

# INTERDIGITAL INC.

## FORM 10-Q (Quarterly Report)

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 1995

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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*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.)

2200 Renaissance Boulevard, Suite 105, King of Prussia, PA 19406  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code (610) 278-7800

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 x No \_\_\_\_\_

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

Common Stock, par value \$.01 per share 44,274,213 Class Outstanding at August 9, 1995

# INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands)

(unaudited)

ASSETS -----	DECEMBER 31, 1994 -----	JUNE 30, 1995 -----
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$471 and \$567, respectively	\$ 6,264	\$ 67,191
License fees receivable	20,900	5,800
Accounts receivable, net of allowance for uncollectable accounts of \$2,333 and \$1,817, respectively	3,683	3,858
Inventories	5,014	3,886
Deposits on inventory purchases	539	759
Other current assets	860	1,121
Total current assets	37,260	82,615
PROPERTY AND EQUIPMENT:		
Machinery and equipment	3,780	4,120
Computer equipment	3,476	3,860
Furniture and fixtures	1,521	1,529
Leasehold improvements	831	896
	9,608	10,405
Less-accumulated depreciation and amortization	(7,333)	(7,775)
Net property and equipment	2,275	2,630
OTHER ASSETS:		
Patents, net of accumulated amortization of \$2,946 and \$3,201 respectively	2,588	2,551
Deferred software costs, net of accumulated amortization of \$503 and \$672, respectively	922	902
Other	785	686
Total other assets	4,295	4,139
	\$ 43,830	\$ 89,384

The accompanying notes are an integral part of these statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands)

(unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31, 1994	JUNE 30, 1995
-----	-----	-----
CURRENT LIABILITIES:		
Current portion of long term debt	\$ 233	\$ 190
Due to Hughes Network Systems, Inc.	7,003	-
Accounts payable	9,536	3,506
Accrued compensation	2,904	4,491
Purchase commitment reserve	1,304	843
Deferred revenue	665	2,067
Income and foreign withholding taxes payable	1,573	1,693
Accrued distributor commissions	616	224
Accrued warranty costs	765	753
Other accrued expenses	2,543	2,300
Total current liabilities	27,142	16,067
 LONG TERM DEBT	 520	 526
 MINORITY INTEREST	 1,296	 5,114
 COMMITMENTS AND CONTINGENCIES (Note 3)		
 SHAREHOLDERS' EQUITY:		
Preferred Stock, \$ .10 par value, 14,399 shares authorized-		
\$2.50 Convertible Preferred, 113 shares and 106 shares		
issued and outstanding	11	11
Common Stock, \$.01 par value, 75,000 shares authorized,		
41,811 shares and 44,199 shares issued and		
outstanding	418	442
Additional paid-in capital	199,158	211,230
Accumulated deficit	(184,665)	(144,006)
	14,922	67,677
Deferred compensation	(50)	-
Total shareholders' equity	14,872	67,677
	\$ 43,830	\$ 89,384

The accompanying notes are an integral part of these statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1994	1995	1994	1995
REVENUES:				
UltraPhone	\$2,367	\$6,145	\$3,373	\$11,456
Licensing	2,497	30,974	2,542	62,093
Contract Services	354	141	550	445
	5,218	37,260	6,465	73,994
OPERATING EXPENSES:				
Cost of UltraPhone revenues	2,724	5,884	4,129	11,729
Contract service costs	426	259	723	512
Sales and marketing	1,062	975	2,280	2,068
General and administrative	3,612	4,154	6,985	8,569
Research and development	1,984	2,028	3,549	3,854
	9,808	13,300	17,666	26,732
Income (loss) from operations	(4,590)	23,960	(11,201)	47,262
OTHER INCOME (EXPENSE):				
Interest income	37	821	81	1,224
Interest and financing expenses	(215)	(443)	(299)	(610)
Income (loss) from continuing operations before income taxes and minority interest	(4,768)	24,338	(11,419)	47,877
INCOME TAX PROVISION	-	(1,831)	-	(3,307)
Income (loss) from continuing operations before minority interest	(4,768)	22,507	(11,419)	44,570
MINORITY INTEREST	(62)	(1,918)	(5)	(3,777)
Net income (loss) from continuing operations	(4,830)	20,589	(11,424)	40,793
DISCONTINUED OPERATIONS:				
Loss from discontinued operations	-	-	(216)	-
Provision for losses prior to expected disposal date	-	-	(200)	-
Net income (loss)	(4,830)	20,589	(11,840)	40,793
PREFERRED STOCK DIVIDENDS	(71)	(68)	(142)	(134)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ (4,901)	\$ 20,521	\$ (11,982)	\$ 40,659
NET INCOME (LOSS) PER SHARE - CONTINUING OPERATIONS	\$ (0.14)	\$ 0.45	\$ (0.33)	\$ 0.88
NET INCOME (LOSS) PER SHARE - DISCONTINUED OPERATIONS	-	-	(0.01)	-
NET INCOME (LOSS) PER COMMON SHARE	\$ (0.14)	\$ 0.45	\$ (0.34)	\$ 0.88
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	35,110	45,475	35,054	46,195

(Note 7)

The accompanying notes are an integral part of these statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	1994	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income(loss)	\$(11,424)	\$ 40,793
Adjustments to reconcile net income(loss) to net cash used for operating activities-		
Minority interest in subsidiary	5	3,818
Depreciation and amortization	868	836
Compensation on stock issued and stock options granted	57	50
Loss from discontinued operations	(416)	--
Cash provided by discontinued operations	152	--
Other	(126)	(13)
Decrease (increase) in assets-		
Receivables	89	14,925
Inventories	(2,406)	1,128
Deposits on inventory purchases	(264)	(220)
Other current assets	(248)	(261)
Increase (decrease) in liabilities-		
Accounts payable	4,060	(6,030)
Reserve for Hughes Network Systems, Inc.	20	(7,003)
Accrued compensation	--	1,587
Purchase commitment reserve	--	(461)
Deferred revenue	--	1,402
Income and foreign withholding taxes payable	--	120
Accrued distributor commissions	--	(392)
Accrued warranty costs	--	(12)
Other accrued expenses	(50)	(243)
Net cash provided by (used for) operating activities	\$(9,683)	\$ 50,024

The accompanying notes are an integral part of these statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	1994	1995
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	\$ (346)	\$ (669)
Capitalized software development costs	(370)	(149)
Additions to patents	(286)	(218)
Other non-current assets	(370)	--
Net cash used for investing activities	(1,372)	(1,036)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	256	12,076
Proceeds from short-term debt	4,441	--
Payments on long-term debt	(125)	(137)
Net cash provided by financing activities	4,572	11,939
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,483)	60,927
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,211	6,264
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,728	\$ 67,191
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid (excludes HNS settlement)	\$ 118	16
Income taxes paid, primarily Foreign Withholding Taxes	--	1,850
	-----	-----

The accompanying notes are an integral part of these statements.



# INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1995  
(UNAUDITED)

### 1. BACKGROUND:

InterDigital Communications Corporation ("IDC") develops and markets advanced digital wireless telecommunications systems using proprietary technologies for voice and data communications and has developed an extensive patent portfolio related to those technologies. The Company's principal product is the UltraPhone, a telephone system providing business and households access to basic telephone service through a wireless local loop. UltraPhone revenues have historically accounted for the majority of the Company's revenues, but accounted for only 40% of total revenues during 1994 and only 15.5% during the first half of 1995. Since 1987, the Company has sold over 230 UltraPhone systems worldwide, with aggregate UltraPhone revenues totaling over \$130 million.

In addition to its UltraPhone business, the Company, through InterDigital Technology Corporation ("ITC"), is seeking to capitalize upon the revenue potential of its extensive TDMA and CDMA patent portfolio. ITC implemented a strategy during 1993 of negotiation and litigation with certain entities which it believed were infringing the Company's patents. These efforts have resulted in patent license agreements with 11 entities from April 1994 through August 9, 1995, and the recognition of \$28.7 million of licensing revenue in 1994 and \$62.1 million during the first half of 1995.

On December 16, 1994, the Company formed its first business alliance based upon its TDMA and B-CDMA technologies. On that date, the Company entered into a Master Agreement and a series of four related agreements as elements of an integrated transaction establishing a broad based marketing and technology alliance with Siemens Aktiengesellschaft ("Siemens"). Under the UltraPhone OEM Purchase Agreement, Siemens will be obligated to purchase its requirement of wireless local loop products for certain specified applications from the Company on an OEM basis. Under the TDMA/CDMA Development and Technical Assistance Agreement, Siemens will provide technical assistance to accelerate the commercialization and deployment of the Company's B-CDMA technology and the parties will work on UltraPhone product improvements and enhancements when product changes are required to satisfy market demands. The agreement provides that Siemens will have an exclusive, royalty-bearing license of the Company's Know-how associated with the B-CDMA ASIC chip, with a two year exclusive of certain other B-CDMA technology. Pursuant to the know-how licenses, Siemens shall pay to the Company a running royalty of five (5%) percent of all sales of B-CDMA equipment worldwide which incorporates B-CDMA ASICs or otherwise incorporates B-CDMA know-how. InterDigital will continue to maintain the right to sell ASIC chips to other telecommunications manufacturers and/or license certain specified non-ASIC specific technology and know-how embodied in the B-CDMA systems. Under the Patent License Agreement, the parties granted reciprocal, non-exclusive, world-wide, paid-up, perpetual licenses for the life of their respective current TDMA and CDMA patents and future patents with an effective filing date of not later than five years after the date of the Patent License Agreement, subject to certain application limitations. Siemens may additionally provide certain other benefits under the Cooperation Agreement.

As partial consideration for the rights and licenses granted by the Company, Siemens is obligated to pay \$20 million, of which \$12.2 million was paid as of August 9, 1995, with the remainder being payable in quarterly installments through March 30, 1996. In accordance with accounting requirements, ITC has begun to recognize the \$20 million of revenue ratably over the 15 month payment period that started in January 1995, due to the combined nature of the contracts.

As an adjunct to its primary business, the Company provided advanced digital wireless research and development services to government and business organizations. During the third quarter of 1994, the Company substantially withdrew from the contract services market in order to focus on its other core business activities. Beginning in 1991, the Company also provided telecommunications services to businesses and households through the ownership and operation of Telephone Operating Companies ("TELCOs"), primarily Haviland Telephone Company ("Haviland"), in rural areas of the United States. During 1994, the Company exited this business through the sale of its investments in the TELCOs and accordingly has accounted for the TELCO operations as discontinued operations. (See Note 4).

On March 29, 1995, a trial involving ITC and Motorola, Inc. ended with the jury's verdict, which is subject to varying interpretation, but which is interpreted by the Company to mean that ITC's patent claims at issue in the case, involving four of ITC's patents, are not infringed by Motorola and, if construed to be infringed, are invalid. While the Company intends to appeal the jury verdict and believes that a strong basis exists to overturn the verdict, the ultimate resolution of this matter will likely occur in the intermediate to long term. In the short term, the verdict may adversely affect the Company's efforts to generate further revenue and cash flow from ITC's patent portfolio and may impair generally the Company's ability to raise additional funds for general corporate purposes. The outcome of the jury trial may also temporarily or permanently adversely affect ITC's pending U.S. litigation against Ericsson GE Mobile Communications, Inc. ("Ericsson GE"), and Ericsson Radio Systems, Inc. ("Ericsson Radio") and its ability to realize running royalties or specified installment payments under certain of its license agreements.

## 2. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly InterDigital Communications Corporation and Subsidiaries' financial position as of June 30, 1995 and the results of their operations for the three and six month periods ended June 30, 1994 and 1995 and cash flows for the six month periods ended June 30, 1994 and 1995. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and accordingly do not include all of the detailed schedules, information and notes necessary for a fair presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest annual report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

The Consolidated Statement of Operations for the three and six month periods ended June 30, 1994 have been reclassified to conform with the current period expense presentation.

## 3. CONTINGENCIES:

IDC and ITC are variously parties to patent related litigation. ITC is the plaintiff in two actions alleging patent infringement (in one such action, ITC has received an adverse jury verdict and is in the post trial appeal process) and, in each such instance, is or was seeking damages and equitable remedies. IDC and ITC are or were variously defendants in two actions filed by the alleged infringers seeking declaratory relief, damages, and, in some instances, variously attempting to enjoin IDC and ITC from prospectively asserting equitable and legal claims arising from any additional, alleged patent infringement (in one such action, ITC has received an adverse jury verdict and is in the post trial appeal process; in that action, the plaintiff has filed a motion requesting attorney's fees and costs.) The Company and its subsidiary intend to vigorously pursue and defend the lawsuits. (See Part II, Item 1. Legal Proceedings.)

On November 7, 1994, a class action complaint was filed against the Company and its former chief executive officer alleging certain violations of the disclosure requirements of the federal securities laws. The Company believes that the complaint is without merit and intends to contest it vigorously. (See

Part II, Item 1. Legal Proceedings.)

In addition to litigation associated with patent enforcement and licensing activities and the other litigation described above, the Company is a party to certain legal actions arising in the ordinary course of its business. Based upon information presently available to the Company, the Company believes that the ultimate outcome of these other actions will not materially affect the Company. (See Part II, Item 1. Legal Proceedings.)

#### 4. SALE OF TELEPHONE OPERATING COMPANIES

During the first quarter of 1994, the Company committed to a formal plan to sell its interests in the TELCOs. The Company entered into a definitive agreement of sale of Haviland on September 26, 1994. The Company sold its remaining interest in another TELCO during December 1994. The results of operations of the TELCOs for the three and six months ended June 30, 1994 have been classified as discontinued operations and the Company recorded a provision of \$200,000 during the first quarter of 1994 for expected losses through the disposal date.

#### 5. CASH AND CASH EQUIVALENTS:

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

	December 31, 1994	June 30, 1995
	-----	-----
Cash, money market and demand deposits	\$ 124	\$ 1,675
Certificates of deposit	340	415
Repurchase agreements	5,800	20,629
Marketable Securities	--	44,472
	\$ 6,264	\$67,191

The repurchase agreements are fully collateralized by United States Government securities and are stated at cost which approximates fair market value. Investments in Marketable Securities are made in highly liquid, investment grade securities which can include U.S. Government backed securities, money market funds, time deposits, corporate debt securities and Eurodollars.

#### 6. MAJOR ULTRAPHONE CUSTOMERS:

In fiscal 1994, the Company's Indonesian and Myanmarian customers represented 54% and 12%, of UltraPhone revenues, respectively. During the second quarter of 1994, Fidocoldex, the Company's Columbia, South America customer, accounted for 54.9% and GTE accounted for 13.8% of UltraPhone sales, respectively. During the second quarter of 1995, the Company's Russian and Indonesian customer accounted for 53.1% and 18.9% of UltraPhone revenues, respectively. During the six months ended June 30, 1994, Telmex and GTE accounted for 38.5% and 20.5% of UltraPhone sales, respectively. For the six month periods ended June 30, 1994 and 1995, the Company's Indonesian and Russian customer accounted for 48.4% and 28.5%, respectively of UltraPhone revenue, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994 ----	1995 ----	1994 ----	1995 ----
Domestic	\$ 988	\$ 608	\$ 1,637	\$ 1,365
Foreign	1,379	5,537	1,736	10,091
	\$ 2,367	\$ 6,145	\$ 3,373	\$ 11,456

#### 7. NET INCOME (LOSS) PER COMMON SHARE:

The net income (loss) per share is based upon the weighted average common shares outstanding during the period adjusted for cumulative dividends on \$2.50 Preferred Stock. Stock options and warrants have been considered as common stock equivalents and have been included in the 1995 computation since their effect would be dilutive. (See Item 6, Exhibit 11 Computation of Net Income Per Share.)

#### 8. LICENSING REVENUES AND AGREEMENTS:

During the second quarter of 1995, ITC entered into a royalty bearing license agreement with NEC Corporation under its patent portfolio for the manufacture, use and sale of TDMA based subscriber units and infrastructure equipment. This agreement contained advance payment obligations pursuant to which ITC received in excess of \$20 million, which was recognized as revenue during the second quarter of 1995. An additional \$4.0 million of revenue was recognized during the second quarter of 1995 pursuant to the Siemens agreements.

#### 9. INVENTORIES:

	December 31, 1994 -----	June 30, 1995 -----
	(In thousands)	
Component parts and work-in-progress	\$ 3,864	\$ 3,310
Finished goods	1,150	576
	\$ 5,014	\$ 3,886

Inventories are stated net of valuation reserves of \$7.5 million and \$7.8 million as of December 31, 1994 and June 30, 1995, respectively. In addition, inventory purchase commitment reserves were \$1.3 million and \$843,000 as of December 31, 1994 and June 30, 1995.

#### 10. SHORT-TERM BORROWINGS:

In March 1994, the Company entered into a \$3.0 million secured borrowing arrangement, evidenced by Promissory Notes, in connection with a proposed long-term financing arrangement. The Promissory Notes, which bore interest at 11% per annum, were repaid in 2 installments in June and July, 1994 when the parties to the long-term financing arrangement agreed not to proceed.

During the second quarter of 1994, the Company received \$2.4 million in proceeds from the issuance of a series of Promissory Notes. The Notes were collateralized by the proceeds from the sale of Haviland, accrued interest at a rate of 11% which was payable at maturity and had initial terms of 90 days, with original maturities occurring during August and September 1994. At maturity, the holder could elect to have the repayment of principal, in whole or in part, in the form of Common Stock at the conversion price of \$3.75 per share. In the event of such election, the Company's obligation to pay interest to noteholders

was to be waived. Additionally, as an inducement to enter into the note agreement, the noteholders were granted 280,000 warrants with a term of 10 years and an exercise price of \$3.75 per share. At September 30, 1994, \$2.3 million of the Notes were extended in consideration for a reduction in the conversion rate to \$1.78 per share and a reduced exercise price in the warrants. As of December 31, 1994, \$2.2 million of the Notes had been repaid and \$189,000 had converted in exchange for 106,000 shares of Common Stock.

#### 11. INCOME TAXES:

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

The income tax provision for the three months ended June 30, 1995, consists of a current foreign withholding tax provision of \$1.4 million, a current state and local tax provision of \$41,000 and a Federal Alternative Minimum Tax provision of \$420,000. At December 31, 1994, the Company had net operating loss carryforwards of approximately \$130 million. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit is recorded as of June 30, 1995.

The net operating loss carryforwards are scheduled to expire as follows:

1995	\$	--
1996		0.5 million
1997		0.5 million
1998		2.5 million
1999		5.2 million
thereafter		121.3 million
	\$	130.0 million

Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The annual limitation is generally equal to the product of (x) the aggregate fair market value of the Company's stock immediately before the ownership change times (y) the "long-term tax exempt rate" (within the meaning of Section 382(f) of the Code) in effect at that time. The Company believes that no ownership change for purposes of Section 382 occurred up to and including June 30, 1995. The Company's calculations reflect the adoption of new Treasury Regulations which became effective on November 4, 1992 and which have beneficial effects regarding the treatment of options and other aspects of the ownership change calculation.

#### 12. HNS LITIGATION SETTLEMENT:

Effective June 2, 1995, the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Hughes Network Systems, Inc. ("HNS") in connection with the lawsuit filed against the Company by HNS in February 1993. In the lawsuit, HNS alleged the Company breached certain agreements which were entered into between HNS and the Company relating to the termination of certain prior agreements between the parties. Under the terms of the Settlement Agreement, the Company has paid HNS \$7.5 million, which amount had been substantially previously reserved by the Company, and HNS has been granted credits aggregating \$900,000 against royalty and other payment obligations relating to the Company's proprietary TDMA technology ("Credits"). The Credits may be applied to any royalties becoming due to the Company or its affiliates from HNS after the date of the Settlement Agreement pursuant to the 1990 License Agreement dated October 23, 1990, the 1992 License Agreement, dated February 29, 1992 and any other agreement between HNS and the Company or its affiliates relating to intellectual property rights. The use of the credits cannot currently be predicted by the Company and therefore will be charged to earnings as they are used.

## 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 Consolidated Financial Statements and Notes thereto, contained elsewhere in this Form 10-Q.

InterDigital commenced operations in 1972 and until 1987 was primarily engaged in research and development activities related to its TDMA wireless digital communications technology. In 1986, the Company introduced the UltraPhone system, a fixed digital wireless local loop telephone system employing its patented and proprietary TDMA technology, which it began installing in 1987. The Company's operations from 1987 through 1992 were characterized by increasing revenues accompanied by significant operating losses. During this period, significant costs were incurred related to the commercialization and continued development of the UltraPhone system, development of production sources and capacity, and the implementation of a broad-based sales and marketing effort designed to promote regulatory and market acceptance of the UltraPhone system. During 1993 and 1994, UltraPhone revenues were significantly lower than in 1992; losses increased significantly as a result of the decline in UltraPhone revenues and other increases in costs, such as the increased investment in B-CDMA research and development, engineering of product redesigns and enhancements, the increase in litigation costs and the costs associated with enforcement of ITC's intellectual property rights. In 1994, the Company began to realize positive results from its efforts to capitalize upon the revenue potential of its TDMA and CDMA patent portfolio and recognized \$28.7 million of licensing revenue, representing over 57% of total revenues for 1994. The licensing revenue and increased UltraPhone sales in 1994 over 1993 led to reduced losses in 1994 compared to 1993 despite large increases in the costs of litigation associated with enforcement of ITC's intellectual property rights and other costs. During the first half of 1995, the Company recognized \$62.1 million of licensing revenue and generated \$40.7 million of net income which decreased the Company's accumulated deficit as of June 30, 1995 to \$144.0 million.

On March 29, 1995, a trial involving ITC and Motorola, Inc. ended with the jury's verdict, which is subject to varying interpretation, but which is interpreted by the Company to mean that ITC's patent claims at issue in the case, involving four of ITC's patents, are not infringed by Motorola and, if construed to be infringed, are invalid. While the Company intends to appeal the jury verdict and believes that a strong basis exists to overturn the verdict, the ultimate resolution of this matter will likely occur in the intermediate to long term. In the short term, the verdict may adversely affect the Company's efforts to generate further revenue and cash flow from ITC's patent portfolio and may impair generally the Company's ability to raise additional funds for general corporate purposes. The outcome of the jury trial may also temporarily or permanently adversely affect ITC's pending U.S. litigation against Ericsson and its ability to realize running royalties or specified installment payments under certain of its license agreements.

Historically, InterDigital's primary source of revenue was derived from sales of the UltraPhone digital wireless local loop telephone system. In recent years, foreign sales have represented a majority of the sales of UltraPhone systems, and it is anticipated that foreign sales will represent a majority of UltraPhone sales for the foreseeable future. UltraPhone sales have, on a historical basis, varied significantly from quarter to quarter due to the concentration of revenues from the Company's largest customers over a few fiscal quarters.

The Company began to experience a significant decline in UltraPhone order volume during 1992. Beginning in 1992, competition for sales of wireless telephone systems intensified as providers of both analog and digital cellular systems, many of which have significantly greater resources than the Company, more actively promoted their products for fixed site installations in the Company's target markets. At the same time, the Company began to restructure its sales and marketing efforts to focus on multi-year, large-scale telecommunications infrastructure programs in which the UltraPhone would be positioned as a fundamental component in the rural and near-urban telephone networks of such programs.

During 1993 and 1994, the Company sought to counter these competitive pressures by emphasizing the advantages which it believes the UltraPhone offers over fixed cellular and other wireless systems and by lowering UltraPhone system prices.

In order to support the flexible pricing generally required in multi-year programs, the Company introduced a redesigned central office terminal which expanded base station capacity by over 50% and a significantly lower-priced cluster unit during the last half of 1994 and expects initial shipments of more fully-featured subscriber unit during the first half of 1996. The Company anticipates that reductions in product costs will be most fully realized in cluster systems and will be realized, to a lesser degree, in other non-cluster configurations in which there is a high ratio of subscriber units to base stations. The Company anticipates that it will continuously need to reduce prices due to industry demands and such industry demands will result in continued pressure upon gross profit margins until such time as the Company is able to reduce product costs commensurate with price reductions.

The inability to competitively approach the aggressive pricing from fixed cellular and other competitors, the significant additional complexities of, and time required in, competing for large scale programs, as well as the restructuring of the sales force, have all adversely impacted order volume and revenues since 1993. Delays in introduction of the new subscriber unit may further adversely affect order volume and timing of revenue recognition, including timing of revenue recognition from the \$17 million Philippines order announced during the second quarter of 1995. The Company is continuing to adjust its sales and marketing strategies by focusing its direct efforts, improving its UltraPhone distribution network and pursuing various alliance partners. The Company entered into its first major alliance in December 1994 with Siemens Aktiengesellschaft ("Siemens"). As part of the relationship, Siemens has begun to market the UltraPhone product. The Company does not currently anticipate that the Siemens relationship will generate significant UltraPhone shipments and revenues in 1995 and expects that UltraPhone revenues will decline in the second half of 1995 compared to the first half.

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

#### Results of Operations - Second Quarter of 1995 Compared to the Second Quarter of 1994

**Total Revenues.** Total revenues in the second quarter ended June 30, 1995 increased to \$37.3 million from \$5.2 million in the second quarter ended June 30, 1994 primarily due to the recognition of \$31.0 million of licensing revenue in the 1995 period as compared to \$2.5 million in the comparable quarter of 1994. UltraPhone sales increased 159.6% in the second quarter of 1995 to \$6.1 million from \$2.4 million in the comparable quarter of 1994.

During the second quarter of 1995, ITC entered into royalty bearing license agreements with one licensee under its patent portfolio for the manufacture, use and sale of TDMA based subscriber units and infrastructure equipment. This agreement contained advance payment obligations pursuant to which ITC received in excess of \$20 million, which was recognized as revenue during the second quarter of 1995. Additionally, the Company recognized revenue of \$4.0 million as part of the Siemens series of agreements.

The Company had contract revenue related to its U.S. Federal government and other services contracts for the second quarter in both 1994 and 1995. During the second quarter of 1995, the Company had \$141,000 of contract revenue as

compared to \$354,000 during the second quarter of 1994. The decrease in revenue is due to the completion of the remaining contracts for which the Company was obligated. During the third quarter of 1994, the Company began withdrawing from the contract services market in order to focus on its other core business activities.

**Cost of UltraPhone Sales.** The cost of UltraPhone sales for the second quarter of 1995 increased 116.0% to \$5.9 million from \$2.7 million for the second quarter of 1994. The Company had a positive gross margin on UltraPhone sales of 4.2% for the three months ended June 30, 1995 as compared to a negative gross margin of 15.1% for the three month period ended June 30, 1994. Included in cost of UltraPhone sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to the UltraPhone systems. Also included in the cost of sales are the overhead expenses the Company has incurred in maintaining its production resources that were not absorbed into inventory due to the low volume of production.

**Contract Services Costs.** Contract services costs decreased 39.2% to \$259,000 in the three month period ended June 30, 1995 from \$426,000 in the second quarter of 1994, primarily due to the shutdown of the facilities and the termination of employees, accrued for in the prior year, related to this segment of business.

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

Sales and marketing expenses decreased 8.2% to \$975,000 during the second quarter of 1995 as compared to \$1.1 million during the second quarter of 1994. The decrease is primarily due to reduced staff and activity levels, but was partially offset by an increase in commission expense due to the increase in UltraPhone revenues in the three month period of 1995.

General and administrative expenses for the second quarter of 1995 increased 15.0% to \$4.2 million from \$3.6 million for the second quarter of 1994. Expenses related to the protection and exploitation of the Company's patents, including legal costs of the Motorola trial, increased by approximately \$980,000 in the 1995 period compared to the 1994 period. The increased patent expenses were offset by the elimination of the administrative costs of the contract services operation which were \$485,000 in the prior year period.

Research and development expenses were comparable between the second quarter of 1995 and the second quarter of 1994. Staff and activity levels devoted to the development of the B-CDMA technology and the development of the Company's fourth generation UltraPhone product, expected during the second half of 1995, were comparable between the periods. Statement of Financial Accounting Standards No. 86 requires capitalization of certain software development costs. The effects of this statement reduced the research and development expenses for the three month periods ended June 30, 1994 and 1995 by \$220,000 and \$102,000, respectively.

**Other Income and Expense.** Interest income for the second quarter of 1995 was \$821,000 as compared to \$37,000 for the second quarter of 1994. The increase is due primarily to greater average invested cash balances in 1995 compared to 1994. Interest expense for the three month period ended June 30, 1995 was \$453,000 as compared to \$215,000 for the three month period ended June 30, 1994. The increase is due primarily to the additional interest expense recorded due to the settlement of the HNS obligation.

**Minority Interest.** In December 1992, the Company sold 5.76% of the common shares of Patents Corp., which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded \$1.9 million as an increase in minority interest in the second quarter of 1995 representing the minority interest's portion of the net income of Patents Corp. for the second quarter of 1995. During the comparable 1994 period, the Company recorded an increase of \$62,000 in minority interest representing the minority interest's portion of the net income of Patents Corp. for the second quarter of 1994.



## Results of Operations - Six Months Ended June 30, 1995 Compared to Six Months Ended June 30, 1994

**Total Revenues.** Total revenues in the six months ended June 30, 1995 increased to \$74.0 million from \$6.5 million in the six months ended June 30, 1994 primarily due to the recognition of \$62.1 million of licensing revenue in the 1995 period compared to \$2.5 million in the six months ended June 30, 1994. UltraPhone sales increased 239.6% in the six months ended June 30, 1995 to \$11.5 million from \$3.4 million for the six months ended June 30, 1994.

During the first half of 1995, ITC entered into royalty bearing license agreements with Pacific Communication Sciences, Inc., a subsidiary of Cirrus Logic, Inc., Sanyo Electric Company, Ltd., Mitsubishi Electric Corporation, Hitachi, Ltd. together with its affiliate Kokusai Electric Co. Ltd., and NEC Corporation under its patent portfolio for the manufacture, use and sale of TDMA based subscriber units and infrastructure equipment. These agreements contained advance payment obligations pursuant to which ITC is entitled to receive an aggregate of approximately \$62.1 million, which was recognized as revenue during the first half of 1995. Additionally, the Company recognized revenue of \$8.0 million as part of the Siemens series of agreements.

The Company had contract revenue related to its U.S. Federal government and other services contracts for the first half in both 1994 and 1995. During the first half of 1995, the Company had \$445,000 of contract revenue as compared to \$550,000 during the first half of 1994. The decrease in revenue is due to the completion of the remaining contracts for which the Company was obligated. During the third quarter of 1994, the Company began withdrawing from the contract services market in order to focus on its other core business activities.

**Cost of UltraPhone Sales.** The cost of UltraPhone sales for the six months ended June 30, 1995 increased 184.1% to \$11.7 million from \$4.1 million for the six months ended June 30, 1994. The Company incurred a negative gross margin on UltraPhone sales of 2.4% for the six months ended June 30, 1995 as compared to a negative gross margin of 22.4% for the six month period ended June 30, 1994. Included in cost of UltraPhone sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to the UltraPhone systems. Also included in the cost of sales are the overhead expenses the Company has incurred in maintaining its production resources that were not absorbed into inventory due to the low volume of production.

**Contract Services Costs.** Contract services costs decreased 29.2% to \$512,000 in the six month period ended June 30, 1995 from \$723,000 in the six months ended June 30, 1994, primarily due to the shutdown of the facilities and the termination of employees, accrued for in the prior year, related to this segment of business.

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

Sales and marketing expenses decreased 9.3% to \$2.1 million during the six months ended June 30, 1995 as compared to \$2.3 million during the six months ended June 30, 1994. The decrease is primarily due to reduced staff and activity levels, but was partially offset by an increase in commission expense due to the increase in UltraPhone revenues in the three month period of 1995.

General and administrative expenses for the six months ended June 30, 1995 increased 22.7% to \$8.6 million from \$6.4 million for the six months ended June 30, 1994. Expenses related to the protection and exploitation of the Company's patents increased by approximately \$3.3 million in the 1995 period compared to the 1994 period. The increased patent expenses were offset by the elimination of the administrative costs of the contract services operation which were \$862,000 in the prior year period. The six months ended June 30, 1994 includes \$560,000 of severance costs for terminated employees.

Research and development expenses increased 8.6% for the six months ended June 30, 1995 to \$3.9 million from \$3.5 million for the six months ended June 30, 1994. The increase over the prior year period is due primarily to increased staff and activity levels devoted to the development of the B-CDMA technology and the development of the Company's fourth generation UltraPhone product expected during the second half of 1995. Statement of Financial Accounting Standards No. 86 requires capitalization of certain software development costs. The effects of this statement reduced the research and development expenses for the six month periods ended June 30, 1994 and 1995 by \$366,000 and \$149,000, respectively.

Other Income and Expense. Interest income for the six months ended June 30, 1995 was \$1.2 million as compared to \$81,000 for the six months ended June 30, 1994. The increase is due primarily to greater average invested cash balances in 1995 compared to 1994. Interest expense for the six month period ended June 30, 1995 was \$619,000 as compared to \$299,000 for the six month period ended June 30, 1994. The increase is due primarily to the additional interest expense recorded due to the settlement of the HNS obligation.

Minority Interest. In December 1992, the Company sold 5.76% of the common shares of Patents Corp., which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded \$3.8 million as an increase in minority interest in the six months ended June 30, 1995 representing the minority interest's portion of the net income of Patents Corp. for the six months ended June 30, 1995. During the comparable 1994 period, the Company recorded an increase of \$5,000 in minority interest representing the minority interest's portion of the net income of Patents Corp. for the six months ended June 30, 1994.

### **Financial Position, Liquidity and Capital Requirements:**

The Company had, prior to 1995, experienced liquidity problems due to its lack of profits sufficient to generate cash at a level necessary to fund its investment in additional equipment, its UltraPhone technology development and patent activities, its B-CDMA research and development activities, and its operating losses. Since the fourth quarter of 1994, the Company has generated operating profits and substantially strengthened its cash position through its alliance and licensing transactions. Proceeds from licensing transactions, paid to ITC, can be made available for uses related to UltraPhone marketing efforts, product development efforts or other Company uses upon such funds being transferred to InterDigital pursuant to contractual arrangements or in conjunction with a dividend declaration.

The Company had working capital of \$66.5 million at June 30, 1995 compared to working capital of \$10.1 million at December 31, 1994. The increase in working capital since December is due primarily to \$75.7 million of cash received on patent licensing agreements and \$12.1 million received from stock option and warrant exercises.

The Company's operations to date have required substantial amounts of working capital. The Company may, at some future date subsequent to 1995, require additional debt or equity capitalization to fully support its product development and marketing activities relating to its proprietary technologies and to fund its patent enforcement activities. The Company does not presently maintain bank lines of credit and may therefore, in such event, seek to meet such needs through the sale of debt or equity securities. The Company's working capital requirements will depend on numerous additional factors, including but not limited to the success of the Siemens relationship and the broader alliance strategy, the level of demand and related margins of the UltraPhone system, the progress and cash requirements of the Company's research and product development programs, the ability to generate patent license fees and royalties, and the need to expend funds in connection with its patent enforcement activities. In addition, when the Company builds to specification to complete an order, it traditionally experiences negative cash flows from inception of its production ordering through customer payment at the time of, or subsequent to, order shipment. If the Company were to experience additional sudden and significant

increases in orders to be built to specification, it may create the need for significant short-term financing arrangements. The Company is increasingly marketing the UltraPhone System in urban and near-urban applications and has received a \$17 million order for such an application. It is likely that the Company will expend funds for certain engineering modifications to the UltraPhone System required to facilitate any such particular urban or near-urban application and such engineering requirements could cause delays in fulfilling related orders.

The Company believes that its investment in inventories and non-current assets are stated on its June 30, 1995 balance sheet at realizable values based on expected selling price and order volumes. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no additional write-downs are required at this time due to lack of use or technological obsolescence. With respect to other assets, the Company believes that the value of its patents is at least equal to the value included in the June 30, 1995 balance sheet.

#### **Changes in Cash Flows and Financial Condition:**

The Company has experienced positive cash flows from operations during the six months ended June 30, 1995. The positive cash flows from operations are primarily due to the receipt of \$75.7 million related to the Company's patent licensing activities offset by expenses incurred for UltraPhone production and marketing, B-CDMA technology development and the Company's general and administrative activities.

Net cash flows from investing activities were negative for the six months ended June 30, 1995 due to the Company's investment in property and equipment, software development costs and patents. Notwithstanding the above, the amount of cash used in investing activities has, historically, been low relative to cash used in operations.

During the six month period ended June 30, 1995, the Company generated \$11.9 million from financing activities. The funds were primarily generated by the exercise of stock options and warrants.

Cash and cash equivalents of \$67.2 million as of June 30, 1995 includes \$60.1 million held by Patents Corp. and \$567,000 of restricted cash. The UltraPhone accounts receivable of \$3.9 million at June 30, 1995 reflect amounts due from normal trade receivables, including non-domestic open accounts, as well as funds to be remitted under letters of credit. Of the outstanding trade receivables as of June 30, 1995, \$276,000 has been collected through August 9, 1995. Of the \$5.8 million license fees receivable as of June 30, 1995, \$5.0 million has been received as of August 9, 1995.

Inventory levels have decreased at June 30, 1995 to \$3.6 million from \$5.0 million as of December 31, 1994, reflecting the sale of systems, principally to Indonesia and Russia. Inventories at December 31, 1994 and June 30, 1995 are stated net of valuation reserves of \$7.5 million and \$7.8 million, respectively.

Included in other accrued expenses at June 30, 1995 are professional fees, consulting and other accruals and deferred rent relating to the corporate headquarters and manufacturing facilities, as well as sales taxes payable.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

In February 1993, the Company was sued by HNS in the United States District Court for the District of Maryland (Civil Action No. WN-93-576). HNS previously produced the UltraPhone system on behalf of the Company pursuant to a series of production agreements (the "Production Agreements"). In the lawsuit, HNS alleged that the Company breached certain agreements which were entered into between HNS and the Company in February 1992 relating to the termination of certain UltraPhone production agreements and certain other remedies. HNS sought damages approximating \$7.5 million, plus interest, attorneys' fees and court costs.

The Company filed an answer to the complaint alleging a number of counterclaims and affirmative defenses. In August 1994, HNS filed a motion for partial summary judgment and a motion for entry of final judgment on Counts II and III of its complaint, which involve the Company's purchase of certain Prod III units, machinery and equipment from HNS. In February 1995, the Court granted HNS's motion for partial summary judgment on both counts. The judge, however, denied HNS's motion for entry of final judgment. The amount claimed under Count II is \$2,945,834 and the amount claimed under Count III is \$2,700,000, for a total of \$5,645,834. In addition, HNS asked the Court for interest of \$1,269,962, for a total claim of \$6,915,796 on the two claims on which summary judgment was granted and advised the Court that it intended to seek attorneys' fees at the end of the case. In February 1995, HNS filed a motion for summary judgment on the remaining claims and counterclaims. IDC opposed the motion and filed a cross-motion to stay Count I of the complaint regarding non-recurring engineering charges.

Effective June 2, 1995, the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with HNS. Under the terms of the Settlement Agreement, the Company has paid HNS \$7.5 million, which amount had been substantially previously reserved by the Company, and HNS has been granted credits aggregating \$900,000 against royalty and other payment obligations relating to the Company's proprietary Time Division Multiple Access technology ("Credits"). The Credits may be applied to any royalties becoming due to the Company or its affiliates from HNS after the date of the Settlement Agreement pursuant to the 1990 License Agreement, dated October 23, 1990, the 1992 License Agreement, dated February 29, 1992 and any other agreement between HNS and the Company or its affiliates relating to intellectual property rights.

On November 7, 1994, a complaint was filed in the United States District Court for the Eastern District of Pennsylvania (Civil Action No. 94-CV-6751) against the Company and its former chief executive officer alleging certain violations of the disclosure requirements of the federal securities laws and seeking damages on behalf of shareholders who purchased the Company's stock during the class period stated to be March 31, 1994 to August 5, 1994. The alleged violations relate to the disclosure of three proposed financing transactions:

(1) a revised financing offered through Prudential Securities Incorporated; (2) a Purchase Agreement entered into on March 11, 1994 between the Company and a proposed purchaser to sell \$30 million of the Company's discounted common stock and warrants, and a related \$3 million loan to the Company; and (3) a \$25 million loan to the Company from Oregon Financial Group, Inc. ("OFG"). On April 25, 1995, the Court entered an order certifying the case as a class action. The Company believes that the complaint is without merit and intends to contest it vigorously. The Company has filed a motion for summary judgment in June 1995 and a reply brief to the plaintiffs motion for summary judgment in July 1995. Oral arguments are scheduled for hearing in August 1995.

In October 1993, Motorola, Inc. filed an action against ITC seeking the court's declaration that Motorola's products do not infringe certain ITC patents and that these patents are invalid and unenforceable. ITC filed counterclaims seeking a jury's determination that in making, selling, or using and/or participating in the making, selling or using of digital wireless telephone systems and/or related mobile stations, Motorola has infringed, contributed to the infringement of and/or induced the infringement of certain patents from ITC's patent portfolio. ITC also sought preliminary and permanent injunctions

against Motorola from further infringement and sought damages, royalties, costs and attorneys' fees. A trial was held in United States District Court for the District of Delaware (Civil Action No. 94-73 (D. Del.)) on the issue of validity and infringement of 24 patent claims involving four ITC patents, U.S. Patent Nos. 4,675,863; 4,817,089; 5,119,375 and 4,912,705. By stipulation of the parties, the case was limited to certain TDMA products made, used and/or sold by Motorola.

On March 29, 1995, the trial ended with the jury's verdict, which is subject to varying interpretations, but which is interpreted by the Company to mean that ITC's patent claims at issue in the case are not infringed by Motorola and, if construed to be infringed, are invalid. Motorola has filed a motion requesting attorney's fees and costs aggregating between \$6 and \$7 million. The Company has filed a motion with the U.S. District Court for the District of Delaware requesting that the court overturn and/or clarify all or part of the jury verdict or grant a new trial and, if that motion is unsuccessful, intends to appeal the jury verdict to the U.S. Court of Appeals of the Federal Circuit. The Company believes that there are substantial grounds for reversal of the jury's verdict or the granting of a new trial and that the motion for attorney's fees and costs is without merit.

On September 9, 1993, ITC filed a patent infringement action against Ericsson GE, and its Swedish parent, Telefonaktiebolaget LM Ericsson ("LM Ericsson"), in the United States District Court for the Eastern District of Virginia (Civil Action No. 93-1158-A (E.D.Va.)); by amendment on September 13, 1993, ITC added as a defendant Ericsson Radio. The Ericsson action seeks a jury's determination that in making, selling, or using, and/or in participating in the making, selling or using of digital wireless telephone systems and/or related mobile stations, Ericsson has infringed, contributed to the infringement of and/or induced the infringement of eight patents from ITC's patent portfolio. The Ericsson action also seeks preliminary and permanent injunctions against Ericsson from further infringement and seeks damages, royalties, costs and attorneys' fees. On September 22, 1993, Ericsson Radio and Ericsson GE filed a motion to transfer ITC's action to the United States District Court for the Northern District of Texas. On September 22, 1993, LM Ericsson and Ericsson Radio filed a motion to dismiss the complaint against them for lack of personal jurisdiction. Also, on September 30, 1993, Ericsson GE filed an answer in which it denied the allegations of the complaint and asserted a counterclaim seeking a declaratory judgment that the asserted patents are either invalid or not infringed. On the same day that ITC filed the Ericsson action, two of the Ericsson Defendants, Ericsson Radio and Ericsson GE, filed a lawsuit against the Company and ITC in the United States District Court for the Northern District of Texas (Civil Action No. 3-93CV1809-H (N.D.Tx.)) (the "Texas action"). The Texas action, which involves the same patents that are the subject of the Ericsson action, seeks the court's declaration that Ericsson's products do not infringe ITC's patents, that ITC's patents are invalid and that ITC's patents are unenforceable. The Texas action also seeks judgment against the Company and ITC for tortious interference with contractual and business relations, defamation and commercial disparagement, and Lanham Act violations. The Company and ITC intend to vigorously defend the Texas action. On October 8, 1993, the District Court for the Eastern District of Virginia granted the motion to transfer that was filed by Ericsson Radio and Ericsson GE. Both Ericsson actions have been consolidated and are scheduled to go forward in the United States Federal District Court for the Northern District of Texas. As a result of the transfer, Ericsson Radio has withdrawn its motion to dismiss for lack of personal jurisdiction. ITC agreed to the dismissal without prejudice of LM Ericsson. On July 1, 1994, ITC filed a motion to transfer the Texas action to the United States District Court for the District of Delaware. On October 4, 1994, this motion was denied. Pursuant to an order of the District Court in Texas, proceedings in the Ericsson action have been stayed until August 15, 1995. The Company anticipates that if the present stay is not further extended, discovery will resume and the parties will proceed to trial sometime in 1996.

ITC has filed patent applications in numerous foreign countries. Typical of the processes involved in the issuance of foreign patents, Philips, Alcatel and Siemens each filed petitions in the German Patent Office seeking to revoke the issuance of ITC's basic German TDMA system patent granted on June 28, 1990. On October 19, 1993, after formal opposition proceedings, the German Patent Office confirmed the validity of the ITC basic German system patent application. An appeal has been filed by Philips, Alcatel and Siemens and additional arguments have been made based upon prior art and references not previously considered by

the patent office. ITC is and may from time to time be subject to additional challenges with respect to its patents and patent applications in foreign countries. Although no assurance can be given as to the eventual outcome of these patent challenges, ITC intends to vigorously defend its issued and pending patents. If any of these patents are revoked, ITC's patent licensing opportunities in such relevant foreign countries could be materially and adversely affected.

In connection with the proposed transaction with OFG, the Company commenced an arbitration proceeding against OFG on December 30, 1994. The Company sought repayment from OFG of a \$250,000 facility fee paid to OFG that was "refundable" under the terms of the commitment agreement to lend the Company \$25 million in 1994 and 1995. The Company also sought compensatory damages for losses incurred by the Company as a result of OFG's breach. The matter was arbitrated on May 11, 1995 and on July 11, 1995, the arbitration panel awarded the Company damages in the amount of \$250,000 plus interest. Such award remains uncollected and the Company cannot presently determine whether it may be able to collect upon the award. A receivable has not been recorded by the Company.

In addition to litigation associated with patent enforcement and licensing activities and the other litigation described above, the Company is a party to certain legal actions arising in the ordinary course of its business. Based upon information presently available to the Company, the Company believes that the ultimate outcome of these other actions will not materially affect the Company.

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At the Annual Meeting of Shareholders held on May 31, 1995 (the "Meeting"), the Company's shareholders elected the two nominees for directors as set forth in the Company's proxy statement dated April 28, 1995 (the "Proxy Statement"). The number of votes cast for such nominees and the number of votes withheld with respect to such nominees were respectively as follows: Barney J. Cacioppo 40,159,017 and 1,153,540; and Harley L. Sims 40,160,751 and 1,151,806. The terms of office, as a director, of William J. Burns and D. Ridgely Bolgiano continue through the 1997 Annual Meeting of Shareholders and the term of office as a director of Harry G. Campagna continues through the 1996 Annual Meeting of Shareholders.

The shareholders also voted to adopt the Company's 1995 Stock Option Plan for Employees and Outside Directors as described in the Proxy Statement, casting 15,492,533 votes for the Plan, 3,589,636 against and 788,133 abstentions. Broker non-votes on this matter totaled 21,442,255. There were no broker non-votes with respect to any other matters voted upon at the Meeting.

The appointment of Arthur Andersen LLP as the Company's independent accountants to examine the Company's financial statements for the year ending December 31, 1995, was ratified by the following share vote: 40,424,507 for; 618,424 against; and 269,626 abstaining.

#### **Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

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

**Exhibit 3.1 - Amended and Restated Bylaws**

**Exhibit 11 - Computation of Net Income Per Share**

**Exhibit 27 - Financial Data Schedule**

(b) Reports on Form 8-K

During the quarter ended June 30, 1995, the Company filed a Current Report on Form 8-K which was dated May 20, 1995 and related to the settlement of the litigation with Hughes Network Systems, Inc. and the stay order that was entered in the Ericsson Radio Systems, Inc. litigation. No financial statements were filed with this report.

## SIGNATURES

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

### INTERDIGITAL COMMUNICATIONS CORPORATION

*Date: August 9, 1995*

*/s/ William J. Burns*

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*William J. Burns, Chairman and Chief  
Executive Officer*

*Date: August 9, 1995*

*/s/ James W. Garrison*

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



**EXHIBIT 3.1**

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

**AMENDED AND RESTATED BYLAWS**

**INTERDIGITAL COMMUNICATIONS CORPORATION**

(a Pennsylvania Corporation)

**BY-LAWS**

(as amended through May 1, 1995)

Section 1.1 Registered Office:

The Registered Office of the Corporation shall be at 2200 Renaissance Boulevard, Suite 105, King of Prussia, Pennsylvania until otherwise changed by the Board of Directors.

Section 2.1 Place of Shareholders' Meetings:

Meetings of the shareholders shall be held at the Registered Office of the Corporation or at such other place within or without Pennsylvania as the Board of Directors may fix.

Section 2.2 Annual Meeting of Shareholders:

An Annual Meeting of shareholders shall be held in every calendar year at such time as the Board of Directors may fix. At the Annual Meeting of shareholders, directors shall be elected to serve for the ensuing year or until their successors shall be duly elected and qualified, and there shall be transacted such other business as may properly be brought before the Meeting.

A financial report of the Corporation's business as of the close of the preceding fiscal year shall be presented at the Annual Meeting, and shall be sent to shareholders.

Section 2.3 Special Meetings of Shareholders:

Special Meetings of shareholders may be called at any time by the Chairman of the Board, the President or the Board of Directors, or shareholders entitled to cast not less than one-fifth of the votes which all shareholders are entitled to cast at the particular meeting. At any time, upon written request of any person entitled to call a Special Meeting, it shall be the duty of the Secretary to fix the date of such Special Meeting to be held not less than five or more than sixty days after the receipt of the request and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons making the request may do so.

Section 2.4 Notice of Shareholders' Meetings:

At least five days' written notice shall be given of any meeting of shareholders, unless a greater period of notice is required by law. Such notice shall specify the place, day and hour of the meeting, and in the case of a Special Meeting of shareholders, the general nature of the business to be transacted.

#### Section 2.5 Waiver of Notice of Shareholders' Meetings:

Whenever written notice is required to be given by law, by the Articles or these By-Laws, a written waiver thereof signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a Special Meeting of shareholders, neither the business to be transacted nor the purpose of the meeting need be specified in the Waiver of Notice of such Meeting.

Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

#### Section 2.6 Quorum for Shareholders' Meetings:

The presence, in person or by proxy, of the shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on a matter to be voted upon at a meeting of shareholders shall constitute a quorum, and the acts of such quorum, at a duly organized meeting of shareholders, shall constitute the acts of all the shareholders. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

#### Section 2.7 Conduct of Shareholders' Meetings:

Meetings of the shareholders shall be presided over by the Chairman of the Board, or if he is not present, by the President or, if he is not present, by a Vice-President or, if none of the Chairman of the Board or the President or Vice-President is present, by a Chairman to be chosen at the meeting. The Secretary of the Corporation, or in his absence, an Assistant Secretary or one temporarily designated as such shall act as Secretary of the meeting.

#### Section 2.8 Shareholders Participation by Telephone:

One or more shareholders may participate in any meeting of shareholders by means of conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

#### Section 2.9 Voting by Shareholders:

Except as otherwise provided by law or in the Articles, every shareholder of record shall have the right, at every shareholders' meeting, to one vote for every share standing in his name on the books of the Corporation. Every shareholder entitled to vote at a meeting of shareholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy.

All voting and elections shall be taken viva voce unless a vote by ballot shall be demanded by a shareholder before the voting or election begins, or unless otherwise required by law or by the Articles.

#### Section 2.10 Judges of Election:

In advance of any meeting of shareholders, the Board of Directors may appoint Judges of Election, who need not be shareholders, to act at such meeting or any adjournment thereof. If Judges of Election be not so appointed, the Chairman of the meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of Judges shall be one or three, and no candidate shall act as a Judge. On request of the Chairman of the meeting or of any shareholder or his proxy, the Judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them.

### Section 2.11 Adjournment of Meetings:

Adjournment of any meeting may be taken, but any meeting at which Directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding fifteen days each, as may be directed by the holders of at least a majority of the shares entitled to be voted at an election of directors, until such Directors have been elected. When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat, other than by announcement at the meeting at which such adjournment is taken. In case of any meeting called for the election of Directors, those who attend the second of such adjourned meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors.

### Section 3.1 Board of Directors, Number, Qualification, Elections, Term of Office and Compensation:

The business and affairs of the Corporation shall be managed by a Board of not less than five (5) nor more than fifteen (15) Directors, as may be fixed from time to time by the vote of a majority of the whole Board. Directors shall be of full age, but need not be residents of Pennsylvania or shareholders of the Corporation.

The Directors, other than any who may be elected by the holders of shares of any class or series of stock entitled to elect Directors separately pursuant to the terms of Article Fifth of the Articles of Incorporation or any resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors shall be classified, with respect to the duration of the term for which they severally hold office, into three classes as nearly equal as possible (each, individually a "Three Year Class", and collectively the "Three Year Classes"). Such Three Year Class which shall be elected at the Annual Meeting of Shareholders held in 1993 for a term expiring at the Annual Meeting of Shareholders to be held in 1996 shall be designated as "Class A"; the second Three Year Class to be elected at the Annual Meeting of Shareholders held in 1994 for a term expiring at the Annual Meeting of Shareholders to be held in 1997 shall be designated as "Class B"; and the third Three Year Class to be elected at the Annual Meeting of Shareholders held in 1995 for a term expiring at the Annual Meeting of Shareholders to be held in 1998 shall be designated as "Class C". The Board of Directors shall increase or decrease the number of Directors in one or more classes as may be appropriate whenever it increases or decreases the number of Directors pursuant to this

Section 3.1, in order to ensure that the three Three Year Classes shall be as nearly equal in number of possible. At each Annual Meeting of Shareholders, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the Annual Meeting of Shareholders held in the third year following the year of their election.

The Board of Directors shall have the authority to fix the compensation of Directors for their services and to authorize payment for expenses of attendance at meetings. A Director may also be a salaried officer or employee of the Corporation.

### Section 3.2 Quorum for Directors' Meetings:

A majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business, and the acts of a majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. A Director who is present at a meeting shall be counted in determining the presence of a quorum even though a contract or transaction between the Corporation and such Director or another business in which such Director has a financial interest is authorized at the meeting.

### Section 3.3 Directors' Consent in Lieu of Meeting:

Any action which may be taken at a meeting of the Board of Directors or of any Committee thereof may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all of the Directors or the members of the Committee, as the case may

be, and shall be filed with the Secretary of the Corporation. One or more Directors may participate in a meeting of the Board of Directors or a Committee thereof by means of a conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

#### Section 3.4 Vacancies in Board of Directors:

Except as otherwise provided for or fixed pursuant to the Articles of Incorporation of the Corporation, newly created directorships resulting from an increase in the number of Directors, and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the vote of a majority of the remaining members of the Board, even though less than a quorum. Any person so elected shall hold office for the remainder of the full term of the class of Directors in which the directorship was created or the vacancy occurred and until such Director's successor shall have been elected and qualified. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

#### Section 3.5 Place of Meeting of Board of Directors:

The meetings of the Board of Directors may be held at such place within Pennsylvania, or elsewhere, as a majority of the Directors may from time to time appoint or as may be designated in the notice calling the meeting.

#### Section 3.6 Organization Meeting of the Board of Directors:

After the election of Directors by the shareholders, the newly elected Board may meet for the purpose of organization or otherwise:

(a) Immediately following their election, or at such time and place as shall be fixed by vote of the shareholders at the Annual Meeting (and in either such case no notice of such meeting to the newly elected Directors shall be necessary in order legally to constitute the meeting, provided a majority of the whole Board shall be present); or

(b) At such time and place as may be fixed by consent in writing of all the Directors.

#### Section 3.7 Regular Meetings of the Board of Directors:

Regular Meetings of the Board of Directors shall be held at such time and place as shall be determined by a majority of the Board.

#### Section 3.8 Special Meetings of the Board of Directors:

Special Meetings of the Board of Directors may be called by the Chairman of the Board, President or Secretary on at least two days' notice to each Director, either personally or by mail or by telegram, of the time and place of such Special Meeting. At the written request of two Directors, Special Meetings shall be called by the Chairman of the Board or President or Secretary in like manner and on like notice.

#### Section 3.9 Adjournments of Meetings of the Board of Directors:

If a meeting of the Board of Directors is adjourned, it shall not be necessary to give any notice of the adjourned meeting, or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

### Section 3.10 Powers of Board of Directors:

A. Organizational Meeting: At the first meeting of the Board of Directors in each year (at which a quorum shall be present) held next after the Annual Meeting of shareholders, it shall be the duty of the Board of Directors to elect or appoint the officers of the Corporation.

B. General Powers: The Board of Directors shall have all the power and authority granted by law to Directors except as may be specifically excepted by the Articles or by these By-Laws.

C. Committees: The Board of Directors, by Resolution adopted by a majority thereof, may designate an Executive Committee and one or more other committees, each of which shall consist of at least two Directors and such other Directors as shall be appointed by the Board of Directors to serve as alternate members of any such Committee to replace any absent or disqualified member at any Committee Meeting. In the event that any member of any such Committee shall be absent from or disqualified at such Meeting, the member or members thereof present at any such Meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the Meeting in the place of any such absent or disqualified member. Any such Committee shall have and exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation to the extent provided in the Resolution creating such Committee.

### Section 3.11 Removal of Directors by Shareholders:

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

### Section 4.1 Officers:

The Officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, and a Treasurer, all of whom shall be elected or appointed by the Board of Directors. The Board of Directors may also elect one or more Vice-Presidents, one or more Assistant Treasurers and one or more Assistant Secretaries. Any two or more offices may be held by the same person.

The Board of Directors may at any time also elect or appoint such other officers, assistant officers and agents as it shall deem necessary and as the needs of the Corporation may require. Such other officers, assistant officers and agents shall have such authority and shall perform such duties as from time to time may be prescribed by the Board of Directors.

The Officers shall be elected each year at the organization meeting of the Board of Directors, but if not so elected, they, and any assistant officers or agents the Board of Directors shall desire to appoint, may be elected from time to time during the year. It shall not be necessary for any officer of the Corporation to be a Director.

### Section 4.2 The Chairman of the Board - Powers and Duties:

The Chairman of the Board shall, when present, preside at all meetings of the Board of Directors and at all meetings of shareholders. Unless otherwise directed by the Board of Directors, the Chairman of the Board shall have full power and authority on behalf of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the corporation may hold stock, and at any such meeting he shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which the Corporation, as the owner thereof, might have possessed and exercised if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

#### Section 4.3 The President - Powers and Duties:

The President shall be the Chief Executive Officer of the Corporation. He shall have the customary duties of a chief executive officer with responsibility for general supervision and direction of the regular business and operations of the Corporation, subject to the overall supervision of the Board of Directors. He shall, when the Chairman of the Board is not present, preside at all meetings of the Board of Directors and at all meetings of the shareholders. Unless otherwise directed by the Board of Directors, the President shall, in the absence of the Chairman of the Board, have full power and authority on behalf of the shareholders of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock, and at any such meeting shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which the Corporation, as the owner thereof, might have possessed and exercised if present. Further, unless otherwise directed by the Board of Directors, the President is authorized to execute in the name of the Corporation contracts and other documents requiring the signature of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

#### Section 4.4 The Vice-President - Powers and Duties:

A Vice-President or Vice-Presidents shall be elected by the Board of Directors, if the Board of Directors determines that such offices shall be created. The Vice-President (or, if there are more than one, then each Vice-President) shall have such powers and shall perform such duties as may from time to time be assigned to him or them by the Board of Directors or by the Chairman of the Board or by the President. Unless otherwise ordered by the Board of Directors, the Vice-President (or Vice-Presidents in order of their numbered designations) shall, in the case of death, resignation, absence or disability of the President, perform the duties of that Officer, until the return of the President, or until the disability shall have been removed or a new President shall have been elected.

#### Section 4.5 Treasurer - Powers and Duties:

The Treasurer shall have the custody of all the funds and securities of the Corporation which may come into his hands. When necessary or proper (unless otherwise ordered by the Board of Directors) he shall (a) endorse for collection on behalf of the Corporation, checks, notes and other obligations, (b) deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may designate and (c) sign all receipts and vouchers for payments made by the Corporation. He shall, at all reasonable times, exhibit his books and accounts to the Board of Directors of the Corporation upon the request of any Director, and he shall also, if so directed by the Board of Directors, annually prepare and submit to the Annual Meeting of the shareholders a full statement of the assets and liabilities of the Corporation and of its transactions during the preceding year, and he shall have such other powers and shall perform such other duties as may be assigned to him from time to time by the Board of Directors. He shall give such bond for the faithful performance of his duties as may be required by the Board of Directors.

#### Section 4.6 Assistant-Treasurer - Powers and Duties:

Each Assistant-Treasurer shall have such powers and perform such duties as may be assigned to him by the Board of Directors.

#### Section 4.7 Secretary - Powers and Duties:

Unless otherwise ordered by the Board of Directors, the Secretary shall keep the minutes of all meetings of the shareholders and of the Board of Directors in proper books to be kept for such purpose, and shall attend to the giving of all notices by the Corporation, including notices of meetings of shareholders and of the Board of Directors. He shall have charge of the share certificate books, transfer books, capital stock ledger and such other books and papers as the Board of Directors may direct. He shall in general perform all the duties incident to the office of Secretary and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors.

#### Section 4.8 Assistant Secretary - Powers and Duties:

Each Assistant Secretary shall have such powers and perform such duties as may be assigned to him or them by the Board of Directors.

#### Section 4.9 Removal and Vacancies:

The Board of Directors shall have power to remove any officer from office at any time and shall also have the power to fill any vacancies in any office occurring from whatever reason. Such power shall be exercised by a majority vote of the Directors in office at the time of such removal or vacancy, although less than a quorum.

#### Section 5.1 Share Certificates:

Every shareholder of record shall be entitled to a share certificate representing the shares owned by him, provided that the shares represented thereby shall have been fully paid for. Such share certificate shall be signed by the Chairman of the Board, President, or a Vice-President, and by the Secretary or Treasurer except where such share certificate is signed by a transfer agent or a registrar, in which case the signature of any officer of the Corporation upon such share certificate may be a facsimile, engraved or printed.

#### Section 5.2 Transfer of Share Certificates:

The transfer of a share certificate and the shares represented thereby shall be made on the books of the Corporation only by the registered owner thereof or by his attorney duly authorized in writing to make such transfer, and only upon surrender of such share certificate, which shall be canceled at the time of transfer.

The Corporation shall be entitled to treat the holder of record of any share certificate or certificates and the shares represented thereby as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share certificate or certificates and shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law or by the Articles.

#### Section 5.3 Lost Share Certificate:

The holder of any certificate representing shares of stock of the Corporation shall immediately notify the Corporation of any mutilation, loss or destruction thereof, and the Board of Directors may, in its discretion, cause one or more new certificates for the same number of shares in the aggregate to be issued to such holder upon the surrender of the mutilated certificate, or in the case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and deposit of indemnity by bond or otherwise in such form and amount and with such surety or sureties as the Board of Directors may require to indemnify the Corporation against loss or liability by reason of the issuance of such new certificate, but the Board may, in its discretion, refuse to issue such new certificates save upon the order of some court having jurisdiction in such matters.

#### Section 6.1 Fiscal Year:

The fiscal year of the Corporation shall be established by the Board of Directors.

## Section 7.1 Indemnification:

(a) The Corporation shall indemnify and hold harmless to the fullest extent permitted under the Pennsylvania Business Corporation Law, the Directors' Liability Act (the "DLA") and other applicable law, as such laws existed on the date this Section 7.1 was adopted by the Board Of Directors or, except as provided in Section 7.1(f) hereof, as such laws may thereafter be amended ("Pennsylvania Law"), any person who was or is a party or was or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation (collectively, for purposes of this Section 7.1 and Section 7.2 hereof, "Proceeding"), by reason of the fact that he is or was or has agreed to become a director or officer of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director or officer of another corporation, or if a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in any such capacity, and may indemnify and hold harmless to the fullest extent permitted under Pennsylvania Law any person who was or is a party or was or is threatened to be made a party to such a Proceeding by reason of the fact that he is or was or has agreed to become an employee or agent of the Corporation, or, if any employee or agent of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, liability and loss (including, without limitation, attorneys' fees and disbursements, punitive and other damages, judgments, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature) incurred by him in connection with such Proceeding and any appeal therefrom:

provided, that such indemnification shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court in a final, binding adjudication to have constituted willful misconduct or recklessness.

(b) The Corporation may indemnify and hold harmless to the fullest extent permitted under Pennsylvania Law any person who was or is a party or was or is threatened to be made a party to any Proceeding, by reason of any of his actions in a non-official capacity while serving as a director, officer, employee or agent of the Corporation, against expenses, liability and loss including, without limitation, attorneys's fees and disbursements, punitive and other damages, judgements, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature incurred by him in connection with such Proceeding and any appeal therefrom: provided, that such indemnification shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court in a final, binding adjudication to have constituted willful misconduct or recklessness.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of guilty or nolo contendere, or its equivalent, shall not, of itself, create a presumption that the persons's conduct constituted willful misconduct or recklessness.

(d) Expenses incurred by a director or officer in defending a Proceeding shall be paid by the Corporation in advance of the final disposition of the Proceeding, provided that, if Pennsylvania Law requires, the payment of such expenses shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay such amount



if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as mandated in this Section 7.1 or otherwise. Expenses incurred by other employees and agents may be so paid to the extent provided by the Board of Directors, upon receipt of the foregoing undertaking by or on behalf of the employee or agent.

(e) The indemnification provided by this Section 7.1 shall be in addition to and not exclusive of any other rights to which those seeking indemnification may be entitled under Pennsylvania Law, or under any By-Law, agreement executed by the Corporation, insurance policy, fund of any nature established by the Corporation, vote of shareholders or disinterested directors or otherwise. The indemnification so provided by this Section 7.1 or otherwise, may be granted whether or not the Corporation would have the power to indemnify such person under any provision of Pennsylvania Law other than the DLA.

(f) The indemnification provisions of this Section 7.1 shall constitute a contract between the Corporation and each of its directors, officers, employees and agents who are or may be entitled to indemnification hereunder and who serve in any such capacity at any time while such provisions are in effect. Any appeal or modification of the indemnification provisions of this Section 7.1 shall not limit any such person's rights to indemnification (including the advancement of expenses) then existing or arising out of events, acts or omissions occurring prior to such repeal or modification, including, without limitation, the right to indemnification with respect to Proceedings commenced after such repeal or modification based in whole or in part upon any such event, act or omission.

(g) The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise may secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this Section 7.1 or otherwise.

(h) The Corporation may purchase and maintain insurance to insure its indemnification obligations on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any expense, liability or loss asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section 7.1 or under any provision of Pennsylvania Law other than the DLA.

(i) The indemnification provided by this Section 7.1 shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(j) If Section 7.1 or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director or officer, and may indemnify each employee or agent of the Corporation, as to expenses, liability and loss (including, without limitation, attorneys' fees and disbursements, punitive and other damages, judgments, fines, penalties, excise taxes assessed with respect to an employee benefit plan, amounts paid or to be paid in settlement and costs and expenses of any nature) incurred by him in connection with any Proceeding, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Section 7.1 that shall not have been invalidated and to the fullest extent permitted by applicable law.

## Section 7.2 Limitation on Directors' Personal Liability:

(a) To the fullest extent permitted under the DLA, as it existed on the date this Section 7.2 was adopted or, except as provided in subsection 7.2 (e), as such law may thereafter be amended, a director of this Corporation shall not be personally liable for monetary damages as a result of any action or failure to act unless both: (1) the director has breached or failed to perform the duties of his office under Section 8363 of the DLA: and (2) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

(b) The provisions of this Section 7.2 shall not apply to: (1) the responsibility or liability of a director pursuant to any criminal statute: or (2) the liability of a director for the payment of taxes pursuant to local, state or federal law.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of guilty or nolo contendere, or its equivalent, shall not, of itself, create a presumption that the director breached or failed to perform the duties of his office under Section 8363 of the DLA and that the breach or failure to perform constituted self-dealing, willful misconduct or recklessness.

(d) Notwithstanding the date of adoption of this Section 7.2, the provisions of Section 7.2 shall apply to any action filed or breaches of performance of duty or any failure of performance of duty by any director on or after January 27, 1987.

(e) No amendment to or repeal of this Section 7.2 or the relevant provisions of the DLA shall reduce the limitation on directors' personal liability for or with respect to any events, acts or omissions of such director occurring prior to such amendment or repeal, including, without limitation, the limitation on personal liability with respect to any Proceedings commenced after such repeal or modification based in whole or in part upon any such event, act or omission.

## Section 8.1 Amendments to By-Laws:

The holders of all the shares outstanding and entitled to vote may, by a majority vote, make, alter, amend or repeal any provision of these By-Laws at any Annual or Special Meeting duly convened after notice to the shareholder of the meeting to be held for such purpose, provided, however, that the affirmative vote of the holders of at least 80 percent of the combined voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class shall be required to alter, amend or repeal Sections 3.1, 3.4, 3.11 or this Section 8.1, or to adopt any provision inconsistent therewith.

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

Section 9.1 Control-Share Acquisitions:

Subchapter G - "Control-Share Acquisitions" of Chapter 25 of Title 15 of the Pennsylvania Consolidated Statutes, as existing on July 18, 1990 or as may thereafter be amended, shall not be applicable to the Corporation.

Section 10.1 Disgorgement by Certain Controlling Shareholders:

Subchapter H - "Disgorgement by Certain Controlling Shareholders Following Attempts to Acquire Control" of Chapter 25 of Title 15 of the Pennsylvania Consolidated Statutes, as existing on July 18, 1990 or as may thereafter be amended, shall not be applicable to the Corporation.

**EXHIBIT 11****INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****COMPUTATION OF NET INCOME PER SHARE  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 1995
COMPUTATION OF PRIMARY EARNINGS PER SHARE: -----		
Net Income Applicable to Common Shareholders	\$ 20,597	\$ 40,735
Assumed interest income on excess proceeds of assumed option and warrant exercises	24 \$ 20,621	-- \$ 40,735
Weighted Average of Primary Shares:		
Common Stock	44,071	43,507
Assumed Conversion of Options and Warrants	1,404	2,688
	45,475	46,195
Primary Earnings Per Share	\$ 0.45	\$ 0.88

A calculation for the three and six month periods ended June 30, 1994 have not been presented since the effect of the options and warrants would be anti-dilutive.

**ARTICLE 5**

ART. 5 FOR 2ND QUARTER 10-Q

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	JUN 30 1995
CASH	67,191
SECURITIES	0
RECEIVABLES	11,475
ALLOWANCES	1,817
INVENTORY	3,886
CURRENT ASSETS	82,615
PP&E	10,405
DEPRECIATION	7,775
TOTAL ASSETS	89,384
CURRENT LIABILITIES	16,067
BONDS	526
COMMON	442
PREFERRED MANDATORY	0
PREFERRED	11
OTHER SE	67,224
TOTAL LIABILITY AND EQUITY	89,384
SALES	11,456
TOTAL REVENUES	73,994
CGS	11,729
TOTAL COSTS	12,241
OTHER EXPENSES	3,854
LOSS PROVISION	(58)
INTEREST EXPENSE	610
INCOME PRETAX	47,877
INCOME TAX	3,307
INCOME CONTINUING	40,793
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	40,793
EPS PRIMARY	.88
EPS DILUTED	.88

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