subject of the Award hereby granted.
- (j) "Share" or "Shares" means shares of the common stock of the Company, par value \$0.01.

(k) “ Vesting Date ” means the earliest of (i) _____, _____, (ii) the consummation of a Terminating Event, as defined in the Plan, (iii) Grantee’s death or disability (as determined by the Committee in its sole discretion) resulting in the end of Grantee’s service as a director of the Company, or (iv) a bonafide emergency in Grantee’s immediate family (as determined by the Committee in its sole discretion).

2. Grant of Restricted Stock Units .

(a) Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to Grantee the Restricted Stock Units. The Company shall maintain an Account for Grantee reflecting the number of Restricted Stock Units credited to Grantee hereunder as a result of this grant of Restricted Stock Units and any crediting of additional Restricted Stock Units to Grantee pursuant to Dividend Equivalents.

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

3. Restrictions on Restricted Stock Units . Subject to the terms and conditions set forth herein and in the Plan, during the Restricted Period, Grantee shall not be permitted to sell, transfer, pledge or assign the Restricted Stock Units except by will or by the laws of descent and distribution.

4. Vesting and Forfeiture .

(a) Unless forfeited under Section 4(b) herein, Restricted Stock Units granted hereunder shall vest (meaning that the risk of forfeiture of such Restricted Stock Units shall lapse) at the earliest of (i) the Vesting Date, or (ii) to the extent determined by the Committee, in its sole discretion. Each Restricted Stock Unit credited as a result of Dividend Equivalents under Sections 7(b)(i) and (ii) herein shall be fully vested and nonforfeitable from and after the date of grant, and each Restricted Stock Unit credited as a result of Dividend Equivalents under Section 7(b)(iii) shall vest at the time of vesting of the forfeitable Restricted

Stock Unit which gives rise, directly or indirectly, to the crediting of such Dividend Equivalent Restricted Stock Unit.

(b) If Grantee's service as a director of the Company ends prior to the Vesting Date, all Restricted Stock Units shall be forfeited.

5. Nontransferability. Until the Restricted Stock Units become settleable under Section 4 herein, Restricted Stock Units shall not be transferable. No such transfer occurring as a result of the Grantee's death shall be effective to bind the Company unless the Committee shall have been furnished with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

6. Settlement and Election to Defer Settlement. Restricted Stock Units granted hereunder, together with Restricted Stock Units credited as a result of Dividend Equivalents, shall be settled by delivery of one share of the Company's Common Stock for each Restricted Stock Unit being settled. Settlement of a Restricted Stock Unit granted hereunder shall occur upon the lapse of the risk of forfeiture of such Restricted Stock Unit under Section 2 herein, except settlement shall be deferred in certain cases if so elected by Grantee in accordance with this Section 6. Settlement of Restricted Stock Units which directly or indirectly result from Dividend Equivalents on Restricted Stock Units granted hereunder shall occur at the time of settlement of the granted Restricted Stock Unit. By filling out, signing, and returning Exhibit "A" to this Agreement on or before _____, _____, Grantee may elect to defer the date of settlement of Restricted Stock Units vested under Section 4(a) or (b) above as described in Exhibit "A". If Exhibit "A" is not signed and returned on or before such date, settlement of all Restricted Stock Units will occur upon the lapse of the risk of forfeiture under Section 2 herein. Grantee may elect to defer delivery.

7. Dividend Equivalents and Adjustments.

(a) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited) in accordance with this Section 7.

(b) Dividend Equivalents shall be credited on Restricted Stock Units (other than Restricted Stock Units that, at the relevant record date, previously have been settled or forfeited), as follows:

- (i) *Cash Dividends*. If the Company declares and pays a dividend or distribution on its Shares in the form of cash, then a number of additional Restricted Stock Units

shall be credited to Grantee's Account as of the payment date for such dividend or distribution equal to the number of Restricted Stock Units credited to the Account as of the record date for such dividend or distribution, multiplied by the amount of cash actually paid as a dividend or distribution on each outstanding Share at such payment date, divided by the Fair Market Value of a Share at such payment date.

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

8. Other Terms Relating to Restricted Stock Units .

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

(b) It shall be a condition to the Company's obligation to issue and deliver Shares in settlement of the Restricted Stock Units that the Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying any liability to withhold federal, state, or local income or other taxes. If the amount requested is not paid, the Company may refuse to deliver the Shares in settlement of the Restricted Stock Units until such amount is paid. The Committee may, in its discretion, permit a Grantee (or the person to whom ownership rights may have passed by Will or the laws of descent

and distribution) to pay all or a portion of the amount requested by the Company for such taxes, at such time and in such manner as the Committee shall deem to be appropriate, including by authorizing the Company to withhold from the Shares to be delivered in settlement, or by agreeing to surrender to the Company on or about the date such tax liability is determinable, Shares having a Fair Market Value on such date equal to the amount of such tax liability or a specified portion of such tax liability.

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

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

11. Securities Laws . The Committee may from time to time impose any conditions on the Restricted Stock Units or on the Restricted Stock as it deems necessary or advisable to ensure that Shares are issued and resold in compliance with the Securities Act of 1933, as amended.

12. Award Not to Affect Service . The Award granted hereunder shall not confer upon Grantee any right to continue as a director of the Company.

13. Miscellaneous .

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

(b) The Grantee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, and hereby accepts the Award subject to all of the terms and provisions thereof. Grantee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or this Agreement. Grantee authorizes the Company to withhold in accordance with applicable law from any compensation payable to

him/her any taxes required to be withheld by federal, state or local law in connection with the Award.

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

(d) The validity, performance, construction and effect of this Award shall be governed by the laws of Pennsylvania, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, this Restricted Stock Award has been duly executed.

ATTEST:

INTERDIGITAL COMMUNICATIONS
CORPORATION

BY: _____

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK UNIT ELECTION FORM

Grant Date: _____, _____
_____ Shares

Check Only One:

- I hereby elect to have my Restricted Stock Units settled upon the lapse of the risk of forfeiture under Section 2 of the Restricted Stock Units Agreement between myself and InterDigital Communications Corporation dated as of _____, _____ (this election will apply if no box is checked).
- I hereby elect to defer the settlement of my Restricted Stock Units until _____ (subject to accelerated settlement upon the consummation of a Terminating Event * or my cessation of service as a director of the Company).
- I hereby elect to defer the settlement of my Restricted Stock Units until my cessation of service as a director of the Company (subject to accelerated settlement upon the consummation of a Terminating Event *).

* As defined in the 1999 Restricted Stock Plan, as amended.

GRANTEE

INTERDIGITAL COMMUNICATIONS CORPORATION
RESTRICTED STOCK AWARD

This is a Restricted Stock Award dated _____ from InterDigital Communications Corporation (the "Company") to _____ ("Grantee").

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

(a) "Date of Grant" means _____, the date on which the Company awarded the Restricted Stock.

(b) "Gross-Up Amount" means the quotient obtained by dividing (i) the amount the Company determines to be includable in the Grantee's taxable income for federal, state and local tax purposes, as applicable, as the result of the grant of Restricted Stock under this Award by (ii) the excess of one (1) over the highest marginal federal, state and local tax rates applicable to the Grantee, taking into account the deductibility of state and local taxes for federal income tax purposes.

(c) "Plan" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended, incorporated herein by reference.

(d) "Restricted Period" means, with respect to each Share of Restricted Stock, the period beginning on the Date of Grant and ending on the Vesting Date.

(e) "Restricted Stock" means the _____ (_____) Shares which are the subject of the Award hereby granted.

(f) "Shares" means shares of the Common Stock of the Company, par value \$0.01.

(g) "Vesting Date" means the earliest of (i) _____, (ii) the consummation of a Terminating Event, or (iii) Grantee's termination of employment because of death or disability (as determined by the Committee in its sole discretion).

2. Grant of Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to Grantee the Restricted Stock.

3. Restrictions on Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, during the Restricted Period, Grantee shall not be permitted to sell, transfer, pledge or assign the Restricted Stock. The Company shall, in its discretion, either maintain possession of the certificates evidencing the Restricted Stock or place the certificates in the custody of an escrow agent during the Restricted Period.

4. Lapse of Restrictions. Subject to the terms and conditions set forth herein and in the Plan, the restrictions set forth in Paragraph 3 on each Share of Restricted Stock shall lapse on the Vesting Date.

5. Rights of Grantee. During the Restricted Period, Grantee shall have the right to vote the Restricted Stock and to receive cash and stock dividends with respect to the Restricted Stock.

6. Tax Gross-Up Payment. As soon as practicable following the Date of Grant, and subject to any withholding of any taxes which may be due with respect to the grant of Restricted Stock and the cash bonus described in this Paragraph 6, the Company shall pay (and may, as of the date of this award, have paid) Grantee a cash bonus equal to the excess of the Gross-Up Amount minus the Taxable Income.

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

8. Securities Laws. The Committee may from time to time impose any conditions on the Restricted Stock as it deems necessary or advisable to ensure that Shares are issued and resold in compliance with the Securities Act of 1933, as amended.

9. Delivery of Shares. Within the later of a reasonable time after the Vesting Date or ten (10) business days after written demand from Grantee, the Company shall, without payment from Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) for the Restricted Stock, deliver to Grantee (or such other person) a certificate for the Restricted Stock without any legend or restrictions, except for such restrictions as may be imposed by the Committee, in its sole judgment, under Paragraph 8. The Company may condition delivery of certificates for Shares upon the prior receipt from Grantee (or such other person) of any undertakings which it may determine are required to assure that the certificates are being issued in compliance with federal and state securities laws. The right to payment of any fractional Shares shall be satisfied in cash, measured by the product of the fractional amount times the fair market value of a Share on the Vesting Date, as determined by the Committee.

10. Ongoing Employment. The Award granted hereunder shall not confer upon Grantee any right to continue in the employment of the Company or any Subsidiary Company or Affiliate of the Company nor shall the Award be forfeited by reason of termination of employment with any or all such entities.

11. Miscellaneous.

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

(b) Grantee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, and hereby accepts the Award subject to all of the terms and provisions thereof. Grantee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or this Agreement. Grantee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld be federal, state or local law in connection with the Award.

(c) The validity, performance, construction and effect of this Award shall be governed by the laws of Pennsylvania, without giving effect to principles of conflicts of law.

ATTEST:

INTERDIGITAL COMMUNICATIONS
CORPORATION

BY: _____

GRANTEE

InterDigital Communications Corporation**STOCK OPTION AGREEMENT**

This Agreement is made as of the _____ day of _____, _____ (“Grant Date”) between _____ (the “Optionee”) and InterDigital Communications Corporation (the “Company”), a Pennsylvania corporation.

WHEREAS, the Company desires to grant Optionee stock options and Optionee desires to accept such options as further specified herein.

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

1. A NON-QUALIFIED Stock Option (the “Option”) for a total of _____ (_____) shares of Common Stock, par value of \$0.01 per share, of the Company is hereby granted the Optionee subject to all of the terms and provisions of the Company’s 2000 Stock Award and Incentive Plan (the “Plan”), which Plan is incorporated herein by reference.
2. The Option price as determined by the Committee with authority for administering the Plan (the “Committee”) for the Company is \$ _____ per share, the market price of the Common Stock on the Grant Date.
3. The term of the Option shall be the period from the Grant Date to _____, _____, subject to extension or to earlier termination and/or acceleration as provided in the Plan (“Option Term”). The Option is fully vested and exercisable as of the Grant Date.
4. The Option may not be exercised if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities or other law or valid regulation.
5. The Option may not be pledged, assigned or transferred except by will or by the laws of descent and distribution or to the extent the transfer has been permitted by the Committee as defined in the Plan.
6. Optionee acknowledges receipt of a copy of the Plan and term sheet adopted by the Committee on October 24, 2001, a copy of which is annexed hereto, and represents that

he/she is familiar with the terms and provisions thereof. Optionee hereby accepts the Option subject to all of the terms and provisions the Plan and term sheet. Optionee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the committee upon any questions arising under the Plan or this Agreement. Optionee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld be federal, state or local law as a result of the exercise of the Option.

IN WITNESS WHEREOF, this Option Agreement has been executed as of the date set forth above.

Attest:

InterDigital Communications Corporation

By: _____

(Signature of Optionee)

INTERDIGITAL COMMUNICATIONS CORPORATION
STOCK OPTION AGREEMENT

This Stock Option Agreement ("Agreement") is made as of the ___ day of _____, 20 __ ("Grant Date") between _____ ("Optionee") and InterDigital Communications Corporation ("Company"), a Pennsylvania corporation.

WHEREAS, the Company desires to grant Optionee stock options and Optionee desires to accept such options as further specified herein.

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

1. A NON-QUALIFIED Stock Option ("Option") for a total of _____ (_____) shares of Common Stock, par value of \$0.01 per share, of the Company is hereby granted to Optionee subject to all of the terms and provisions of the Company's 2000 Stock Award and Incentive Plan ("Plan"), which Plan is incorporated herein by reference.

2. The Option price as determined by the Committee, as defined in Paragraph 5 below, with authority for administering the Plan for the Company is \$ _____ per share, the market price of the Company's Common Stock on the Grant Date.

3. The term of the Option shall be the period from the Grant Date to _____, 20 __, subject to extension or to earlier termination and/or acceleration as provided in the Plan and this Agreement ("Option Term"). The Option (or an installment thereof) shall be exercisable only during the Option Term, subject to vesting as follows:

<u>Date</u>	<u># of Options Initially Vested</u>
•	
•	
•	

4. Upon termination of Optionee's employment with the Company or a subsidiary of the Company for any reason other than death or disability, that portion of the Option exercisable on the date of said termination shall be exercisable by Optionee (or in the case of Optionee's death subsequent to termination, by Optionee's executor(s) or administrator(s)) for a period of six (6) months from the date of termination. Notwithstanding the preceding sentence, subject to the other terms of the Plan and this Agreement, if Optionee's employment with the Company terminates (including due to death or disability) and Optionee has been employed by the Company for at least ten (10) years as of the date of such termination, the Option, to the extent vested and exercisable as of the date of termination of employment, will not expire prior to the end of the Option's term as a result of the termination of employment.

5. If the Optionee's employment with the Company terminates and the Compensation & Stock Option Committee or the Company's Board of Directors (in either case, referred to herein as the "Committee"), in its sole discretion, makes a determination, either prior to such termination or following such termination but during the term of the Option, that, during the Optionee's employment with the Company, Optionee has:

- (a) engaged in any type of disloyalty to the Company, including without limitation, insubordination, fraud, embezzlement, theft or dishonesty in the course of Optionee's employment or engagement; or
- (b) been convicted of a felony; or
- (c) breached the terms of any written confidentiality agreement or any non-competition agreement with the Company in any material respect;

then the Option, to the extent they have not been exercised, will automatically terminate and be forfeited upon the date of termination of employment or the date of such a finding. Any and all determinations of the Committee pursuant to this paragraph shall be final and binding on all persons; provided that such a determination may not be made arbitrarily.

6. If, at any time during or following Optionee's employment with the Company, the Committee determines in its sole discretion, that Optionee has violated any of subparagraphs (a), (b), (c) or (d) below, the Option will automatically terminate and be forfeited upon that determination. Any and all determinations of the Committee pursuant to this paragraph shall be final and binding on all persons; provided that such a determination may not be made arbitrarily.

(a) Optionee recognizes and acknowledges that the Proprietary Information (as defined below) is a valuable, special and unique asset of the business of the Company. As a result, both during Optionee's employment with the Company and thereafter, Optionee agrees, covenants and promises that Optionee will not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for Optionee's own benefit, or for any purpose other than the exclusive benefit of the Company in accordance with Company policy, any Proprietary Information revealed, obtained or developed in the course of Optionee's employment with the Company. If Optionee or any of Optionee's representatives becomes legally compelled to disclose any of the Proprietary Information, Optionee will provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. For purposes of this paragraph, "Proprietary Information" means confidential and/or proprietary business and technical information or trade secrets of the Company or of any subsidiary or affiliate of or person doing business with the Company.

"Proprietary Information" shall include, but shall not be limited to, the following items and information relating to the following items: any information relating to methods of development, design, 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 Optionee'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 Optionee in the course of, relating to or arising out of Optionee's employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers, 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. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information.

(b) Upon the termination of Optionee's employment with the Company, Optionee shall promptly return to the Company all originals and copies of 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 then in Optionee's possession, whether prepared by Optionee or by others.

(c) Optionee agrees, covenants and promises that Optionee will not, either during the period of the Optionee's employment with the Company or during the term of any affected Option thereafter, do any of the following without the prior written consent of the Company:

- (i) 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
- (ii) influence or attempt to influence any person to either terminate or modify any employment, consulting, agency, distributorship or other arrangement for services with the Company; or
- (iii) 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

within the twelve (12) month period prior to any attempt to so employ or arrange.

(d) Optionee agrees, covenants and promises that Optionee will not disparage the Company or otherwise take any action that could reasonably be expected to adversely affect the Company's reputation.

7. This Agreement shall not confer upon Optionee any right to continue in the employ of the Company.

8. The Option may not be exercised if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities or other law or valid regulation.

9. The Option may not be pledged, assigned or transferred except by will or by the laws of descent and distribution or to the extent the transfer has been permitted by the Committee as defined in the Plan.

10. Optionee acknowledges receipt of a copy of the Plan and Terms and Conditions of Option Grants under the Plan ("Ts&Cs"), copies of which are annexed hereto, and represents that he/she is familiar with the terms and provisions thereof. Optionee hereby accepts the Option subject to all of the terms and provisions of the Plan and the Ts&Cs.

11. Optionee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, Ts&Cs, and/or this Agreement.

12. Optionee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld by federal, state or local law as a result of the exercise of the Option.

IN WITNESS WHEREOF, this Agreement has been executed as of the date set forth above.

Attest:

InterDigital Communications Corporation

By: _____

By: _____

By: _____
(Signature of Optionee)

INTERDIGITAL COMMUNICATIONS CORPORATION
INVENTOR STOCK OPTION AGREEMENT

This Inventor Stock Option Agreement (“Agreement”) is made as of the ____ day of _____, 20 __ (“Grant Date”) between _____ (“Optionee”) and InterDigital Communications Corporation (“Company”), a Pennsylvania corporation.

WHEREAS, the Company desires to grant Optionee stock options and Optionee desires to accept such options as further specified herein.

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

1. A NON-QUALIFIED Stock Option (“Option”) for a total of _____ (_____) shares of Common Stock, par value of \$0.01 per share, of the Company is hereby granted to Optionee subject to all of the terms and provisions of the Company’s 2000 Stock Award and Incentive Plan (“Plan”), which Plan is incorporated herein by reference.

2. The Option price, as determined by the Committee with authority for administering the Plan (“Committee”) for the Company, is \$ _____ per share, the market price of the Company’s Common Stock on the Grant Date.

3. The term of the Option shall be the period from the Grant Date to _____, 20 __, subject to extension or to earlier termination and/or acceleration as provided in the Plan (“Option Term”).

The Option shall vest as specified by the terms of the Company’s Inventor Compensation Policy as amended from time-to time at the Company’s sole discretion (“Policy”).

4. The Option shall be subject to the terms of the Policy except with respect to the Grant Date and the exercise price set forth in Section 2 hereof. The Option is granted in conjunction with the patent number identified by the Company’s Docket Number _____.

5. The Option may not be exercised if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities or other law or valid regulation.

6. The Option is not assignable or transferable except by will or by the laws of descent and distribution or pursuant to a domestic relations order.

7. Optionee acknowledges receipt of the Plan and the Policy, copies of which are annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, including, without limitation, early termination of the Option Term in the event Optionee ceases to be employed by the Company. Optionee hereby accepts the Option subject to all of the terms and provisions of the Plan.

8. Optionee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, the Policy or this Agreement.

9. Optionee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld by federal, state or local law as a result of the exercise of the Option.

IN WITNESS WHEREOF, this Agreement has been executed as of the date set forth above.

Attest:

InterDigital Communications Corporation

By: _____

By: _____

By: _____

(Signature of Optionee)

INTERDIGITAL COMMUNICATIONS CORPORATION
INVENTOR STOCK OPTION AGREEMENT

This Inventor Stock Option Agreement ("Agreement") is made as of the ____ day of _____, 20 __ ("Grant Date") between _____ ("Optionee") and InterDigital Communications Corporation ("Company"), a Pennsylvania corporation.

WHEREAS, the Company desires to grant Optionee stock options and Optionee desires to accept such options as further specified herein.

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

1. A NON-QUALIFIED Stock Option ("Option") for a total of _____ (_____) shares of Common Stock, par value of \$0.01 per share, of the Company is hereby granted to Optionee subject to all of the terms and provisions of the Company's 2002 Stock Award and Incentive Plan ("Plan"), which Plan is incorporated herein by reference.

2. The Option price, as determined by the Committee with authority for administering the Plan ("Committee") for the Company, is \$ _____ per share, the market price of the Company's Common Stock on the Grant Date.

3. The term of the Option shall be the period from the Grant Date to _____, 20 __, subject to extension or to earlier termination and/or acceleration as provided in the Plan ("Option Term").

The Option shall vest as specified by the terms of the Company's Inventor Compensation Policy as amended from time-to-time in the Company's sole discretion ("Policy").

4. The Option shall be subject to the terms of the Policy except with respect to the Grant Date and the exercise price set forth in Section 2 hereof. The Option is granted in conjunction with the patent number identified by the Company's Docket Number _____.

5. The Option may not be exercised if the issuance of the shares upon such exercise would constitute a violation of any applicable federal or state securities or other law or valid regulation.

6. The Option is not assignable or transferable except by will or by the laws of descent and distribution or pursuant to a domestic relations order.

7. Optionee acknowledges receipt of the Plan and the Policy, copies of which are annexed hereto, and represents that he/she is familiar with the terms and provisions thereof, including, without limitation, early termination of the Option Term in the event Optionee ceases to be employed by the Company. Optionee hereby accepts the Option subject to all of the terms and provisions of the Plan.

8. Optionee agrees to hereby accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, the Policy or this Agreement.

9. Optionee authorizes the Company to withhold in accordance with applicable law from any compensation payable to him/her any taxes required to be withheld by federal, state or local law as a result of the exercise of the Option.

IN WITNESS WHEREOF, this Agreement has been executed as of the date set forth above.

Attest:

InterDigital Communications Corporation

By: _____

By: _____

By: _____

(Signature of Optionee)

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

I, Howard E. Goldberg, President and Chief Executive Officer, InterDigital Communications Corporation, certify that:

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

Date: November 9, 2004

/s/ Howard E. Goldberg

Howard E. Goldberg

President and Chief Executive Officer

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

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

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

Date: November 9, 2004

/s/ R. J. Fagan

Richard J. Fagan
Chief Financial Officer

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard E. Goldberg, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2004

/s/ Howard E. Goldberg

Howard E. Goldberg
President and Chief Executive Officer

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2004

/s/ R. J. Fagan

Richard J. Fagan
Chief Financial Officer