

# INTERDIGITAL INC.

## FORM 10-Q (Quarterly Report)

Filed 05/09/05 for the Period Ending 03/31/05

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SIC Code	6794 - Patent Owners and Lessors
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

**FORM 10-Q**

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

*For the quarterly period ended March 31, 2005*

**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**

**53,445,392**

**Class**

**Outstanding at May 2, 2005**

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InterDigital<sup>®</sup>, AIM<sup>™</sup>, AIM Antenna<sup>™</sup> are trademarks 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 holders.

### **GLOSSARY OF TERMS**

#### **2G**

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

#### **2.5G**

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

#### **3G**

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

#### **Adaptive Interference Management (AIM<sup>™</sup>)**

Intelligent software that monitors the RF environment and adapts operating parameters (such as antenna beam direction, power and frequency) of wireless devices to reduce the degrading effects of RF interference. AIM<sup>™</sup> is a trademark of InterDigital Communications Corporation.

#### **Air Interface**

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

#### **Bandwidth**

A range of frequencies that can carry a signal on a transmission medium, measured in Hertz and computed by subtracting the lower frequency limit from the upper frequency limit.

#### **Base Station**

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

#### **CDMA**

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

#### **cdmaOne**

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

#### **cdma2000**

A standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne). The CDMA family includes, without limitation, CDMA2000 1x, CDMA 1xEV-DO, CDMA2000 1xEV-DV and CDMA2000 3x. Although CDMA2000 1x is included under the IMT-2000 family of 3G standards, its functionality is similar to 2.5G technologies. CDMA2000<sup>®</sup> and cdma2000<sup>®</sup> are registered trademarks of the Telecommunications Industry Association (TIA – USA).

#### **Circuit**

The connection of channels, conductors and equipment between two given points through which an electric current may be established.

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### **Digital**

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

### **EDGE**

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

### **FDMA**

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

### **Frequency**

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

### **GPRS**

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

### **GSM**

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

### **Hertz**

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

### **HSDPA**

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

### **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,” one of our wholly-owned Delaware subsidiaries.

### **Kbps**

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

### **LAN**

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

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### **Modem**

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

### **Multiple Access**

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

### **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.

### **Platform**

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

### **RF**

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

### **Standards**

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies in order to allow for interoperability.

### **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.

### **TIA/EIA-95**

A 2G CDMA standard.

### **TIA (USA)**

The Telecommunications Industry Association.

### **WCDMA**

“Wideband Code Division Multiple Access” or “Wideband CDMA.” The next generation of CDMA technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology.

### **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.

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**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) MARCH 31, 2005	DECEMBER 31, 2004
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,939	\$ 15,737
Short-term investments	112,557	116,081
Accounts receivable	9,868	11,612
Deferred tax assets	4,945	5,170
Prepaid and other current assets	8,506	8,017
Total current assets	149,815	156,617
PROPERTY AND EQUIPMENT, NET	11,851	10,716
PATENTS, NET	51,480	40,972
DEFERRED TAX ASSETS	26,533	27,164
OTHER ASSETS	5,640	6,451
	95,504	85,303
<b>TOTAL ASSETS</b>	<b>\$ 245,319</b>	<b>\$ 241,920</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 332	\$ 212
Accounts payable	7,756	6,758
Accrued compensation and related expenses	8,986	9,264
Deferred revenue	25,908	28,075
Foreign and domestic taxes payable	88	379
Other accrued expenses	4,074	5,145
Total current liabilities	47,144	49,833
LONG-TERM DEBT	1,837	1,672
LONG-TERM DEFERRED REVENUE	85,287	71,121
OTHER LONG-TERM LIABILITIES	1,480	3,635
<b>TOTAL LIABILITIES</b>	<b>135,748</b>	<b>126,261</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common Stock, \$.01 par value, 100,000 shares authorized, 59,940 and 59,662 shares issued and 54,934 and 55,156 shares issued and outstanding	599	597
Additional paid-in capital	354,652	342,751
Accumulated deficit	(165,406)	(164,524)
Accumulated other comprehensive loss	(199)	(66)
Unearned compensation	(11,224)	(3,276)
	178,422	175,482
Treasury stock, 5,006 and 4,506 shares of common held at cost	68,851	59,823
Total shareholders' equity	109,571	115,659
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 245,319</b>	<b>\$ 241,920</b>

The accompanying notes are an integral part of these consolidated financial statements.



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

	<b>FOR THE THREE MONTHS ENDED MARCH 31,</b>	
	<b>2005</b>	<b>2004</b>
REVENUES	\$35,497	\$33,016
OPERATING EXPENSES:		
Sales and marketing	2,280	1,614
General and administrative	6,566	5,390
Patents administration and licensing	11,247	5,000
Development	16,173	12,914
	<u>36,266</u>	<u>24,918</u>
(Loss) income from operations	(769)	8,098
OTHER INCOME (EXPENSE):		
Interest and net investment income	829	495
Interest expense	(39)	(67)
	<u>21</u>	<u>8,526</u>
Income before income tax provision	21	8,526
INCOME TAX PROVISION	(903)	(2,692)
	<u>(882)</u>	<u>5,834</u>
Net (loss) income	(882)	5,834
PREFERRED STOCK DIVIDENDS	—	(34)
	<u>—</u>	<u>(34)</u>
NET (LOSS) INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ (882)	\$ 5,800
NET (LOSS) INCOME PER COMMON SHARE – BASIC	\$ (0.02)	\$ 0.11
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	55,053	55,146
NET (LOSS) INCOME PER COMMON SHARE – DILUTED	\$ (0.02)	\$ 0.10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	55,053	59,745

The accompanying notes are an integral part of these consolidated financial statements.

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income before preferred stock dividends	\$ (882)	\$ 5,834
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,669	2,474
Deferred revenue recognized	(15,907)	(12,709)
Increase in deferred revenue	27,906	22,784
Non-cash compensation	2,668	647
Other	25	(44)
Decrease (increase) in assets:		
Receivables	1,744	1,497
Deferred charges	1,737	(2,766)
Other current assets	(512)	599
Increase (decrease) in liabilities:		
Accounts payable	998	(2,487)
Accrued compensation	(2,298)	(2,044)
Other accrued expenses	(1,497)	2,273
<b>Net cash provided by operating activities</b>	<b>16,651</b>	<b>16,058</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(44,303)	(56,427)
Sales of short-term investments	47,622	41,931
Purchases of property and equipment	(2,071)	(546)
Capitalized Patent costs	(3,826)	(2,550)
Acquisition of patents	(8,050)	—
<b>Net cash used in investing activities</b>	<b>(10,628)</b>	<b>(17,592)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	1,287	6,492
Payments on long-term debt, including capital lease obligations	(80)	(50)
Repurchase of common stock	(9,028)	—
<b>Net cash (used) provided by financing activities</b>	<b>(7,821)</b>	<b>6,442</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,798)</b>	<b>4,908</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>15,737</b>	<b>20,877</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 13,939</b>	<b>\$ 25,785</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Issuance of restricted common stock	\$ 494	\$ 450
Leased asset additions and related obligations	\$ 365	\$ —
Interest paid	\$ 58	\$ 41
Income taxes paid, including foreign withholding taxes	\$ 375	\$ 2,146

The accompanying notes are an integral part of these consolidated financial statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2005**  
**(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 March 31, 2005, the results of our operations for the three months ended March 31, 2005 and 2004, and the cash flows for the three months ended March 31, 2005 and 2004. 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, 2004 (2004 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 31, 2005. 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 disclosures included in our 2004 Form 10-K.

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 March 31,	
	2005	2004
Net (loss) income applicable to common shareholders—as reported	\$ (882)	\$ 5,800
Add: Stock-based employee compensation expense included in reported net income	2,668	647
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(3,643)	(4,622)
Tax effect	332	—
Net (loss) income applicable to common shareholders – pro forma	\$(1,525)	\$ 1,825
Net (loss) income per share – as reported – basic	(0.02)	0.11
Net (loss) income per share – as reported – diluted	(0.02)	0.10
Net (loss) income per share – pro forma – basic	(0.03)	0.03
Net (loss) income per share – pro forma – diluted	(0.03)	0.03

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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 March 31,	
	2005	2004
Expected option life (in years)	4.80	4.73
Risk-free interest rate	3.9%	3.0%
Volatility	82%	104%
Dividend yield	—	—
Weighted average fair value	\$ 12.71	\$ 20.29

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

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will be measured based on the fair value of the instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. In April 2005, the SEC delayed the effective date of SFAS 123(R) for public companies to annual periods beginning after June 15, 2005. We plan to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method. We are currently evaluating the effect SFAS No. 123(R) will have on our results.

## 2. SIGNIFICANT AGREEMENTS AND EVENTS:

### *General Dynamics*

In December 2004, we entered into an agreement with General Dynamics Decision Systems, Inc. (General Dynamics), to serve as a subcontractor on the Mobile User Objective System (MUOS) program for the U.S. military. MUOS is an advanced tactical terrestrial and satellite communications system utilizing 3G commercial cellular technology to provide significantly improved high data rate and assured communications for U.S. warfighters.

The Software License Agreement requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. Under the agreement, we expect to receive \$18.5 million for delivery of, and a limited license in, our commercial technology solution for use within the government's MUOS and Joint Tactical Radio System programs. Maintenance and product training are also covered by this amount. The agreement also includes options that are exercisable by General Dynamics at various times through March 2006 for additional deliverables valued at up to \$4.0 million. We anticipate that a majority of our MUOS program deliverables and related payments will occur in 2005, excluding the exercise of options for additional deliverables. We will provide maintenance and support to General Dynamics for three years following delivery of the technology. In addition to the deliverables specifically identified in the agreement, we have agreed to provide additional future services as requested by General Dynamics. The contract may be terminated for convenience if the U.S. Government terminates, for convenience, that portion of the MUOS program that includes General Dynamics.

We are accounting for the delivery of and limited license in our commercial technology platform under the Software License Agreement using the percentage-of-completion method. This portion of the agreement is valued at \$16.5 million. From the inception of the contract through March 31, 2005, we recognized approximately \$4.9 million in revenue, including approximately \$4.7 million in first quarter 2005. At March 31, 2005 and December 31, 2004, our accounts receivable included unbilled amounts of approximately \$1.7 million and \$0.1 million, respectively. At March 31, 2005, our other current assets included approximately \$1.2 million of related costs which we deferred in accordance with our application of the percentage-of-completion method.

In first quarter 2005, we completed the first milestones under the agreement and received \$1.2 million in related payments.

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Subsequent to our delivery of our commercial technology platform, we will provide General Dynamics with support for a period of three years. This portion of the contract is valued at \$2 million and revenue related to this portion will be recognized evenly over the period of support.

### *Acquisition of Patents*

In first quarter 2005, we acquired, for a purchase price of approximately \$8.0 million, selected patents, intellectual property blocks and related assets from an unrelated third party, the function of which are aimed at improving the range, throughput and reliability of wireless LAN and other wireless technology systems. The purchase price was allocated almost entirely to patent assets with a nominal amount being allocated to other assets. Based on our assessment in connection with the asset acquisition, these patents will be amortized over their expected useful lives of approximately 15 years.

### **3. INCOME TAXES :**

Our accumulated tax losses, which include allowable deductions related to exercised employee stock options, generated federal net operating loss (NOL) credit carryforwards of approximately \$110 million as of December 31, 2004. These NOL credit carryforwards were the largest component of our deferred tax assets which, before any adjustment for valuation allowance, had a tax effected value of \$107.6 million. Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not we will be unable to utilize the asset to offset future taxes.

In first quarter 2005, our effective tax rate, excluding foreign withholding tax was 34%. We reduced our deferred tax asset balance during first quarter 2005 by approximately \$0.9 million primarily related to foreign withholding tax. At December 31, 2004, we provided a valuation allowance of approximately \$75.2 million against our deferred tax assets of approximately \$107.6 million. 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. We believe that the future utilization of our deferred tax assets, which are currently offset by a valuation allowance, continues to be dependent, in part, upon our success in three key areas: (1) the market acceptance of our technology products; (2) the outcome of outstanding patent license arbitrations; and (3) our ability to sign additional patent license agreements. We will continue to provide a valuation allowance on a portion of our deferred tax assets until our success in these or other areas provides evidence that our deferred tax assets will be more fully utilized. Subsequent revisions to the estimated realizable value of our deferred tax assets could cause our provision for income taxes to vary significantly from period to period, although our cash tax payments would remain unaffected until our NOL credit carryforward is fully utilized or has expired.

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

In 1992, the Company experienced a more-than-50% cumulative change in ownership. As a result of such change in ownership, approximately \$20 million of the Company's NOL credit carryforwards were limited as of December 31, 2004. If the Company experiences an additional more-than-50% cumulative ownership change, the full amount of the NOL credit carryforward may become subject to annual limitation under Internal Revenue Code Section 382. There can be no assurance that the Company will realize the benefit of any NOL credit carryforward.

### **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:

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(In thousands, except per share data)

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	(Loss) (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
(Loss) income per share—basic: (Loss) income available to Common Shareholders	\$ (882)	55,053	\$ (0.02)	\$ 5,800	55,146	\$ 0.11
Effect of dilutive options, warrants and restricted stock units	—	—	—	—	4,599	(0.01)
(Loss) income per share—diluted: (Loss) income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	\$ (882)	55,053	\$ (0.02)	\$ 5,800	59,745	\$ 0.10

For the three months ended March 31, 2005, the effect of all options and warrants were excluded from the computation of diluted earnings per share as a result of a net loss reported in the period.

For the three months ended March 31, 2004, options and warrants to purchase approximately 1.2 million shares of Common Stock 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 this period and, therefore, their effect would have been anti-dilutive.

## 5. LITIGATION AND LEGAL PROCEEDINGS :

### Nokia

#### Nokia Arbitration

As previously reported in the Company's 2004 Form 10-K, in July 2003, Nokia requested arbitration regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement with ITC (Nokia Arbitration). Pursuant to the dispute resolution provisions of the patent license agreement, the arbitration is being conducted in the International Court of Arbitration of the International Chamber of Commerce (ICC).

The binding arbitration relates to ITC'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 products commencing January 1, 2002. Nokia is seeking a determination that its obligation under our existing patent license agreement is not defined by our patent license agreements with Ericsson and Sony Ericsson or has been discharged. Nokia also is seeking a ruling that no royalty rate for its sales after January 1, 2002 can be determined by the arbitration panel (Nokia Tribunal) until certain contractual conditions precedent have been satisfied. Nokia has additionally claimed that, in any event, the Nokia Tribunal cannot award money damages. ITC filed an Answer to Nokia's Request for Arbitration arguing that the patent license agreements 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 products commencing January 1, 2002, that Nokia's duty to pay these royalties has not been discharged, and that the documents sought by Nokia are not relevant to the royalty determination. ITC also counterclaimed for an arbitration decision requiring that Nokia 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 a determination of the amount of the royalty and payment terms. During fourth quarter 2003, Nokia filed a Reply contesting our claims and included additional claims and defenses relating to the validity and infringement of certain of ITC's patents. Subsequently, Nokia withdrew from the arbitration its claims pertaining to invalidity and non-infringement of those same ITC patents, but maintains that the validity and infringement of those patents is a factor the arbitration panel should consider in the arbitration. We do not believe that the issues of patent validity or infringement are relevant to the arbitrable royalty dispute and have contested Nokia's position.

The hearing in the Nokia Arbitration was conducted in January 2005 and the Nokia Tribunal notified the parties that the Nokia Tribunal expects to submit an internal draft Award to the ICC on or before March 31, 2005 (as an approximate date). The ICC has set May 31, 2005 as the last date for rendering a Final Award and the Company anticipates a decision by the ICC on or before such last date absent an earlier resolution by the parties. Any Final Award could be subject to appeal filings on limited bases and enforcement proceedings by the parties. As of the time of filing of this Quarterly Report on Form 10-Q for the period ended March 31, 2005, the Company has not received any notification nor any other information relating to the actual timing or content of any draft of the Final Award or the Final Award itself.

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### Other Nokia Proceedings

As previously reported in the Company's 2004 Form 10-K, in July 2003, Nokia filed a motion to intervene in the now-settled Ericsson litigation in the United States District Court for the Northern District of Texas and to gain access to documents previously sealed by the Court in the settled litigation. We filed a response opposing the request to intervene and opposing the request for access to the documents. The Court granted Nokia's motion to intervene in the Ericsson litigation, and provided Nokia with document access on a limited basis. Thereafter, the Nokia Tribunal ordered that certain documents from the Ericsson litigation be produced to Nokia for its use in the Nokia Arbitration, though the Nokia Tribunal made no decision as to whether issues of patent infringement or validity were relevant to the determination of Nokia's royalty obligation. Nokia subsequently filed a motion to reinstate certain decisions that were vacated in the now-settled Ericsson litigation, which motion was granted by the Court. We have appealed that ruling to the U.S. Court of Appeals for the Federal Circuit. Nokia is contesting our appeal. The appeal was argued before the Federal Circuit Court of Appeals and we are awaiting a decision from the Court.

In late 2004, Nokia sought to enforce two subpoenas issued by the Nokia Tribunal to Ericsson and Sony Ericsson seeking certain documents. Those enforcement actions were commenced in the Federal District Court for the Northern District of Texas and the Federal District Court for the Eastern District of North Carolina. Nokia has withdrawn both enforcement actions.

During the Nokia Arbitration, on June 14, 2004, Nokia commenced a patent revocation proceeding in the United Kingdom High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's U.K. patents declared invalid (U.K. Revocation Proceeding). Nokia also seeks a declaration that the manufacture and sale of certain mobile and infrastructure equipment does not infringe these three patents, and that the patents are not essential under the applicable standard. ITC is contesting all of these claims, and the trial is scheduled to commence in October 2005.

In connection with the U.K. Revocation Proceeding, in September 2004 Nokia filed an action against Sony Ericsson in the Federal District Court for the Eastern District of North Carolina, and an action against Ericsson in the Federal District Court for the Eastern District of Texas. The actions are based upon 28 United States Code Section 1782 which provides for discovery in a United States court for use in a foreign proceeding and addresses jurisdictional, procedural and evidentiary matters associated with such foreign proceeding. In both actions, Nokia sought documents related to the ITC patents and patent licenses. Both the Federal District Court for the Eastern District of North Carolina and the Eastern District of Texas have denied Nokia's motions with respect to any documents not previously produced in the Nokia Arbitration.

During the Nokia Arbitration, in January 2005, Nokia and Nokia, Inc. filed a complaint in the United States District Court for the District of Delaware against the Company and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. We have filed a motion to dismiss the complaint to which Nokia has responded. The Court has not ruled on the motion.

### *Samsung*

As previously reported in the Company's 2004 Form 10-K, in 2002, during an arbitration proceeding, Samsung Electronics Co. Ltd. (Samsung) elected, under its 1996 patent license agreement with ITC (1996 Samsung License Agreement), to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE wireless communications products be determined in accordance with the terms of the Nokia patent license agreement, including its most favored licensee (MFL) provision. By notice in March 2003, ITC notified Samsung that such Samsung obligations had been defined by the relevant licensing terms of ITC's license agreements with Ericsson (for infrastructure products) and Sony Ericsson (for terminal unit products) as a result of the MFL provision in the Nokia license agreement. In November 2003, Samsung initiated a binding arbitration against the Company and ITC. The arbitration was 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 our license agreements with Ericsson and Sony Ericsson or, in the alternative, to determine the amount of the appropriate royalty due. ITC has counterclaimed for an arbitration decision requiring that Samsung pay ITC 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 also seek 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 rights for those products licensed under the 1996 Samsung License Agreement. Samsung has replied to ITC's 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, including its 3G license. If the arbitration panel were to agree with Samsung's position, Samsung would be licensed to sell 3G products on the same terms as Nokia. In the alternative, Samsung asserts that its royalty obligations should be governed by the MFL clause in the 1996 Samsung License Agreement. The arbitration panel has informed the Company and Samsung that the evidentiary hearing in this matter is scheduled to commence in June 2005.

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### *Lucent*

As previously reported in the Company's 2004 Form 10-K, 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 case is based on our assertions of infringement by Lucent of several of our subsidiary's patents issued in the United States. The lawsuit seeks damages for past infringement and an injunction against future infringement as well as interest, costs, and attorneys' fees. Lucent has responded to the lawsuit denying any infringement, and seeking a declaration of non-infringement and that the patents are invalid. Lucent has requested attorneys' fees and costs. The Court has issued a scheduling order pursuant to which the Markman hearing (for claim construction) is scheduled for May 2005, and the trial is scheduled to commence in September 2005. Pursuant to court order, the parties attended a mediation session in January 2005. The parties are currently in the discovery phase of the litigation. In April 2005, Lucent filed a motion for summary judgment as to certain patent claims on the basis of invalidity, to which we have responded. The Court has not ruled on the motion.

### *Federal*

As previously reported in the Company's 2004 Form 10-K, in October 2003, Federal Insurance Company (Federal), the insurance carrier for the now-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 United States District Court for the Eastern District of Pennsylvania 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 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.

### *Other*

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

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

In addition to disputes associated with enforcement and licensing activities regarding our intellectual property, including the litigation and other proceedings described above, we are a party to other disputes and legal actions not related to our intellectual property but also arising in the ordinary course of our business.

Based upon information presently available to us, we believe that the ultimate outcome of these other disputes and legal actions will not materially affect us.

## **6. STOCK REPURCHASE :**

In October 2004, our Board of Directors authorized the repurchase of one million shares of the Company's common stock (Repurchase Program). In March 2005, the Board of Directors expanded the Repurchase Program by an additional one million shares to a total of two million shares. We began activity under the Repurchase Program early in first quarter 2005 and repurchased a total of 500,000 shares in the quarter at a cost of approximately \$9.0 million. We repurchased the remaining 1.5 million shares under the Repurchase Program in early second quarter 2005 at a cost of approximately \$25.1 million.



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### 7. COMPREHENSIVE INCOME :

The following table summarizes comprehensive income for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2005	2004
Net (loss) income	\$ (882)	\$5,800
Unrealized (loss) gain on investments	(133)	35
Total comprehensive (loss) income	<u>\$(1,015)</u>	<u>\$5,835</u>

### 8. SUBSEQUENT EVENT :

Effective May 2, 2005, Mr. Howard E. Goldberg's employment as Chief Executive Officer and President of the Company terminated, and Mr. Charles R. Tilden's employment as Chief Operating Officer of the Company terminated. Subject to the finalization of separation documentation, the Company anticipates that it would record a charge in second quarter 2005 associated with such terminations. The charge would be comprised primarily of severance payments and other benefits associated with such terminations under the provisions of Messrs. Goldberg's and Tilden's respective employment agreements, provided certain conditions are met.

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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 unaudited, 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, 2004 (2004 Form 10-K) as filed with the Securities and Exchange Commission (SEC) on March 31, 2005, 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 for the quarter ended March 31, 2005 (Form 10-Q).

#### ***General Dynamics***

In December 2004, we entered into an agreement with General Dynamics Decision Systems, Inc. (General Dynamics), to serve as a subcontractor on the Mobile User Objective System (MUOS) program for the U.S. military. MUOS is an advanced tactical terrestrial and satellite communications system utilizing 3G commercial cellular technology to provide significantly improved high data rate and assured communications for U.S. warfighters.

The Software License Agreement requires us to deliver to General Dynamics standards-compliant WCDMA modem technology, originating from the technology we developed under our agreement with Infineon Technologies AG, for incorporation into handheld terminals. Under the agreement, we expect to receive \$18.5 million for delivery of, and a limited license in, our commercial technology solution for use within the government's MUOS and Joint Tactical Radio System programs. Maintenance and product training are also covered by this amount. The agreement also includes options that are exercisable by General Dynamics at various times through March 2006 for additional deliverables valued at up to \$4.0 million. We anticipate that a majority of our MUOS program deliverables and related payments will occur in 2005, excluding the exercise of options for additional deliverables. We will provide maintenance and support to General Dynamics for three years following delivery of the technology. In addition to the deliverables specifically identified in the agreement, we have agreed to provide additional future services as requested by General Dynamics. The contract may be terminated for convenience if the U.S. Government terminates, for convenience, that portion of the MUOS program that includes General Dynamics.

We are accounting for the delivery of and limited license in our commercial technology platform under the Software License Agreement using the percentage-of-completion method. This portion of the agreement is valued at \$16.5 million. From the inception of the contract through March 31, 2005, we recognized approximately \$4.9 million in revenue, including approximately \$4.7 million in first quarter 2005. At March 31, 2005 and December 31, 2004, our accounts receivable included unbilled amounts of approximately \$1.7 million and \$0.1 million, respectively. At March 31, 2005, our other current assets included approximately \$1.2 million of related costs which we deferred in accordance with our application of the percentage-of-completion method.

In first quarter 2005, we completed the first milestones under the agreement and received \$1.2 million in related payments.

Subsequent to our delivery of our commercial technology platform, we will provide General Dynamics with support for a period of three years. This portion of the contract is valued at \$2 million and revenue related to this portion will be recognized evenly over the period of support.

#### ***Acquisition of Patents***

In first quarter 2005, we acquired, for a purchase price of approximately \$8.0 million, selected patents, intellectual property blocks and related assets from an unrelated third party, the function of which are aimed at improving the range, throughput and reliability of wireless LAN and other wireless technology systems. The purchase price was allocated almost entirely to patent assets with a nominal amount being allocated to other assets, driving a 26% increase in the net book value of our patents at March 31, 2005 as compared to December 31, 2004. Based on our assessment in connection with the asset acquisition these patents will be amortized over their expected useful lives of approximately 15 years.

#### ***Stock Repurchase***

In October 2004, our Board of Directors authorized the repurchase of one million shares of the Company's common stock (Repurchase Program). In March 2005, the Board of Directors expanded the Repurchase Program by an additional one million shares to a total of two million shares. We began activity under the Repurchase Program early in first quarter 2005 and repurchased a total of 500,000 shares in the quarter at a cost of approximately \$9.0 million. We repurchased the remaining 1.5 million shares under the Repurchase Program early in second quarter 2005 at a cost of approximately \$25.1 million.

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2004 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 2004 Form 10-K. There have been no material changes in our existing accounting policies or estimates from the disclosures included in our 2004 Form 10-K.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will be measured based on the fair value of the instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. As originally issued in 1995, SFAS No. 123 established as preferable the fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. In April 2005, the SEC delayed the effective date of SFAS 123(R) for public companies to annual periods beginning after June 15, 2005. We plan to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method. We are currently evaluating the effect SFAS No. 123(R) will have on our results.

### FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

We generated positive cash flow from operating activities of \$16.7 million in first quarter 2005 compared to \$16.1 million in first quarter 2004. The positive operating cash flow in first quarter 2005 arose principally from receipts of approximately \$48.0 million from patent licensing agreements. This included approximately \$27.9 million from Sony Ericsson, the majority of which represents a new prepayment under our 2003 patent license agreement, \$9.5 million from Sharp Corporation (Sharp) related to our 2G and 3G patent license agreements, \$8.1 million from NEC Corporation of Japan (NEC) associated with our 3G patent license agreement and approximately \$2.5 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 \$30.9 million and changes in working capital during first quarter 2005. The positive operating cash flow in first quarter 2004 arose principally from net receipts of approximately \$42.7 million from patent licensing agreements. This included approximately \$13.0 million from Ericsson and approximately \$11.6 million from Sony Ericsson under their respective 2003 patent license agreements, \$10.0 million from Sharp related to our 3G patent license agreement, \$4.6 million from NEC associated with our 3G patent license agreement, and \$3.5 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses of \$21.8 million (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) and changes in working capital during first quarter 2004.

Net cash used for investing activities in first quarter 2005 was \$10.6 million compared to \$17.6 million in first quarter 2004. Our net sales of short-term marketable securities in first quarter 2005 were \$3.3 million compared to net purchases of \$14.5 million in first quarter 2004. This change resulted from cash requirements of approximately \$9.0 million and \$8.0 million, respectively, in first quarter 2005 to finance both our Repurchase Program and an acquisition of patents from a third party. Our investment in hardware and software of \$2.1 million during first quarter 2005 represents an increase of approximately \$1.5 million compared to first quarter 2004 and consists of investments necessary to support our engineering information systems network. Our pace of investment associated with patent filings increased \$1.3 million to \$3.8 million in first quarter 2005 compared to first quarter 2004, reflecting continuation of the growth in our development of intellectual property that we have experienced in recent years. As discussed in the overview above, we also invested approximately \$8.0 million to acquire patents and intellectual property that compliment our current development initiatives.

A use of approximately \$9.0 million related to our Repurchase Program drove our \$7.8 million use of cash by financing activities for first quarter 2005. In first quarter 2004, our financing activities generated cash of approximately \$6.4 million, primarily from proceeds resulting from stock option exercises and employee stock purchase plan activity.

As of March 31, 2005, we had \$126.5 million of cash, cash equivalents and short-term investments, compared to \$131.8 million as of December 31, 2004. 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 \$(2.5) million at March 31, 2005 from \$(1.9) million at December 31, 2004.

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As noted above, in early second quarter 2005, we repurchased the remaining 1.5 million shares authorized under our Repurchase Program at a cost of approximately \$25.1 million. In addition, we received a new royalty prepayment of approximately \$5.5 million from a current licensee. We are capable of supporting our 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 Insurance Company (See, "Item 1. Legal Proceedings-Federal") will prevent us from supporting our operating requirements for the near future. Although we do not, at present, anticipate any need for additional financing through either bank facilities or the sale of debt or equity securities, we may seek to establish a bank facility to provide us with additional flexibility in managing our business.

As of December 31, 2004, we had federal net operating loss (NOL) credit carryforwards of approximately \$110 million. 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

### *First Quarter 2005 Compared to First Quarter 2004*

#### Revenues

Revenues of \$35.5 million for first quarter 2005 increased \$2.5 million or 8% over first quarter 2004 revenues of \$33.0 million. This increase was primarily due to the recognition of \$4.7 million of revenue from our software license agreement with General Dynamics which was offset, in part, by a \$1.6 million decrease in recurring patent license royalty revenue.

Recurring patent license royalty revenue in first quarter 2005 of \$30.8 million decreased 5% from first quarter 2004. The decrease in recurring patent license royalty revenue was primarily driven by a \$5.1 million decrease in royalties from NEC as the level of NEC's first quarter 2004 royalties were affected positively by 3G handset shipments that were delayed from calendar fourth quarter 2003 to calendar first quarter 2004 upon NEC's resolution of software and interoperability issues (Note: Until third quarter 2004, we recognized per-unit royalty revenue in the period in which our licensees' underlying sales occurred. Currently, we recognize such revenue in the period in which we receive the related royalty reports from our licensees). First quarter 2005 recurring patent license royalty revenues from Sharp and Sony Ericsson increased by \$2.3 million and \$0.1 million, respectively, from first quarter 2004. NEC (32%), Sharp (27%) and Sony Ericsson (12%) collectively contributed 71% of our total revenue in first quarter 2005.

We did not record any royalty revenue in first quarter 2005 associated with a licensee that did not submit its royalty report covering fourth quarter 2004 sales until early second quarter 2005. As a result, in second quarter 2005 we will recognize approximately \$1.1 million of royalty revenue associated with this licensee's fourth quarter 2004 sales, in addition to any amounts this licensee reports during the balance of second quarter 2005 associated with its first quarter 2005 sales.

#### Operating Expenses

Operating expenses increased 46% to \$36.3 million in first quarter 2005 from \$24.9 million in first quarter 2004. The key drivers of this increase were legal fees associated with outstanding arbitrations and litigations, and personnel costs related to a long-term compensation program. First quarter 2005 legal fees increased approximately \$5.5 million over first quarter 2004. In second quarter 2004, we introduced new compensation initiatives that substantially replaced our previous widespread use of stock options as an incentive tool. These initiatives include a cash incentive award tied to long-term company performance and restricted stock units. We recognized approximately \$3.9 million of expense in first quarter 2005 related to these initiatives. 2005 represents both the final year of the initial measurement period (April 2004 through December 2005) and the first year of a new three year measurement period (January 2005 through December 2007) under this long-term compensation program. As a result of this overlap, the rate of expense we are experiencing related to these initiatives in 2005 is greater than the rate incurred in the last three quarters of 2004 and the rate we expect to incur in 2006.

Development expenses in first quarter 2005 increased 25% to \$16.2 million from \$12.9 million in first quarter 2004. This increase was due primarily to a \$2.2 million increase in personnel costs and a \$1.0 million increase in outsourced services and operations expense. Our increased levels of expense related to outsourced services and operations resulting from work associated with our HSDPA platform development.

Sales and marketing expenses of \$2.3 million in first quarter 2005 increased 41% from first quarter 2004 as a result of higher personnel costs of \$0.5 million and trade show costs.

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General and administrative expenses in first quarter 2005 increased 22% to \$6.6 million from \$5.4 million in first quarter 2004, primarily driven by an increase of approximately \$0.8 million in personnel costs.

Patents administration and licensing expenses of approximately \$11.2 million in first quarter 2005 represent a 125% increase over first quarter 2004 expense levels of approximately \$5.0 million. Our patent enforcement costs increased approximately \$5.1 million as a result of our respective arbitrations and litigations with Nokia, Samsung and Lucent. Increases in personnel contributed another \$0.5 million to the overall increase.

### Interest and Net Investment Income and Interest Expense

Interest and net investment income of \$0.8 million in first quarter 2005 increased \$0.4 million compared to \$0.4 million in first quarter 2004 due to higher rates of return on our investments in 2005.

### Income Taxes

Our income tax provision decreased from \$2.7 million in first quarter 2004 to \$0.9 million in first quarter 2005. The income tax provision for both periods consisted primarily of withholding taxes associated with patent licensing royalties from Japan. The decrease in our foreign source withholding tax expense in first quarter 2005 compared to first quarter 2004 resulted from a July 2004 tax treaty between the U.S. and Japan that eliminated the foreign source withholding tax requirements between those countries, provided certain conditions are met.

### Expected Trends

We expect to provide updated guidance on second quarter 2005 revenue after we receive and review the majority of our per-unit royalty reports. Based on a preliminary report received from NEC, we anticipate that royalties from NEC will improve 15% to 18% over first quarter 2005 levels. In addition, we expect to benefit from the recognition of approximately \$1.1 million of royalties from a licensee that submitted a royalty report after the most recent quarter-end covering fourth quarter 2004 sales. We currently estimate that revenue associated with the work for General Dynamics may exceed that of first quarter 2005 as activity levels remain high. Subject to the level of expenses associated with current arbitrations and litigations, we expect second quarter ongoing operating expense levels to be similar to first quarter 2005. We also project that our book tax rate for second quarter will approximate 34% to 38%, plus an amount for deferred foreign source withholding tax expense, which is, in part, dependent on the level of per-unit royalties.

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### STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q (Form 10-Q), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, reflecting, among other things, the Company’s beliefs, plans and expectations as to: (i) the timing of deliverables and associated revenue under our contract with General Dynamics and any related additional services; (ii) the effect of our January 1, 2006 adoption of SFAS 123(R) on our financial results; (iii) the impact of any resolution of our dispute with Federal on our ability to meet our near term operating requirements; (iv) our lack of need to seek additional financing; (v) our future federal income tax obligations, our estimated book tax rate and foreign source withholding tax expense for second quarter 2005, and our expected utilization of our federal NOL credit carryforwards; (vi) the rate at which we expect to incur expense associated with our long-term compensation program into 2006; (vii) our plan to update our guidance for second quarter 2005 revenues, and anticipated revenue in second quarter 2005, including royalty revenues from NEC; (viii) our projected second quarter over first quarter 2005 operating expense levels; (ix) the relevance of issues of patent invalidity or infringement on the arbitrable royalty dispute in the Nokia Arbitration and the anticipated timing of the ICC’s decision; and (x) our second quarter 2005 revenue. Words such as “expect,” “anticipate,” “may,” “will,” “plan,” “future,” “could,” “seek,” “project,” “potential,” “continue to,” “believe,” “intend,” or similar expressions are intended to identify such forward-looking statements.

Although forward-looking statements in this Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by the Company. Consequently, 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 timing of deliverables and associated payments under our contract with General Dynamics and any related additional services may be impacted by: (i) our ability to satisfactorily meet milestones; (ii) changes in delivery schedules; or (iii) an exercise of termination by convenience on the part of the U.S. Government.

The effect of our January 1, 2006 adoption of SFAS 123(R) on our financial results may significantly increase our compensation costs relating to share-based payment transactions depending on: (i) the valuation method used; and (ii) the amount of outstanding share-based compensation arrangements the Company has at such time.

Our ability to support our operating requirements in the near future, our expectations that second quarter 2005 operating expenses will be consistent with first quarter 2005 levels, 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 herein, 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; (vi) unanticipated changes in the schedule or costs associated with the Nokia and Samsung arbitrations and Lucent litigation; and (vii) expenses associated with our long-term compensation program. Further, our failure to generate sufficient cash flows over the long-term, based on the factors listed herein and those set forth in our 2004 Form 10-K, could adversely impact operating requirements and our current lack of need to seek additional financing.

Our expected utilization of our federal NOL credit carryforwards are 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. Our future federal income tax obligations, our estimated book tax rate and our foreign source withholding tax expense for second quarter 2005 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 per-unit 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 rate at which we expect to incur expense associated with our long-term compensation program in 2006 may be impacted by significant changes in personnel eligible to participate in the program or changes in the terms of the program.

Our plan to update guidance as to second quarter 2005 revenues is dependent upon our timely receipt of a majority of our licensees’ per-unit royalty reports during second quarter 2005. Anticipated increased royalty revenue from NEC in second quarter over first quarter 2005 may be effected by the accuracy of preliminary reports received by NEC and NEC’s continued ability to realize projected sales for covered products.

Our expected second quarter 2005 revenues may be impacted by: (i) a delay in the receipt of quarterly royalty reports from our licensees; (ii) our ability to record the receipt of \$1.1 million in royalty revenue from a licensee reporting fourth quarter 2004 sales; and (iii) the potential additions of new patent license agreements or other revenue streams.

The relevance of issues of patent validity or infringement to the arbitrable royalty dispute in the Nokia Arbitration may be affected by the Nokia Tribunal’s: (i) interpretation of the applicability of the Ericsson and Sony Ericsson patent license agreements on the royalty obligations

of Nokia; (ii) a finding in favor of such claims; or (iii) any future legal proceedings concerning the same patents and claims. The anticipated timing of the ICC's decision could be impacted by unanticipated delays or changes in the meeting schedule of the ICC.

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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### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes in quantitative and qualitative market risk from the disclosures included in our 2004 Form 10-K.

### **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 SEC. There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II—OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS.**

**Nokia**

**Nokia Arbitration**

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, in July 2003, Nokia requested arbitration regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE products under the existing patent license agreement with ITC (Nokia Arbitration). Pursuant to the dispute resolution provisions of the patent license agreement, the arbitration is being conducted in the International Court of Arbitration of the International Chamber of Commerce (ICC).

The binding arbitration relates to ITC'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 products commencing January 1, 2002. Nokia is seeking a determination that its obligation under our existing patent license agreement is not defined by our patent license agreements with Ericsson and Sony Ericsson or has been discharged. Nokia also is seeking a ruling that no royalty rate for its sales after January 1, 2002 can be determined by the arbitration panel (Nokia Tribunal) until certain contractual conditions precedent have been satisfied. Nokia has additionally claimed that, in any event, the Nokia Tribunal cannot award money damages. ITC filed an Answer to Nokia's Request for Arbitration arguing that the patent license agreements 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 products commencing January 1, 2002, that Nokia's duty to pay these royalties has not been discharged, and that the documents sought by Nokia are not relevant to the royalty determination. ITC also counterclaimed for an arbitration decision requiring that Nokia 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 a determination of the amount of the royalty and payment terms. During fourth quarter 2003, Nokia filed a Reply contesting our claims and included additional claims and defenses relating to the validity and infringement of certain of ITC's patents. Subsequently, Nokia withdrew from the arbitration its claims pertaining to invalidity and non-infringement of those same ITC patents, but maintains that the validity and infringement of those patents is a factor the arbitration panel should consider in the arbitration. We do not believe that the issues of patent validity or infringement are relevant to the arbitrable royalty dispute and have contested Nokia's position.

The hearing in the Nokia Arbitration was conducted in January 2005 and the Nokia Tribunal notified the parties that the Nokia Tribunal expects to submit an internal draft Award to the ICC on or before March 31, 2005 (as an approximate date). The ICC has set May 31, 2005 as the last date for rendering a Final Award and the Company anticipates a decision by the ICC on or before such last date absent an earlier resolution by the parties. Any Final Award could be subject to appeal filings on limited bases and enforcement proceedings by the parties. As of the time of filing of this Quarterly Report on Form 10-Q for the period ended March 31, 2005, the Company has not received any notification nor any other information relating to the actual timing or content of any draft of the Final Award or the Final Award itself.

**Other Nokia Proceedings**

As previously reported in the Company's 2004 Form 10-K, in July 2003, Nokia filed a motion to intervene in the now-settled Ericsson litigation in the United States District Court for the Northern District of Texas and to gain access to documents previously sealed by the Court in the settled litigation. We filed a response opposing the request to intervene and opposing the request for access to the documents. The Court granted Nokia's motion to intervene in the Ericsson litigation, and provided Nokia with document access on a limited basis. Thereafter, the Nokia Tribunal ordered that certain documents from the Ericsson litigation be produced to Nokia for its use in the Nokia Arbitration, though the Nokia Tribunal made no decision as to whether issues of patent infringement or validity were relevant to the determination of Nokia's royalty obligation. Nokia subsequently filed a motion to reinstate certain decisions that were vacated in the now-settled Ericsson litigation, which motion was granted by the Court. We have appealed that ruling to the U.S. Court of Appeals for the Federal Circuit. Nokia is contesting our appeal. The appeal was argued before the Federal Circuit Court of Appeals and we are awaiting a decision from the Court.

In late 2004, Nokia sought to enforce two subpoenas issued by the Nokia Tribunal to Ericsson and Sony Ericsson seeking certain documents. Those enforcement actions were commenced in the Federal District Court for the Northern District of Texas and the Federal District Court for the Eastern District of North Carolina. Nokia has withdrawn both enforcement actions.

During the Nokia Arbitration, on June 14, 2004, Nokia commenced a patent revocation proceeding in the United Kingdom High Court of Justice, Chancery Division, Patents Court, seeking to have three of ITC's U.K. patents declared invalid (U.K. Revocation Proceeding). Nokia also seeks a declaration that the manufacture and sale of certain mobile and infrastructure equipment does not infringe these three patents, and that the patents are not essential under the applicable standard. ITC is contesting all of these claims, and the trial is scheduled to commence in October 2005.

In connection with the U.K. Revocation Proceeding, in September 2004 Nokia filed an action against Sony Ericsson in the Federal District Court for the Eastern District of North Carolina, and an action against Ericsson in the Federal District Court for the Eastern District of Texas. The actions are based upon 28 United States Code Section 1782 which provides for discovery in a United States court for use in a foreign proceeding and addresses jurisdictional, procedural and evidentiary matters associated with such foreign proceeding. In both actions, Nokia sought documents related to the ITC patents and patent licenses. Both the Federal District Court for the Eastern District of North Carolina and the Eastern District of Texas have denied Nokia's motions with respect to any documents not previously produced in the Nokia

## Arbitration.

During the Nokia Arbitration, in January 2005, Nokia and Nokia, Inc. filed a complaint in the United States District Court for the District of Delaware against the Company and ITC for declaratory judgments of patent invalidity and non-infringement of certain claims of certain patents, and violations of the Lanham Act. We have filed a motion to dismiss the complaint to which Nokia has responded. The Court has not ruled on the motion.

## *Lucent*

As previously reported in the Company's 2004 Form 10-K, 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 case is based on our assertions of infringement by Lucent of several of our subsidiary's patents issued in the United States. The lawsuit seeks damages for past infringement and an injunction against future infringement as well as interest, costs, and attorneys' fees. Lucent has responded to the lawsuit denying any infringement, and seeking a declaration of non-infringement and that the patents are invalid. Lucent has requested attorneys' fees and costs. The Court has issued a scheduling order pursuant to which the Markman hearing (for claim construction) is scheduled for May 2005, and the trial is scheduled to commence in September 2005. Pursuant to court order, the parties attended a mediation session in January 2005. The parties are currently in the discovery phase of the litigation. In April 2005, Lucent filed a motion for summary judgment as to certain patent claims on the basis of invalidity, to which we have responded. The Court has not ruled on the motion.

## *Other*

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

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

In addition to disputes associated with enforcement and licensing activities regarding our intellectual property, including the litigation and other proceedings described above, we are a party to other disputes and legal actions not related to our intellectual property but also arising in the ordinary course of our business.

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

#### (c) Issuer Purchases of Equity Securities.

The following table provides information regarding the Company's purchases of its Common Stock, \$0.01 par value, during first quarter 2005:

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased (1)</u>	<u>Average Price paid Per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
January 1, 2005 – January 31, 2005	200,000	\$ 18.91	200,000	800,000
February 1, 2005 – February 28, 2005	190,000	\$ 17.85	190,000	610,000
March 1, 2005 – March 31, 2005	110,000	\$ 16.87	110,000	1,500,000(2)
<b>Total</b>	<b>500,000</b>	<b>\$ 18.06</b>	<b>500,000</b>	<b>1,500,000</b>

- (1) On October 25, 2004, we announced that our Board of Directors 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 (Repurchase Program). On March 10, 2005, we announced that the Board of Directors expanded the Repurchase Program, by an additional one million shares, to a total of two million shares, to be purchased from time-to-time through open-market purchases or prearranged plans.
- (2) Represents the maximum number of shares available that the Company may repurchase as of March 31, 2005. As of the date of this filing on Form 10-Q, we have repurchased all two million shares of our Common Stock under the Repurchase Program, at a total cost of approximately \$34.1 million.

### Item 5. OTHER INFORMATION.

The following information is being provided in lieu of filing a Form 8-K to report our entry into a material definitive agreement under Item 1.01:

Consistent with the Company's compensation philosophy and its objective to attract and retain top talent, the Compensation Committee of the Board of Directors, composed entirely of independent non-employee directors, reviews the base salaries of senior management on an annual basis and makes adjustments, as appropriate. In connection with this annual review, on December 9, 2004, the Compensation Committee made changes to the salaries of the Company's named executive officers, effective as of January 1, 2005. The salary adjustments for each of the named executive officers are set forth in the following table:

<u>Name</u>	<u>Title</u>	<u>Base Salary 1/1/2005 – 12/31/2005</u>
Howard E. Goldberg(1)	President and Chief Executive Officer	\$ 434,925
William J. Merritt(2)	General Patent Counsel, President of InterDigital Technology Corporation	\$ 294,300
Alain C. Briancon	Chief Technology Officer	\$ 291,900
Richard J. Fagan	Chief Financial Officer	\$ 275,000
Charles R. Tilden(1)	Chief Operating Officer	\$ 280,350

- (1) Mr. Goldberg's and Mr. Tilden's employment with the Company terminated effective May 2, 2005.
- (2) Mr. Merritt was appointed as Chief Executive Officer and President of the Company effective May 2, 2005. Mr. Merritt's base salary in his new role will be adjusted upon the review and approval of such salary by the Compensation Committee.

### Item 6. EXHIBITS.

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
†10.70	InterDigital Communications Corporation Long-Term Compensation Program, as amended April 2005 (Exhibit 10.55 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K)).
†10.71	Compensation Program for Outside Directors, as amended April 2005 (Exhibit 10.64 to 2004 10-K).
†10.72	InterDigital Communications Corporation Annual Employee Bonus Plan, as amended April 2005 (Exhibit 10.65 to 2004 Form 10-K).

- †10.73 InterDigital Communications Corporation Restricted Stock Unit Award Agreement with Harry G. Campagna dated February 4, 2005.
- 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 William J. Merritt.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Richard J. Fagan.

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† Management contract or compensatory plan or arrangement.

**SIGNATURES**

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

**INTERDIGITAL COMMUNICATIONS CORPORATION**

Date: May 9, 2005

/s/ William J. Merritt

\_\_\_\_\_  
William J. Merritt  
President and Chief Executive Officer

Date: May 9, 2005

/s/ R.J. Fagan

\_\_\_\_\_  
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**

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 no later than March 15 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

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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. Settlement for RSUs that become vested will occur, subject to section 8 of the 1999 Restricted Stock Plan, on the first business day following the applicable vest date; provided, however, that in no event will settlement of your RSUs be made before the date which is six months after the date of your termination of employment if you are a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, or any successor provision.

***New Program Participants*** . If you are promoted to a level which qualifies you to participate in the Program for the first time or you are newly 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 first year of the LTCP cycle in which you are hired or promoted to a qualifying level plus the full amount associated with any ensuing years that remain in such cycle. By way of example, if you are a non-executive employee hired October 1<sup>st</sup> 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 Termination of Employment***. 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 for any other reason, all your rights under the Program (other than RSUs that have previously vested) will be forfeited. This means that if you voluntarily leave the Company, you will forfeit your rights to all compensation under the Program (other than any RSUs which may have previously vested.)

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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.

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***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.

***Election to Defer Settlement of RSUs***. Participants who are eligible to defer settlement of their RSUs must make such election in the calendar year preceding the date of grant of the RSUs to be deferred. Eligibility to defer shall be made by the Company, in its sole discretion.

***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.

April 2005



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**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 as amended December 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%   | • Chief Technology Officer – 90%           |
| • Director/Sr. Director & Technical Equivalent – 45% | • Sr. Business Development Officer – 90%   |
| • Functional VP – 50%                                | • General Counsel – 80%                    |
| • Chief Executive Officer – 120%                     | • Chief Strategic Standards Officer – 80%  |
| • Chief Operating Officer – 100%                     | • Sr. Engineering & Programs Officer – 80% |
| • General Patent Counsel – 100%                      | • Sr. Human Resources Officer – 80%        |
| • Chief Financial Officer – 90%                      | • 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).

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**INTERDIGITAL COMMUNICATIONS CORPORATION**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

This Restricted Stock Unit Award Agreement (this "Agreement") 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.

(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.

(c) "Change in Control Event" means any transaction or series of transactions that constitutes both a Change of Control as defined in the Plan and at least one of the following:

(i) a change in the ownership of the Company, within the meaning of Q&A 12 of IRS Notice 2005-1;

(ii) a change in effective control of the Company, within the meaning of Q&A 13 of IRS Notice 2005-1; or

(iii) a change in the ownership of a substantial portion of the assets of the Company, within the meaning of Q&A 14 of IRS Notice 2005-1.

(d) "Disability" a disability entitling Grantee to long-term disability benefits under the applicable long-term disability plan of the Company (or its Affiliate if Grantee is employed by such Affiliate); 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.

(e) "Dividend Equivalent" means credits arising in respect of dividends paid on Shares, as described in Section 6 herein.

(f) "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.

(g) "Plan" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended.

(h) “ Restricted Period ” means the period beginning on the Date of Grant and ending on December 31,[ 200 \_\_].

(i) “ Restricted Stock Units ” means a right to receive \_\_\_\_\_ Shares issued pursuant to the Plan.

(j) “ Retirement ” means resignation by Grantee after attaining a combination of age plus years of service at the Company (and Affiliates) equal to 70 with the consent of the Company.

(k) “ Vesting Date ” means the earlier of (i) January 1, [200 \_\_], or (ii) the consummation of a Change in Control 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 Committee shall have been furnished with a copy of the applicable will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

4. Vesting and Forfeiture .

(a) 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 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 a director and/or employee of the Company ends prior to the Vesting Date due to a termination for Cause or a resignation for any reason other than Retirement, all Restricted Stock Units granted hereunder will be forfeited.

(c) If Grantee's service or employment with the Company 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. Settlement for Restricted Stock Units that become vested pursuant to this Section 4(c) will occur subject to the terms of the Plan on the first business day following the Vesting Date; provided, however, that in no event will settlement of Grantee's Restricted Stock Units be made before the date which is six months after the date of Grantee's termination of employment if Grantee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, or any successor provision.

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. Subject to Section 4(c) of this Agreement, settlement will occur on the first business day 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 30 days of the date 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 January 1, [200 \_\_\_\_]. Notwithstanding the foregoing, no deferral election made pursuant to this Section 5(b) will be effective until the first anniversary of the date on which such election was made.

6. Dividend Equivalents and Adjustments. 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:

(a) *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 as of such payment date.

(b) *Non-Cash 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 as of such payment date.

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

(d) 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.

(e) 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.

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

8. 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.

9. 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.

10. 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

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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 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 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 other person entitled to a distribution hereunder) shall be a general creditor of the Company.

(d) To the extent not preempted by federal law, the validity, performance, construction and effect of this award shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

(e) To the extent Grantee elects to defer settlement of Restricted Stock Units pursuant to Section 5(b), this Agreement is intended to constitute part of a "top-hat" plan described in Section 201(2) of ERISA.

12. Claims Procedure.

(a) To initiate a claim with respect to the settlement of Restricted Stock Units deferred in accordance with Section 5(b), Grantee (or the person to whom ownership rights may have passed by will or the laws of descent and distribution) (the "Claimant") must file a written request with the Company. Upon receipt of such claim, the Company will advise the Claimant within ninety (90) days of receipt of the claim whether the claim is denied. If special circumstances require more than ninety (90) days for processing, the Claimant will be notified in writing within ninety (90) days of filing the claims than the Company requires up to an additional ninety (90) days to reply. The notice will explain what special circumstances make an extension necessary and indicate the date a final decision is expected to be made.

(b) If the claim is denied in whole or in part, the Claimant will be provided a written opinion, in language calculated to be understood by the Claimant, setting forth (i) the specific reason(s) for the denial of the claim, or any part of it, (ii) specific reference(s) to pertinent provisions of the Plan or this award upon which such denial was based, (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary, (iv) an explanation of the claim appeal procedure set forth in Section 13(c), below ; and (v) a statement of the Claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination upon appeal.

(c) Within sixty (60) days after receiving a notice from the Company that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized

representative) may file with the Company a written request for a review of the denial of the claim. The Claimant or his duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Company. If the Claimant does not request a review of the initial determination within such sixty (60) days period, the Claimant will be barred and estopped from challenging the determination.

(d) Within sixty (60) days after the Company's receipt of a request for review, it will review the initial determination. After considering all materials presented by the Claimant, without regard to whether such materials were submitted or considered in the initial review, the Company will render a written opinion. The manner and content of the final decision will include the same information described above in Section 13(b) with respect to the initial determination. If special circumstances require that the sixty (60) day time period be extended, the Company will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. The notice will explain what special circumstances make an extension necessary and indicate the date a final decision is expected to be made. Any decision on appeal will be final, conclusive and binding upon all parties.

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

ATTEST:

INTERDIGITAL COMMUNICATIONS  
CORPORATION

BY: \_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

ATTEST:

GRANTEE

BY: \_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

INTERDIGITAL COMMUNICATIONS CORPORATION  
RESTRICTED STOCK UNIT DEFERRAL ELECTION FORM

Grant Date: \_\_\_\_\_, 2005

\_\_\_\_ 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 January 1, [2008], (subject to accelerated settlement upon the consummation of a Change in Control Event\* or my cessation of service as an employee or director of the Company).
- 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 Change in Control Event\*).

\* As defined in the Restricted Stock Unit Award Agreement pursuant to which the Restricted Stock Units were awarded to me.

\_\_\_\_\_  
[name]

\_\_\_\_\_  
Date



**2005 Compensation Program for Outside Directors**

Annual Board Retainer:	\$25,000
Committee Chairs:	\$15,000/\$30,000 for Audit Committee Chair
Committee Membership:	\$5,000
Re-election RSU Grant:	6,000 RSUs (vesting 2,000 each year beginning at 1st anniversary of re-election)
Annual RSU Grant:	2,000 RSUs (vesting in full one year from grant date)

(to all outside directors at each annual meeting\*)

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

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

Equity awards shall be granted effective at the corresponding Annual Meeting of Shareholders.

As approved by the Compensation Committee April 13, 2005  
Exhibit 10.72



**InterDigital Communications Corporation**

Annual Employee Bonus Plan

**Purpose**

This Annual Employee Bonus Plan ("Plan") is designed to provide an effective means to motivate and compensate eligible employees, on an annual basis, through cash and stock award bonuses based on the achievement of business and individual performance objectives during each calendar year ("Plan Year"). The Plan is intended to be the Company's primary vehicle for the granting of bonuses. However, the Company



may, in certain limited circumstances, grant bonuses outside of this program, in the sole discretion of the Company.

The compensation contemplated under this Plan is considered “payment for success” in that any payout under the Plan is subject to the achievement of specific performance goals by the Company and by each individual during the Plan Year. The Company believes that such compensation can be a highly effective form of compensation that can enhance the employer - employee “stakeholder” relationship. In addition, the Company hopes that by providing short-term incentive compensation, the Company will motivate and increase the retention rate among its employees which, in turn, will enhance the Company’s long-term value.

### **Who Is Eligible?**

All regular full-time or part-time employees <sup>1</sup> will be eligible to receive a bonus under the Plan, unless an employee: (i) is not working actively at the time of the payout of the bonus or at least as of March 15th of the year following the end of the Plan Year (unless such person was involuntarily terminated other than for intentional wrongdoing after the end of the Plan Year, but before the bonus was paid); (ii) was working actively for the Company for less than ninety (90) days during the Plan Year, (iii) received an individual performance appraisal rating of less than “2.75” (Meets Job Requirements) for the Plan Year, or (iv) was involuntarily terminated for unsatisfactory performance or misconduct, such determination to be made in the CEO’s sole discretion (or the Compensation & Stock Option Committee in the case of Section 16 Officers) based upon documentary or other objective substantiation.

The Compensation Committee (“Compensation Committee”) may grant exceptions to the above eligibility criteria in its sole discretion. In addition, Employees who meet

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<sup>1</sup> “Regular full-time” and “regular part-time” employees are defined in the employee handbook and specifically exclude “seasonal/casual employees”, (which are also defined in the employee handbook).

the eligibility requirements set out above but were not regular full-time or regular part-time employees for the full Plan Year will be paid any bonus on a pro rata basis. <sup>2</sup>Pro-rata will mean a percentage determined by the CEO or President (in his discretion) within a range (specified below) based upon a number of days within the Plan Year during which the employee was employed on a regular, full-time or regular part-time, non-temporary basis at InterDigital.

<u>Number of Days Employed</u>	<u>Pro-Rata Portion of Bonus to be Paid</u>
90 to 180 days	25 to 50%
181 to 270 days	51 to 75%
271 to 364 days	76 to 100%.

**How Does the Plan Work?**

Each employee is assigned a target bonus. The target bonus is a percentage of the employee’s annual base salary in effect as of the end of the Plan Year. If the Company or Department achieves certain business performance results, and the employee achieves certain individual goals, the employee will receive the target bonus. Company or Department business performance results will be measured either based on the Company’s Annual Goals, as approved by the Compensation Committee, for CEO, President, and Sr. Officers, and based on Departmental Goals, as approved by the Department Head and COO, for all other levels of employees. If the actual results of the Company or Department business performance for the year exceed or fall short of the targets, then the target bonus will be adjusted up or down, depending upon the level of business and individual achievement. The specific adjustments and an example of how the bonus is calculated is described below.

The business performance goals will be determined by the Compensation Committee for the CEO, President and Sr. Officer levels and the business performance goals for each Department will be determined by the Department Head and COO and will be communicated to the employees, normally in the first quarter of each Plan Year. The assessment of individual performance goals will be accomplished through the employee’s annual performance rating. The business and individual performance goals are intended to be reasonable “stretch” goals.

The impact of actual business or individual performance during the Plan Year on the bonus paid varies between positions, with the bonus for the Company officers being more dependant upon overall Company performance, while the bonuses for management and non-management employees being more dependant upon individual performance. The relative weighting of the business and individual performance goals has been established based upon an estimation of the employee’s ability, based on their position within the Company, to directly impact and be held accountable for, his or her achievements and the Company’s overall performance.

[INTENTIONALLY LEFT BLANK]

<sup>2</sup> Employees who do not work a full Plan Year because they were out of work on an approved leave of absence for part of the plan year (FMLA Leave, Medical Leave independent of FMLA Leave, Personal Leave, or leave during which the employee receives any STD, LTD or worker’s compensation payments) will also be paid any bonus on a pro rata basis.

The Annual Target Bonus for each band, and the associated weighting factors are as follows:

<u>Band</u>  (In the event a Participant changes bands during the Plan Year, the Annual Target Bonus will be calculated based on the Participant's actual band at year-end)	<u>Annual Target Bonus (% of base salary)</u>	<u>Percentage of Bonus Related to Business Performance (either Company or Departmental)</u>	<u>Percentage of Annual Target Bonus Related to Individual Performance</u>
CEO	57%	75%	25%
President	50%	75%	25%
Sr. Officer	40%	75%	25%
Functional VP	35%	75%	25%
Senior Director	25%	60%	40%
Director/Functional Equivalent	20%	60%	40%
Senior Manger/Functional Equivalent	15%	40%	60%
Manager/Functional Equivalent	10%	40%	60%
Non-Management	4%/6%/8% based on grade level	25%	75%

In each Plan Year, the portion of the Annual Target Bonus related to business performance may be allocated among a number of business goals.

**How Do Actual Business and Individual Performance Affect the Bonus to be Paid?**

As described above, the bonus consists of two components: the bonus attributable to business/departmental performance, and the bonus attributable to individual performance. The impact of actual results as compared to business/departmental and individual goals on any bonus to be paid is described below.

Business Goals. The calculation of the bonus payout for the business performance will be based upon either Company's actual business results measured against the goals set by the Compensation Committee (for the CEO, President and Sr. Officer) or the Department's actual business results measured against the goals set by the Department (for all other bands). If the Company or Department achieves a specified goal, then 100% of the bonus related to that business goal will be awarded. If actual results deviate from established business goals, then the bonus payout amounts will be determined as follows:

**Results above the goal :** If the Company/Department performance exceeds the established business goals by a certain percentage (e.g., actual Company earnings exceed an established goal by ten percent), then the payout of that portion of the annual target bonus related to that business goal will be increased by that percentage amount above the goal, up to a maximum of a 100% increase over the bonus associated with that goal. Thus, if actual Company/Department performance on a particular goal exceeds the goal by 10%, then the target bonus associated with that goal will be increased by 10%, see below:

<u>Results</u>	<u>Percentage Payout</u>
101%	101%
↓	↓
200%	200%

**Results below the goal :** If the actual business performance falls short of an established goal by a certain percentage (e.g., actual Company earnings are 10% less than the earnings goal), then the bonus associated with that business goal will be decreased by four times the percentage of the shortfall, with no bonus being payable for a goal if the goal is missed by more than 20%. The sliding scale for results below the target is given below:

<u>Results</u>	<u>Percentage Payout</u>
100%	100%
90%	60%
80%	20%
79%	0%

The Compensation Committee, in its sole discretion, can determine that a business goal has been substantially met or has been met to a degree warranting a higher pay-out than would otherwise be calculable under this Plan. For example, the Compensation Committee may determine that one-time charges should be disregarded in determining the pay-out under an earnings performance goal.

**Individual Performance .** The evaluation of the individual performance is the responsibility of the employee’s supervisor using the Company’s performance evaluation system. The payout of the bonus related to individual performance will be based on the employee’s individual appraisal rating given pursuant to the performance evaluation, as follows:

<u>Appraisal Rating</u>		<u>Percentage Payout of Bonus Related to Individual Performance</u>
4.85 – 5.0	(Outstanding)	140%
4.70 – 4.84	( “ )	135%
4.55 – 4.69	(Exceeds Job Requirements)	130%
4.40 – 4.54	( “ )	125%
4.25 – 4.39	( “ )	120%
4.10 – 4.24	( “ )	115%
3.95 – 4.09	( “ )	110%
3.80 – 3.94	( “ )	105%
3.65 – 3.79	(Meets Job Requirements)	100%
3.50 – 3.64	( “ )	95%
3.35 – 3.49	( “ )	90%
3.20 – 3.34	( “ )	85%
3.05 – 3.19	( “ )	80%
2.90 – 3.04	( “ )	75%
2.75 – 2.89	( “ )	70%
2.74 ↓	(Needs Improvement/Unsatisfactory)	0%

## When Will the Bonus Be Paid?

Bonuses will normally be paid under the Plan between February 15 and March 31 of the year following each Plan Year.

## An Example of How the Bonus is Calculated

Assume an entry level management employee is earning a base salary of \$50,000 and is employed for the full Plan Year. The employee has an annual target bonus of 10% of base salary (\$5000). The Department previously established two business targets of equal weight for the Plan Year. The actual results for the first goal were 4% below the goal; the actual results for the second goal were 2% above the goal. The employee achieves an individual performance appraisal of "3.4". The employee's bonus would be calculated as follows:

<u>Performance Factor</u>	<u>A</u> <u>Percentage of Bonus</u> <u>Relating to Performance</u> <u>Factor</u>	<u>B</u> <u>Result as a Percentage of</u> <u>Goal</u>	<u>C</u> <u>Percentage</u> <u>Payout</u>	<u>AxC</u> <u>Weighted Result</u>
Goal One	20%	96%	84% (1 to 4 ratio)	16.80% (84% x 20%)
Goal Two	20%	102%	102% (1 to 1 ratio)	20.40% (102% x 20%)
Individual Performance	60%	90%	90%	54% (60% x 90%)
Total	100%	N/A	N/A	91.20%
<b>Bonus Calculation</b>	<b>Base Salary x Weighted Result x Annual Target Bonus = Bonus to be paid</b>			
	<b>\$50,000 x 91.20% x 10% = \$4,560</b>			

## Who Will Receive Bonus Payments in Common Stock?

For the CEO, President, Sr. Officer, and Functional Vice President bands or technical equivalent positions (i.e., "Fellow"), the Compensation Committee may, in its discretion, pay up to 30% of the bonus in restricted common stock pursuant to the 1999 Restricted Stock Plan, as amended. If restricted common stock is to be paid in lieu of cash, the number of shares to be granted will be calculated as follows:

$$\text{Number of Shares} = \frac{\text{Up to 30\% of Bonus}}{\text{Closing Common Stock Price on the Date Prior to the Grant as reported in the Wall Street Journal}}$$

The Company will reimburse the employee, on a grossed-up basis, for any tax liability (including, in the event of a Change of Control, any excise tax liability under Section 4999 of the IRS Code or any successor provision that may apply to such Restricted Stock payment) associated with the grant of restricted stock. Tax liability will be calculated using maximum tax rates. The stock will be registered but will be subject to a two-year holding period. The Company will not impose any other material restrictions (other than those set out in the 1999 Restricted Stock Plan or required by law) or forfeiture provisions, including no forfeiture provisions applicable to termination of employment except in the case of termination during the two-year holding period for intentional wrongdoing.

### **Miscellaneous**

The establishment of this Plan, any provisions of this Plan, and/or any action of the Compensation Committee or any Company officer with respect to this Plan, does not confer upon any employee the right to continued employment with the Company. The Company reserves the right to dismiss any employee at will (at any time, with or without prior notice, with or without cause), or otherwise deal with an employee to the same extent as though the Plan had not been adopted.

The Company may, at its discretion, provide for any federal, state or local income tax withholding requirements and Social Security or other tax requirements applicable to the accrual of payment of benefits under the Plan, and all such determinations shall be final and conclusive.

Payment of bonuses awarded under this Plan shall be made no later than March 15 of the year following the Plan Year in which the services relating to such bonus award were rendered. The resolution of any questions with respect to payments and entitlements pursuant to the provisions of this Plan shall be determined by the Compensation Committee, in its sole discretion, and all such determinations shall be final and conclusive.

This Plan may be terminated or revoked by the Compensation Committee, at its sole discretion, at any time and amended by the Compensation Committee, at its sole discretion, from time to time without the approval of any employee provided that such action does not reduce the amount of any Bonus payment below an amount equal to the amount that would have been payable to the eligible employee with respect to the Plan Year in which the termination, revocation or amendment of the Plan occurs under the terms of the Plan as in effect immediately prior to such termination, revocation or amendment, applied on a pro-rata basis.

(\*\*\*\*\*)

Amended by the Compensation Committee on 4/13/05.

## **INTERDIGITAL COMMUNICATIONS CORPORATION RESTRICTED STOCK UNIT AWARD AGREEMENT**

This Restricted Stock Unit Award Agreement (this "Agreement") is made as of February 4, 2005 (the "Date of Grant") by InterDigital Communications Corporation (the "Company") to Harry G. Campagna ("Grantee").

1. **Definitions**. Unless otherwise defined herein, 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.
- (b) "**Change in Control Event**" means any transaction or series of transactions that constitutes:
  - (i) a change in the ownership of the Company, within the meaning of Q&A 12 of *IRS Notice 2005-1* ;
  - (ii) a change in effective control of the Company, within the meaning of Q&A 13 of *IRS Notice 2005-1* ; or
  - (iii) a change in the ownership of a substantial portion of the assets of the Company, within the meaning of Q&A 14 of *IRS Notice 2005-1* .
- (c) "**Committee**" shall mean Committee, as defined in the Plan; provided, however, that in the event the Grantee is serving on the Compensation Committee at the relevant time, then "Committee" shall mean the Board.
- (d) "**Disability**" a disability entitling Grantee to long-term disability benefits under the applicable long-term disability plan of the Company or its affiliate; 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.
- (e) "**Dividend Equivalent**" means credits arising in respect of dividends paid on Shares, as described in Section 6 herein.
- (f) "**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.
- (g) "**Plan**" means the InterDigital Communications Corporation 1999 Restricted Stock Plan, as amended.
- (h) "**Restricted Period**" means the period beginning on the Date of Grant and ending on February 4, 2007.

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(i) “ Restricted Stock Units ” means a right to receive 10,000 Shares issued pursuant to the Plan.

(j) “ Vesting Date ” means the earliest of (i) February 4, 2007, (ii) the consummation of a Change in Control Event, or (iii) the date on which Grantee suffers an Unforeseeable Emergency.

(k) “ Unforeseeable Emergency ” means an unforeseeable emergency within the meaning of Section 409A(a)(2)(B)(ii) of the Internal Revenue Code, or any successor provision.

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 Committee shall have been furnished with a copy of the applicable will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

4. Vesting and Forfeiture .

(a) 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 in service to the Company 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 or employment with the Company ceases prior to the Vesting Date due to death, or Disability, then 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. Settlement for Restricted Stock Units that become vested pursuant to this Section 4(c) will occur as soon as administratively practicable following termination of service or employment; provided, however, that in no event will settlement of Grantee's Restricted Stock Units be made before the date which is six months after the date of Grantee's termination of service if Grantee is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, or any successor provision.

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. Subject to Sections 4(c) and 5(b) of this Agreement, settlement will occur as soon as practicable following the applicable Vesting Date; provided, however, that if the Vesting Date is described in clause (iii) of Section 1(i), then settlement will occur on the Vesting Date only to the extent permitted by Section 409A(a)(2)(B)(ii)(II) of the Internal Revenue Code (or any successor provision), and any Restricted Stock Units, or portion thereof, that are not then settled will be settled on the date on which all of the Restricted Stock Units would have been settled in the absence of the Unforeseen Emergency.

(b) By completing, signing and returning Exhibit A to this Agreement within 30 days of the date 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 February 4, 2009. Notwithstanding the foregoing, no deferral election made pursuant to this Section 5(b) will be effective until the first anniversary of the date on which such election was made.

6. Dividend Equivalents and Adjustments . 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:

(a) *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 as of such payment date.

(b) *Non-Cash 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 as of such payment date.



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

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 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 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 other person entitled to a distribution hereunder) shall be a general creditor of the Company.

(d) To the extent not preempted by federal law, the validity, performance, construction and effect of this 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 Agreement to be executed by its duly authorized officer, and Grantee has executed this Restricted Stock Unit Award Agreement, in each case as of the date first above written.

ATTEST:

/s/ Lisa A. Alexander

\_\_\_\_\_  
Name: Lisa A. Alexander

ATTEST:

\_\_\_\_\_  
Name:

INTERDIGITAL COMMUNICATIONS CORPORATION

BY: /s/ Howard E. Goldberg

\_\_\_\_\_  
Name: Howard E. Goldberg

GRANTEE

/s/ Harry Campagna

\_\_\_\_\_  
Name: Harry G. Campagna

INTERDIGITAL COMMUNICATIONS CORPORATION  
RESTRICTED STOCK UNIT DEFERRAL ELECTION FORM

Grant Date: February 4, 2005

\_\_\_\_ Restricted Stock Units

Check each that applies:

- I hereby elect to defer the settlement of my Restricted Stock Units until (check or fill in only one):  
 \_\_\_\_\_ [insert a date on or after February 4, 2009], (subject to accelerated settlement upon the consummation of a Change in Control Event \* or my cessation of service as an employee or director of the Company).  
 \_\_\_\_\_ my cessation of service as a director and/or employee of the Company (subject to accelerated settlement upon the consummation of a Change in Control Event \*).
- Notwithstanding my election above, if I suffer an Unforeseeable Emergency \*, then, to the extent permitted by Section 409A(a)(2)(B)(ii)(II) of the Internal Revenue Code, I elect to have settlement in respect of my Restricted Stock Units made as soon as practicable following that Unforeseeable Emergency \*.

\* As defined in the Restricted Stock Unit Award Agreement pursuant to which the Restricted Stock Units were awarded to me.

\_\_\_\_\_  
Harry G. Campagna

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EXHIBIT 31.1

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

I, William J. Merritt, President and Chief Executive Officer, InterDigital Communications Corporation, certify that:

1. I have reviewed this 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)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2005

/s/ William J. Merritt

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*William J. Merritt*  
*President and Chief Executive Officer*

**EXHIBIT 31.2**

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

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

1. I have reviewed this 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)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2005

/s/ R.J. Fagan

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*Richard J. Fagan*  
*Chief Financial Officer*

**EXHIBIT 32.1**

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Merritt, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 9, 2005

/s/ William J. Merritt

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*William J. Merritt*  
*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 March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 9, 2005

/s/ R. J. Fagan

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**Richard J. Fagan**  
*Chief Financial Officer*

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**End of Filing**

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