

# INTERDIGITAL INC.

## FORM 10-Q (Quarterly Report)

Filed 11/14/96 for the Period Ending 09/30/96

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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

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**FORM 10-Q**

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

For the quarterly period ended September 30, 1996

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.)

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

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

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

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

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

Common Stock, par value \$.01 per share

48,023,324 shares

-----  
Class

-----  
Outstanding at October 24, 1996

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

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**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

ASSETS -----	DECEMBER 31, 1995 -----	SEPTEMBER 30, 1996 ----- (UNAUDITED)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents, including restricted cash of \$1,200 and \$542 respectively	\$ 9,427	\$ 16,011
Short term investments	55,060	51,421
License fees receivable	400	702
Accounts receivable, net of allowance for uncollectable accounts of \$340 and \$389, respectively	2,757	11,946
Inventories	4,853	8,581
Other current assets	1,474	4,037
	-----	-----
Total current assets	73,971	92,698
	-----	-----
Property, plant and equipment, net of accumulated depreciation of \$5,969 and \$7,474, respectively	4,452	10,794
Patents, net of accumulated amortization of \$3,456 and \$3,843, respectively	2,405	9,622
Other	2,339	4,235
	-----	-----
	\$ 83,167	\$ 117,349
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long term debt	\$ 430	\$ 589
Accounts payable	4,313	9,320
Accrued compensation and related expenses	4,335	3,326
Purchase commitment reserve	855	447
Distributor commission	196	1,043
Accrued warranty	625	1,251
Deferred revenue	1,597	6,622
Income and foreign withholding taxes payable	653	571
Other accrued expenses	1,959	1,732
	-----	-----
Total current liabilities	14,963	24,901
	-----	-----
LONG TERM DEBT	631	3,126
	-----	-----
LONG TERM PORTION OF DEFERRED REVENUE	--	8,362
	-----	-----
OTHER LONG TERM LIABILITIES	1,323	758
	-----	-----
MINORITY INTEREST	3,810	--
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES (Note 3)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred Stock, \$ .10 par value, 14,399 shares authorized, \$2.50 Convertible Preferred, 113 shares and 103 shares issued and outstanding	11	10
Common Stock, \$.01 par value, 75,000 shares authorized, 44,424 shares and 47,985 shares issued and outstanding	444	480
Additional paid-in capital	212,310	233,798
Accumulated deficit	(150,325)	(154,086)
	-----	-----
Total shareholders' equity	62,440	80,202
	-----	-----
	\$ 83,167	\$ 117,349
	=====	=====

The accompanying notes are an integral part of these statements.

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

(in thousands, except per share data)

(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
REVENUES:				
UltraPhone	\$ 1,629	\$ 7,522	\$ 13,085	14,356
Licensing and Alliance	4,000	1,868	66,093	26,575
Contract Services	212	--	657	--
	-----	-----	-----	-----
	5,841	9,390	79,835	40,931
	-----	-----	-----	-----
OPERATING EXPENSES:				
Cost of UltraPhone revenues	3,794	8,755	15,523	16,652
Contract service costs	242	--	754	--
Sales and marketing	723	1,216	2,791	3,132
General and administrative	2,575	2,627	11,144	8,080
Product development costs	2,532	5,888	6,386	15,054
	-----	-----	-----	-----
	9,866	18,486	36,598	42,918
	-----	-----	-----	-----
Income (loss) from operations	(4,025)	(9,096)	43,237	(1,987)
OTHER INCOME (EXPENSE):				
Interest income	916	892	2,140	2,963
Interest and financing expenses	(14)	(55)	(623)	(132)
	-----	-----	-----	-----
Income (loss) before income taxes and minority interest	(3,123)	(8,259)	44,754	844
INCOME TAX PROVISION	113	(14)	(3,195)	(3,519)
	-----	-----	-----	-----
Income (loss) before minority interest	(3,010)	(8,273)	41,559	(2,675)
MINORITY INTEREST	(246)	1	(4,022)	(890)
	-----	-----	-----	-----
Net income (loss)	(3,256)	(8,271)	37,537	(3,565)
PREFERRED STOCK DIVIDENDS	(66)	(64)	(200)	(196)
	-----	-----	-----	-----
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ (3,322)	\$ (8,336)	\$ 37,337	(3,761)
	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE	\$ (0.07)	\$ (0.18)	\$ 0.81	(0.08)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	44,287	46,709	46,333	45,922
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

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

(in thousands)

(unaudited)

For the nine months ended September 30,

	1995	1996
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 37,537	\$ (3,565)
Adjustments to reconcile net income (loss) to net cash provided by operating activities-		
Minority interest in subsidiary	4,063	890
Depreciation and amortization	1,304	2,179
Other	(57)	(145)
Decrease (increase) in assets-		
Receivables	20,442	(9,491)
Inventories	601	(3,728)
Other current assets	(207)	(2,563)
Increase (decrease) in liabilities-		
Accounts payable	(6,645)	5,007
Due to Hughes Network Systems, Inc	(7,003)	--
Accrued compensation	1,775	(1,009)
Deferred revenue	2,856	12,822
Other accrued expenses	(1,497)	756
	-----	-----
Net cash provided by operating activities	\$ 53,169	\$ 1,153
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease (increase) in short-term investments	\$(57,660)	\$ 3,639
Additions to property and equipment, net of non-cash additions of \$100 and \$3,106, respectively	(1,156)	(4,746)
Additions to patents	(331)	(429)
Other non-current assets	(1,029)	(2,178)
	-----	-----
Net cash used for investing activities	(60,176)	(3,714)
	-----	-----
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from sales of Common Stock and exercises of stock options and warrants	12,810	9,597
Payments on long-term debt, including capital lease obligations	(178)	(452)
	-----	-----
Net cash provided by financing activities	12,632	9,145
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,625	6,584
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,889	9,427
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 17,514	\$ 16,011
	=====	=====
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 16	\$ 128
	=====	=====
Income taxes paid, excluding foreign withholding taxes	\$ 1,850	\$ 389
	=====	=====

The accompanying notes are an integral part of these statements.

# INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

(UNAUDITED)

### 1. BACKGROUND:

InterDigital Communications Corporation ("IDC"), a public corporation incorporated in the state of Pennsylvania, and its subsidiaries (collectively with IDC, "InterDigital" or the "Company"), develop and market advanced digital wireless telecommunications systems and technology. The Company's objective is to become a significant global supplier of digital wireless communications technology and systems based on its proprietary Time Division Multiple Access ("TDMA") and Broadband Code Division Multiple Access ("B-CDMA(TM)") technologies.

To achieve that objective, the Company has developed an alliance program under which it intends to align itself with key entities in the telecommunications industry. Two of the three key objectives of the Company's alliance program, if fully and successfully implemented, are to generate licensing revenues as well as to improve the Company's UltraPhone product business by (i) making the Company and its UltraPhone products more credible competitors in large scale telecommunications infrastructure programs, (ii) expanding the depth and coverage of UltraPhone product marketing efforts around the world, (iii) facilitating greater focus in the Company's direct sale activities, and (iv) funding and facilitating engineering changes and alternative supply and production sources to attempt to significantly reduce costs and expand product capabilities.

The third objective of the alliance program is to bolster the Company's on-going efforts to develop its B-CDMA air interface technology and to spread the commercialization of B-CDMA-based wireless local loop applications and start the development of B-CDMA-based wireless Personal Communications Service ("PCS") applications which the Company intends to promote as True PCS(TM). To date, the Company has formed two such broad business alliances, with Siemens Aktiengesellschaft ("Siemens") and Samsung Electronics Co., Ltd. ("Samsung"). (See Notes 5 and 6.)

Historically, the Company's principal product has been the UltraPhone system, a radio telephone system providing business and households access to basic telephone service through a wireless local loop. Since 1987, the Company has sold over 270 UltraPhone systems worldwide, with aggregate UltraPhone telephone system revenues totaling over \$151 million. UltraPhone product revenues accounted for approximately 20% of the total revenues of the Company during 1995 and approximately 35% of revenues for the nine month period ended September 30, 1996.

In addition to its UltraPhone telephone system 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 twelve entities as of October 24, 1996, the recognition of \$28.7 million, \$67.7 million and \$26.6 million of licensing and alliance revenue in fiscal 1994, 1995 and the nine month period ended September 30, 1996, respectively, and the initiation of litigation with major telecommunications companies.

Operations of the Company are subject to certain risks and uncertainties, including, but not limited to, the achievement of its goals and objectives, uncertainties related to intellectual property rights, the acceptance by customers of the Company's technology, the development and commercialization of new products, uncertainty and volatility of future profitability and access to capital and dependence on alliance arrangements and key personnel.

## 2. BASIS OF PRESENTATION:

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly the Company's financial position as of September 30, 1996 and the results of their operations for the three and nine month periods ended September 30, 1995 and 1996 and cash flows for the nine month periods ended September 30, 1995 and 1996. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and accordingly do not include all of the detailed schedules, information and notes necessary for a fair presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest annual report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

The Statement of Cash Flows for the nine months ended September 30, 1995 has been restated to conform with current period presentation.

## 3. CONTINGENCIES:

IDC and ITC are variously parties to certain patent-related litigation in which ITC is asserting that certain third parties infringe ITC's patents. ITC generally is seeking injunctive relief and monetary damages. The alleged infringers generally seek declarations that their products do not infringe ITC's patents. In one such action involving Motorola Inc., ITC has received an adverse jury verdict and is in the post-trial appeal process. In another action, the Court has stayed the proceeding, at the request of the parties, pending a decision by the appeals court on the Motorola case. ITC is also involved in administrative proceedings in which various parties have challenged the validity of ITC's patents.

In addition to litigation associated with patent enforcement and licensing activities and the other litigation described above, the Company is a party to certain legal actions arising in the ordinary course of its business. 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.



#### 4. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

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, 1995	September 30, 1996
	-----	-----
Money market funds and demand deposits	\$ 2,096	\$ 7,975
Certificates of deposit	966	751
Repurchase agreements	3,955	1,313
Commercial paper	2,380	5,972
	-----	-----
	\$ 9,427	\$16,011
	=====	=====

The repurchase agreements are fully collateralized by United States Government securities and are stated at cost which approximates fair market value.

Short-term investments available for sale as of December 31, 1995 consisted of \$40.5 million in government-issued discount notes, \$2.5 million in municipal securities and \$12.1 million in corporate debt securities. Short-term investments available for sale as of September 30, 1996 consisted of \$43.4 million in government-issued discount notes and \$8.0 million in corporate debt securities.

#### 5. SIEMENS AGREEMENTS:

On December 16, 1994, 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. These agreements were amended in February 1996 in connection with the Samsung alliance. (See Note 6.)

As partial consideration for the rights and licenses granted by the Company, Siemens agreed to pay \$20 million, of which \$14.8 million was paid as of December 31, 1995. In connection with the Samsung alliance, the Company and Siemens deferred the remaining payments and, in July 1996, offset the majority of such payments against payments due to Siemens from InterDigital in conjunction with the Samsung alliance. (See Note 6.)

In accordance with accounting requirements, the Company will recognize the \$20 million of revenue over the contract performance period due to the combined nature of the contracts. In 1995 the Company recognized \$13.6 million of the revenue under this agreement based on the progress of the completed work. The remaining \$6.4 million of revenue is expected to be recognized through June 1997, the expected date of completion of functional testing at the system component level.

## 6. SAMSUNG AGREEMENTS:

On February 9, 1996, the Company entered into a series of agreements with Samsung and amended its agreements with Siemens as a second major step in implementing its alliance strategy. Under the various agreements, Samsung made upfront payments to the Company in excess of \$35 million (of which approximately one-half constituted royalty prepayments), less applicable withholding taxes. All payments from Samsung were received by June 30, 1996. In July 1996, the Company made, via offset (see Note 5) certain payments to Siemens, which in turn, committed to provide additional technical assistance. The net upfront amount received by the Company, after giving effect to the receipt of certain exemptions from Korean Service Withholding Tax granted by the Korean Ministry of Information and Communications, was approximately \$29 million. Samsung is also obligated to provide engineering manpower for the development of the Company's B-CDMA technology.

Samsung has received from InterDigital royalty-bearing licenses covering InterDigital's TDMA and B-CDMA patent portfolio, its UltraPhone and B-CDMA technologies and is licensed to use certain InterDigital trademarks. InterDigital and Samsung anticipate that Samsung may manufacture and sell privately labeled UltraPhone systems and may become a significant UltraPhone equipment supplier to InterDigital, which would allow InterDigital to take advantage of Samsung's expertise in low cost, high quality manufacturing.

The Company recognized \$14 million as revenue during the first quarter of 1996 representing the non-refundable upfront patent licensing portion of the agreements. The Company recognized \$6 million in the second quarter of 1996 representing the consideration due for the UltraPhone equipment technology transfer and manufacturing rights portions of the agreements. Also, during the second and third quarters, the Company recognized approximately \$1.5 million of the net amount retained by the Company relating to the B-CDMA development portion of the agreement. The balance of the revenue is expected to be recognized through fiscal 1999, the expected date of completion of the applicable development effort.

## 7. MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

### UltraPhone Equipment Revenue:

In fiscal 1995, the Company's Indonesian and Russian customers represented 37% and 20%, of UltraPhone product revenues, respectively. During the third quarter of 1995, the Company's Myanmarian customer and Mexican distributor accounted for 42% and 12% of UltraPhone product revenues, respectively. During the third quarter of 1996, the Company's Philippine and Puerto Rican customer accounted for 77% of UltraPhone product revenues. For the nine months ended September 30, 1995, the Company's Indonesian and Russian customers accounted for 43% and 25% of UltraPhone product revenues, respectively. For the nine months ended September 30, 1996, the Company's Philippine and Puerto Rican customers accounted for 66% and 10% of UltraPhone product revenues, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1996	1995	1996
	----	----	----	----
Domestic	\$ 479	\$ 581	\$ 1,829	\$ 1,521
Foreign	1,150	6,941	11,256	12,835
	-----	-----	-----	-----
	\$1,629	\$ 7,522	\$13,085	\$14,356
	=====	=====	=====	=====

## Licensing and Alliance Revenue:

ITC has granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain TDMA patents (and in certain instances, technology) to Hughes Network Systems, AT&T, Siemens (see Note 5), Matsushita, Sanyo, Pacific Communications Systems, Mitsubishi, Hitachi, Kokusai, OKI Electric Industry Company, and Samsung (see Note 6). The licenses typically contain "most favored nations" provisions, applied on a going forward basis only, and other provisions which could, in certain events, cause the licensee's obligation to pay royalties to the Company to be suspended for an indefinite period, with or without the accrual of the royalty obligation.

The Licensing and Alliance revenues for the nine months ended September 30, 1996 include \$22.3 million from Samsung and \$4.0 million from Siemens. During the nine months ended September 30, 1995, ITC entered into royalty-bearing license agreements with Pacific Communication Sciences, Sanyo, Mitsubishi, Hitachi, together with its affiliate Kokusai, and NEC covering patents relating to the manufacture, use and sale of TDMA-based subscriber units, in certain instances, and infrastructure equipment. Each of these agreements contains advance payment obligations pursuant to which ITC received an aggregate of approximately \$54.1 million, which was recognized as revenue during the nine months ended September 30, 1995. An additional \$12.0 million of revenue was recognized for the nine months ended September 30, 1995 pursuant to the Siemens agreements.

## 8. NET INCOME PER COMMON SHARE:

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

## 9. INVENTORIES:

	December 31, 1995 ----	September 30, 1996 ----
	(In thousands)	
Component parts and work-in-progress	\$4,341	\$8,097
Finished goods	512	484
	-----	-----
	\$4,853	\$8,581
	=====	=====

Inventories are stated net of valuation reserves of \$6.9 million and \$7.1 million as of December 31, 1995 and September 30, 1996, respectively. In addition, inventory purchase commitment reserves were \$855,000 and \$447,000 as of December 31, 1995 and September 30, 1996, respectively.

## 10. LONG-TERM DEBT:

During the second quarter of 1996, the Company purchased its King of Prussia facility for \$3.7 million. The Company paid cash of \$930,000 and arranged a 16 year mortgage of \$2.8 million with interest payable at a rate of 8.28% per annum. The entire cost of the land and buildings purchased, as well as the improvements made to the building, have been classified as Land, Building and Improvements within the property section of the balance sheet. The mortgage has been classified as long-term debt on the balance sheet, with \$88,000 classified as current portion of Long-term Debt.

## 11. PATENTS CORP. MERGER:

During September 1996, InterDigital completed a merger (the "Merger") of IP Acquisition Corp., a wholly owned subsidiary of the Company, with and into Patents Corp., an approximately 94% owned subsidiary of the Company. Immediately before the merger, IP Acquisition Corp. purchased the shares of Patents Corp. not owned by the Company (approximately 1,600,000 shares) in exchange for shares of InterDigital Communications Corp. stock (approximately 1,500,000 shares, with a then current market value of approximately \$12 million). As a result of the Merger, Patents Corp. became a wholly owned subsidiary of InterDigital, eliminating the minority shareholder interest.

In conjunction with the Merger, the excess of the fair market value of the consideration paid over the recorded book value of the minority interest of approximately \$7 million was recorded as a write up of the value of its patents. This increase in value of the patents will be amortized over the remaining useful life of the patents.

## 12. 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 September 30, 1996 consists of a current state tax provision of \$14,000. The income tax provision for the three months ended September 30, 1995 consisted of a current foreign withholding tax benefit of \$53,000, a current state tax benefit of \$21,000 and a Federal Alternative Minimum Tax benefit of \$39,000. The income tax provision for the nine months ended September 30, 1996, consists of a current foreign withholding tax provision of \$3.3 million, a current state tax provision of \$133,000 and a Federal Alternative Minimum Tax provision of \$87,000. The income tax provision for the nine months ended September 30, 1995 includes a current foreign withholding tax provision of \$2.4 million, a current state provision of \$79,000 and a Federal Alternative Minimum Tax provision of \$820,000. At December 31, 1995, the Company had net operating loss carryforwards of approximately \$102 million. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit is recorded as of September 30, 1996.

Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The annual limitation is generally equal to the product of (x) the aggregate fair market value of the Company's stock immediately before the ownership change times (y) the "long-term tax exempt rate" (within the meaning of Section 382(f) of the Code) in effect at that time. The Company believes that no ownership change for purposes of Section 382 occurred up to and including September 30, 1996. 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.

## 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 Selected Consolidated Financial Data, and the Consolidated Financial Statements and notes thereto, contained elsewhere in this document.

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, 1994 and 1995, UltraPhone system revenues were significantly lower than in 1992; losses increased significantly in 1993 and 1994 as a result of the decline in UltraPhone product revenues and gross margins and other increases in costs, such as the increased investment in B-CDMA technology 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. During 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. During 1995, the Company recognized \$67.7 million of licensing and alliance revenue enabling the Company to report its first profitable fiscal year since its inception. The Company was profitable in the first and second quarters of 1995 and unprofitable in the third and fourth quarters of 1995. The variability of 1995 quarterly operating results was due to the revenue recognition accorded to the non-refundable payments associated with the license agreements. Such variability has continued during 1996 and the Company expects that such variability will continue to 1997 and beyond.

The Company's objective is to become a significant global supplier of digital wireless communications technology and systems based on its proprietary TDMA and B-CDMA technologies. To achieve that objective, the Company has developed an alliance program under which it intends to align itself with key entities in the telecommunications industry. Two of the three key objectives of the Company's alliance program, if fully and successfully implemented, are to generate licensing revenues as well as to improve the Company's UltraPhone product business by (i) making the Company and its UltraPhone products more credible competitors in large scale telecommunications infrastructure programs, (ii) expanding the depth and coverage of UltraPhone product marketing efforts around the world, (iii) facilitating greater focus in the Company's direct sale activities, and (iv) funding and facilitating engineering changes and alternative supply and production sources to attempt to significantly reduce costs and expand product capabilities.

The third objective of the alliance program is to bolster the Company's on-going efforts to develop its B-CDMA air interface technology and to spread the commercialization of B-CDMA-based wireless local loop applications and start the development of B-CDMA-based wireless Personal Communications Service ("PCS") applications. The successful commercial development and deployment of such products is dependent upon technological achievement, including the continued validation of the theories upon which the new technology is being designed, the continued availability of debt, equity or alliance partner funding sufficient to support an increasing level of efforts over several years and, ultimately, market acceptance of the resultant product.

In December 1994, the Company completed the initial implementation of the alliance program by entering into an integrated series of agreements with Siemens Aktiengesellschaft ("Siemens") covering UltraPhone product marketing and product development, B-CDMA technology development, patent licensing and other areas of cooperation (See Note 5 to "Notes to Consolidated Financial Statements"). The Company continued its implementation of the alliance program when it signed a series of agreements

with Samsung Electronics Co., Ltd ("Samsung") in February 1996. The agreements cover B-CDMA technology development, patent licensing, product development, technology transfer and other areas of cooperation.

To augment its efforts to achieve its goals, the Company has retained investment banking and other outside resources to investigate acquisition and other strategies designed to strengthen its competitive position.

ITC, a wholly-owned subsidiary, and the Company, together, offer non-exclusive, royalty-bearing patent, technology and know-how licenses to telecommunications manufacturers that manufacture, use or sell, or intend to manufacture, use or sell, equipment that utilizes their extensive portfolio of TDMA and CDMA patented technologies. The Company believes that, through ITC's patent portfolio, and the Company's TDMA and B-CDMA technology research and development capabilities and resultant know-how, both it and ITC are positioned to take advantage of the present evolution in wireless telecommunications to digital technology from analog technology, which represents a substantial portion of the worldwide installed base. ITC implemented a strategy during 1993 of negotiation and litigation with certain entities which it believed were representative of the broader number of entities infringing ITC's patents. These efforts have resulted in patent license agreements with a total of twelve entities as of October 24, 1996.

Historically through 1994, 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 system sales for the foreseeable future. UltraPhone system 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. See Note 7 to "Notes to Consolidated Financial Statements". Additionally, the Company expects that it may continue to experience significant fluctuations in quarterly and annual revenues and operating results due to variations in the amount and timing of license and alliance-related revenue. Accordingly, the Company's cash flow may be expected to fluctuate significantly for the foreseeable future.

The Company began to experience a significant decline in UltraPhone system 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. The Company sought to counter these competitive pressures by emphasizing the advantages which it believes the UltraPhone system offers over fixed cellular and other wireless systems, by lowering UltraPhone system prices, and by offering the UltraPhone system through or in conjunction with alliance partners. In addition, the Company is continuing to restructure its sales and marketing efforts to focus on multi-year, large-scale telecommunications infrastructure programs in which the UltraPhone product would be positioned as a fundamental component in the rural and near-urban telephone networks of such programs.

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 introduced a more fully-featured subscriber unit during the first half of 1996. Reductions in product costs would be most fully realized in cluster systems and, to a lesser degree, in other non-cluster configurations in which there is a high ratio of subscriber units to base stations. The Company has experienced and may continue to experience engineering and production delays in the introduction of its new subscriber units and/or other new enhancements or features.

The Company anticipates that it will continuously need to reduce prices and expand product features due to industry demands which will result in continued pressure upon gross profit margins until such time as the Company is able to reduce product costs commensurate with price reductions. More specifically, the Company has accepted major orders for 1996 and 1997 delivery (see "Backlog"), and is actively marketing the UltraPhone system in certain opportunities, at sales prices which are expected to generate little, if any, margin based on the current cost characteristics of the system configurations being proposed. In these

situations, and in any additional situations where the Company elects to accept similarly margined orders, it would do so because of collateral profit potential, as next enumerated, or because of other strategic positioning considerations. The Company believes that any profit potential would primarily relate to design engineering to reduce product costs, the expected positive effects on vendor pricing of the increased production volume, change orders (including post contract systems reconfiguration), post contract add-ons and systems expansions and servicing, as well as follow on orders. Given the possibility of engineering delays and difficulties, and the continuing inability to sell UltraPhone systems with a high cluster utilization, the Company can give no assurance that it will be able to achieve sufficient product cost reductions or otherwise achieve satisfactory gross profit margins. In addition, there can be no assurance that the development costs necessary to achieve such potential product cost reductions will be acceptable to the Company.

The 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 two major orders currently in backlog (see "Backlog"). The Company is continuing to adjust its sales and marketing strategies by focusing its direct efforts, improving its UltraPhone system distribution network and pursuing various additional alliance partners.

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 UltraPhone system sales has been inadequate to support its operating and other expenses. The low sales volumes experienced in recent years have resulted in production volumes which were inadequate to fully absorb fixed production overhead costs, producing negative gross margins.

On March 29, 1995, a trial involving ITC and Motorola, Inc. ended with the jury's verdict that ITC's patent claims at issue in the case, involving four of ITC's patents, are not infringed by the Motorola products involved in the case. On June 17, 1996, the U.S. District Court Judge for the District of Delaware affirmed that portion of the jury's verdict. The judge further sustained the jury's invalidity finding as to 21 of the 24 patent claims at issue, but reversed the jury's invalidity determination as to the three other claims, finding no support in the record for the jury's determination. Both parties have appealed the decision. While the Company believes that substantial grounds exist to overturn the verdict, the ultimate resolution of this matter will likely occur in the intermediate to long-term. Until there is a final judicial determination the verdict may adversely affect the Company's level of revenue and potential 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. In addition, an adverse ruling (as to ITC) on Motorola's appeal on its motion for attorneys' fees (which motion the U.S. District Court judge denied) could adversely affect the Company's cash position.

## **FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS**

The Company had working capital of \$67.8 million at September 30, 1996 compared to working capital of \$59.0 million at December 31, 1995. The increase in working capital since December is due primarily to the recognition of license and alliance revenue from Samsung of \$22.3 million and receipt of \$9.4 million from stock option and warrant exercises, offset by operating cash needs of the Company. 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, its patent activities, its B-CDMA technology research and development activities, and its

operating losses. Since the fourth quarter of 1994, the Company has substantially strengthened its cash position due its alliance and licensing transactions.

Demands on working capital in 1996 and beyond are expected to increase. The Company expects to significantly increase its B-CDMA technology development expenditures to commercialize its technology as soon as possible. As the development effort nears first stage completion, currently anticipated in early 1997, additional expenditures are expected to be incurred for marketing and other activities and subsequent, substantial additional expenditures will be required to support later stage development. Engineering efforts required to support the UltraPhone product are also expected to increase significantly as the Company continues its efforts to reduce the cost of the UltraPhone product and increase its market share. Marketing and administrative, and other costs are expected to increase as well as the Company seeks to more effectively support its alliance program.

Certain emerging trends associated with product sales could also negatively impact future working capital, should they occur. The Company has not offered vendor financing to prospective customers, instead relying on its efforts to assist prospective customers in obtaining financing from other sources. Should the Company engage in a vendor financing program (it has no current plans to do so), such a program would have a material impact on working capital needs. Many current and prospective customers have required increasingly significant delivery and performance guarantees of various types, including delay damage clauses, performance bonds and performance guarantees. The working capital required to provide such guarantees could be significant for large orders, and the costs that might be incurred if any such guarantee were called upon could have a material adverse impact on working capital. In addition, the Company obtains some component parts from single sources, while other components are available from multiple sources; changing sources of supply would likely cause a disruption in supply. Any interruption in the supply of quality components could have an adverse impact on working capital.

The Company's working capital requirements will depend on numerous additional factors, including but not limited to the success of the Siemens and Samsung relationships and the broader alliance strategy, the level of demand and related margins for the UltraPhone system, the ability to generate license fees and royalties, and the need to expend funds in connection with its patent 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 increasingly subsequent to, order shipment. If the Company were to experience additional sudden and significant increases in orders to be built to specification, it would intensify the need for significant short to intermediate term financing arrangements.

Accordingly, the Company may, at some future date subsequent to 1996, require additional debt or equity capitalization to fully support its technical and product development and marketing activities 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. There can be no assurances that the Company will be able to sell any such securities, or, if it can, that it can do so on terms acceptable to the Company.

In August 1996, the Company acquired a fifty (50) percent interest in an office building located on Long Island, New York for possible use as its primary location for B-CDMA development. The Company effected the acquisition of the building through the creation of a New York Limited Liability Company, 60 Crossways, L.L.C., in which the Company holds a 50% interest. A local commercial real estate owner, developer and building contractor holds the remaining interest. The limited liability company purchased the building for approximately \$2.0 million. The Company and its partner have agreed to share equally the acquisition and ownership costs of the limited liability company. The Company is currently evaluating its short and long term space requirements and reviewing various options for accommodating such needs.

The Company believes that its investment in inventories and non-current assets are stated on its December 31, 1995 and September 30, 1996 balance sheets at realizable values based on expected selling price and order volumes. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no additional write-downs are required at this time due to lack of



use or technological obsolescence. With respect to other assets, the Company believes that the value of its patents is at least equal to the value included in the December 31, 1995 and September 30, 1996 balance sheets.

## **Backlog**

At September 30, 1996, the Company's backlog of orders for UltraPhone telephone equipment and services was \$92.1 million, which includes the Company's first order from its Pakistanian customer of \$42.9 million, the balance of one order from the Company's Philippine customer of \$8.3 million and another order from its Indonesian customer for \$36.8 million. The Pakistan order is subject to final commitment of financing and the Indonesian order is subject to completion of financing documents. Over \$15 million of the backlog is expected to be delivered during the fourth quarter of fiscal year 1996, with the balance expected to be delivered during fiscal 1997 and the first half of fiscal 1998. At September 30, 1995, the Company's backlog of orders for UltraPhone telephone equipment and services was \$2.3 million.

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

The Company has experienced positive cash flows from operations during the nine months ended September 30, 1996. The positive cash flows from operations are primarily due to the receipt of funds from the Samsung agreement offset by expenses incurred for UltraPhone production and marketing, B-CDMA technology development and the Company's general and administrative activities. Licensing and Alliance revenue for Samsung of \$22.3 million was recognized as revenue in the nine month period ended September 30, 1996. (See Note 6 of the "Notes to Consolidated Financial Statements".)

Net cash flows from investing activities were negative for the nine months ended September 30, 1996 due primarily to the Company's purchase of its King of Prussia, PA. and Long Island, N.Y. facilities, the payment of \$2.6 million in support of the Company's bonding requirements and its investment in property and equipment. Notwithstanding the above, the amount of cash used in investing activities has, historically, been low relative to cash used in operations.

During the nine month period ended September 30, 1996, the Company generated \$8.9 million from financing activities. The funds were primarily from the exercise of stock options and warrants.

Cash, cash equivalents and short-term investments of \$67.4 million as of September 30, 1996 includes \$1.1 million of restricted cash. The UltraPhone accounts receivable of \$12.4 million at September 30, 1996 reflect amounts due from normal trade receivables, including non-domestic open accounts, as well as funds to be remitted under letters of credit. Of the outstanding trade receivables as of September 30, 1996, \$4.0 million has been collected through October 24, 1996.

Inventory levels at September 30, 1996 of \$8.2 million have increased as compared to \$4.9 million as of December 31, 1995, reflecting the build-up of inventory for the Indonesian order and the remaining Philippine shipments. Inventories at December 31, 1995 and September 30, 1996 are both stated net of valuation reserves of \$6.9 million and \$7.1 million, respectively.

Included in other accrued expenses at September 30, 1996 are professional fees, consulting and other accruals as well as sales taxes payable.

## Results of Operations - Third Quarter of 1996 Compared to the Third Quarter of 1995

**Total Revenues.** Total revenues in the third quarter ended September 30, 1996 increased to \$9.4 million from \$5.8 million in the third quarter ended September 30, 1995 primarily due to the increase in UltraPhone product sales. UltraPhone product sales increased 362% in the third quarter of 1996 to \$7.5 million from \$1.6 million in the comparable quarter of 1995.

During the third quarter of 1996, the Company recognized \$754,000 of Samsung revenue that related to the UltraPhone B-CDMA technology development portion of the agreement. The Company also recognized \$314,000 of recurring royalty revenue during the third quarter of 1996 from one of its licensees. Additionally, the Company recognized revenue of \$800,000 as part of the Siemens series of agreements. During the third 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. The Company recognized \$4.0 million as part of the Siemens series of agreements during the third quarter of 1995.

The Company had contract revenue of \$212,000 related to its U.S. Federal government and other services contracts for the third quarter in 1995 as compared to no revenue during the 1996 period. 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 third quarter of 1996 increased 131% to \$8.8 million from \$3.8 million for the third quarter of 1995. The Company had approximately 16% negative gross margin on UltraPhone system sales for the three months ended September 30, 1996 as compared to a negative gross margin of 133% for the three month period ended September 30, 1995. Included in cost of UltraPhone system sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to the UltraPhone systems. Also included in the cost of sales are 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 during the quarter.

**Contract Services Costs.** Contract services costs were \$242,000 in the three month period ended September 30, 1995. The Company completed the shutdown of the facilities and the termination of employees related to the contract services segment of the business during 1995.

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

Sales and marketing expenses increased 70% to \$1.2 million during the third quarter of 1996 as compared to \$723,000 during the third quarter of 1995. The increase is primarily due to increased staff and activity levels, and included an increase in commission expense due to the increase in UltraPhone product revenues in the three month period of 1996.

General and administrative expenses for the third quarter of 1996 increased 2% to \$2.63 million from \$2.57 million for the third quarter of 1995. The increase is primarily due to an increase in expenses related to the investment banking and marketing activities.

Research and development expenses for the third quarter of 1996 increased 132% to \$5.9 million as compared to \$2.5 million during the third quarter of 1995. Staff and activity levels devoted to the development of the B-CDMA technology and the development of the Company's fourth generation UltraPhone product have increased significantly.

**Other Income and Expense.** Interest income for the third quarter of 1996 was \$892,000 as compared to \$916,000 for the third quarter of 1995. The Company had similar average invested cash balances in both periods. Interest expense for the three month period ended September 30, 1996 was \$55,000 as compared

to \$14,000 for the three month period ended September 30, 1995. The increase is due primarily to the mortgage interest related to the Company's purchase of its King of Prussia facilities in the second quarter of 1996.

**Minority Interest.** In December 1992, the Company sold 5.76% of the common shares of InterDigital Patents Corporation ("Patents Corp."), which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded no change in minority interest in the third quarter of 1996. During the comparable 1995 period, the Company recorded an increase of \$246,000 in minority interest representing the minority interest's portion of the net income of Patents Corp. for the third quarter of 1995. In September 1996, the Company acquired the shares of Patents Corp. that it did not currently own and as a result, Patents Corp. became a wholly-owned subsidiary of InterDigital (See Note 11 to "Notes to the Consolidated Financial Statements").

#### Results of Operations - Nine Months Ended September 30, 1996 Compared to Nine Months Ended September 30, 1995

**Total Revenues.** Total revenues for the nine months ended September 30, 1996 decreased 49% to \$40.9 million from \$80.0 million for the nine months ended September 30, 1995 primarily due to a decrease in the amount of License and Alliance revenues recognized offset by a small increase in UltraPhone equipment revenues. License and Alliance revenues for the nine months ended September 30, 1996 includes \$22.3 million as part of the Samsung Agreements (see Note 6 of the Notes to Consolidated Financial Statements) and \$4.0 million as part of the Siemens Agreements (see Note 5 of the Notes to Consolidated Financial Statements). 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 contain advance payment obligations pursuant to which ITC received an aggregate of approximately \$54.1 million, which was recognized as revenue during the first half of 1995. Additionally, the Company recognized revenue of \$12.0 million as part of the Siemens series of agreements during the 1995 period. UltraPhone equipment sales increased 10% during the nine months ended September 30, 1996 to \$14.4 million from \$13.1 million in the comparable period of 1995.

During the nine months ended September 30, 1995, the Company had \$657,000 of contract revenue related to its U.S. Federal government and other services contracts as compared to no contract services revenue recognized in the 1996 period due to the completion of the remaining contracts for which the Company was obligated during 1995.

**Cost of UltraPhone Sales.** The cost of UltraPhone equipment sales for the nine months ended September 30, 1996 increased 7% to \$16.7 million from \$15.5 million for the nine months ended September 30, 1995. The Company incurred a negative gross margin on UltraPhone equipment sales of 16% for the nine months ended September 30, 1996 as compared to a negative gross margin of 19% for the nine month period ended September 30, 1995. Included in cost of UltraPhone equipment sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs, and expenses associated with installation, support and warranty services related to the UltraPhone systems, as well as the overhead expenses the Company has incurred in maintaining its production resources that were not absorbed into inventory due to the low volume of production. At low production levels, such as those experienced in the first three quarters of 1996, the Company incurs substantial negative gross profit margins because production costs are spread over only a limited number of units of production.

**Contract Services Costs.** Contract services costs were \$754,000 in the nine month period ended September 30, 1995. There were no contract service costs incurred during the nine months ended September 30, 1996 as the Company has withdrawn from this line of business and has completed its obligations on any remaining contracts.

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

Sales and marketing expenses increased 13% to \$3.1 million during the nine months ended September 30, 1996 compared to \$2.8 million during the nine months ended September 30, 1995. The increase is primarily due to increased commissions expense, commensurate with the increase in UltraPhone system revenues.

General and administrative expenses for the nine months ended September 30, 1996 decreased 27% to \$8.1 million from \$11.1 million for the nine months ended September 30, 1995. The reduction in general and administrative expense is due primarily to a decrease in the Company's patent infringement and enforcement costs of \$3.9 million offset partially by higher activity levels. The 1995 period included costs for the Motorola suit as described in the Company's Annual Report on Form 10-K for 1995.

Research and development expenses increased 136% for the nine months ended September 30, 1996 to \$15.1 million from \$6.4 million for the nine months ended September 30, 1995. 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 released during the first half of 1996.

**Other Income and Expense.** Interest income for the nine months ended September 30, 1996 was \$3.0 million as compared to \$2.1 million for the nine months ended September 30, 1995. The increase is due primarily to greater average invested cash and investment balances in 1996 compared to 1995. Interest expense for the nine month period ended September 30, 1996 was \$132,000 as compared to \$623,000 for the nine month period ended September 30, 1995. The decrease is due primarily to the settlement of the HNS obligation during the second quarter of 1995, partially offset by increased interest expense related to the King of Prussia mortgage. Remaining interest is incurred on the Company's capital lease obligations.

**Minority Interest.** In December 1992, the Company sold 5.76% of the common shares of Patents Corp., which had, prior thereto, been a wholly-owned subsidiary of the Company. The Company recorded \$890,000 as an increase in minority interest in the nine months ended September 30, 1996 representing the minority interest's portion of the net income of Patents Corp. for the nine months ended September 30, 1996. During the comparable 1995 period, the Company recorded an increase of \$4.0 million in minority interest representing the minority interest's portion of the net income of Patents Corp. for the nine months ended September 30, 1995.

## Statement Pursuant to The Private Securities Litigation Reform Act of 1995

The foregoing Management's Discussion and Analysis and discussion of the Company's business contains various statements which are forward-looking statements. Such forward-looking statements are made pursuant to the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934, as amended, which were enacted as part of the Private Securities Litigation Reform Act of 1995.

The Company cautions readers that the following important factors, among others, in some cases have affected and, in the future, could materially adversely affect the Company's actual results and cause the Company's actual results to differ materially from the results expressed in any forward-looking statements made by, or on behalf of, the Company:

General and specific economic conditions of the Company's customers, potential customers and the wireless communications industry; reversal of or slow-down in anticipated TELCO infrastructure spending, thereby decreasing overall product demand below present forecasts; implementation delay in the conversion from analog cellular technology to digital cellular technology, whether caused by continuing sufficiency of capacity, new methods for increasing analog capacity or customer funding, unwillingness of TELCOs to fund infrastructure replacement or for other reasons.

The effects of, and changes in, foreign trade, monetary and fiscal policies, laws and regulations, other activities of foreign governments, agencies and similar organizations, and foreign social and economic conditions, such as trade restrictions or prohibitions, inflation and monetary fluctuations, import and other charges or taxes, the ability or inability of the Company to obtain or hedge against foreign currency, foreign exchange rates and fluctuations in those rates, adverse foreign tax consequences, general delays in remittance and difficulties of collection of foreign payments, efforts to nationalize foreign owned operations, unstable governments and legal systems, and inter-governmental disputes, as well as foreign governmental actions affecting frequency, use and availability, type acceptance, spectrum authorizations and licensing.

Failure to enter additional sufficient strategic alliances necessary to achieve the Company's business objectives; failure to fully and successfully implement the alliance program; inadequacy or inability of alliance partners to meet Company expectations; failure of alliance partners to meet contractual obligations to the Company.

Lack of existing lines of credit to draw on to support technical and product development and to fund patent enforcement activities, requiring the possible sale of debt or equity securities.

The growth in the amount of, and the rate of increase of, the Company's selling, general and administrative expenses.

Difficulties in the Company's business related to the market acceptance of its products and/or technologies and any difficulties experienced by current or future customers using the Company's products and/or technologies.

Inability to retain existing, and/or hire new, appropriately qualified administrative, sales and marketing personnel.

Increased and/or more aggressive marketing of competitive wireless communications systems, in many cases by much larger and better financed organizations.

Announcements of new products or technologies by the Company's competitors; the ability of competitive products to achieve a perceived, absolute or relative overall value advantage when compared to the Company's products or technologies on the basis of features, quality and pricing;

the inability of the Company to keep pace with technological developments and/or respond in a timely manner to changes in customers' needs.

Increased pressure to engage in a vendor financing program.

Adverse trends in the equipment acquisition and replacement pattern of the Company's customers.

Loss of customers.

Fluctuating demand for the Company's products; additional sudden and significant increases in product orders requiring short term and intermediate term financing.

Inability of the Company or its customers to secure acceptable financing related to purchase and installation of the Company's products.

Lack of timely availability of the Company's products and the ability and willingness of purchasers, in such circumstances, to acquire alternative products.

Imposition of government or industry standards or competitive technological developments which render any of the Company's technologies and/or products obsolete or non-competitive.

Lack of frequency or bandwidth allocations within the technical specifications of the Company's products or technology; engineering problems in implementing new frequencies or operating with non-standard bandwidths.

Manufacturing-related problems, including quality, cost or delivery problems with vendors and component suppliers; unavailability of alternative sources for component parts of the Company's products or unavailability of components at competitive prices; longer than desirable development time arising from the necessity to use alternative sources.

Unanticipated cash flow restrictions, continued or increased pressure to lower the selling prices of the Company's products; failure to realize revenues from orders on backlog; failure to increase future orders for and revenue from UltraPhone products; failure to improve margins; failure to achieve or maintain technical compliance with terms of customer contracts.

Difficulties or delays in the development, production, testing and marketing of products or underlying communications technologies, including, but not limited to (i) the failure to commercialize new products when anticipated and the failure of manufacturing economies to develop when planned, (ii) loss of the Company's key personnel, or inability to hire sufficient number of qualified engineers to achieve technology development objectives, (iii) the lack of availability or insufficiency of operating, debt, equity or alliance related funds for research necessary to effectively and timely complete product and technology development, or lack of availability on terms acceptable to the Company, and (iv) increased project engineering costs for future and current projects.

Substantial increased or continuing burdensome impact of the costs and other effects of legal and administrative cases and proceedings (whether civil, such as intellectual property and product-related matters, or criminal), settlements and investigations, claims and changes in those items, developments or assertions by or against the Company relating to intellectual property rights and intellectual property licenses, including but not limited to assertions that others infringe the Company's or ITC's proprietary rights or that the Company's products infringe proprietary rights of others.

Failure of the Company to successfully negotiate licensing agreements for the Company's patents and other intellectual property; inability to enforce patents against third parties; inability to enforce, or inadequacy of, non-competition and non-disclosure agreements relating to Company's

proprietary rights; adverse decision in the Company's outstanding or any future intellectual property rights litigation, including but not limited to declaration of invalidity of ITC patents.

Suspension of royalty revenues under existing or future license agreements, with or without the accrual of royalty obligations.

Adverse effects from the Motorola judgment, including but not limited to

(i) adverse impacts on the level of revenue and potential cash flow from ITC's patent portfolio (ii) the impairment of the Company's ability to raise funds for general corporate purposes, and (iii) the temporary or permanent impairment of ITC's pending U.S. litigation against Ericsson.

The failure of the appeals courts to reverse, vacate and/or remand the Motorola judgment, recognizing that, notwithstanding the Company's belief that substantial grounds exist for reversal, vacation and/or remand, the Company carries the burden on appeal and, more often than not, jury determinations are upheld.

An adverse decision in U.S. and foreign patenting forums regarding the validity of ITC's patents, which could materially impact ITC patent licensing opportunities, the Company's ability to realize licensing revenue, and pending patent litigation. Such decision could include, but is not limited to, the rejection of a patent in whole or in part, or the material alteration or limitation of patent claims.

**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 -- Restated Articles of Incorporation**

**Exhibit 3.2 -- Bylaws of Amended on October 6, 1996**

**Exhibit 10.25 -- Amended 1995 Stock Option Plan**

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

**Exhibit 27 -- Financial Data Schedule**

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated August 16, 1996 under Item 5 - Other Events, relating to the Company's Agreement and Plan of Merger with its 94% owned subsidiary, InterDigital Patents Corporation. No financial statements were filed with this report. A Registration Statement on Form S-4 to register the shares of InterDigital's common stock was filed with and declared effective by the Securities and Exchange Commission and contains consolidated financial statements for both InterDigital Communications Corporation and InterDigital Patents Corporation.



## SIGNATURES

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

### INTERDIGITAL COMMUNICATIONS CORPORATION

*Date: November 8, 1996*

*/s/ William A. Doyle*

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*William A. Doyle, President*

*Date: November 8, 1996*

*/s/ James W. Garrison*

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

Articles of Incorporation

In compliance with the requirements of the Pennsylvania Business Corporation Law of 1988, as amended, the Articles of Incorporation of INTERDIGITAL COMMUNICATIONS CORPORATION are hereby amended and restated in their entirety to read as follows:

**First. The name of the Corporation is InterDigital Communications Corporation.**

Second. The location and post office address of its registered office is 781 Third Avenue, King of Prussia, Pennsylvania 19406-1409.

Third. The Corporation is incorporated under the Business Corporation Law of the Commonwealth of Pennsylvania for the purpose or purposes of engaging in or doing any lawful act concerning any or all lawful business for which corporations may be incorporated under the Pennsylvania Business Corporation Law, including but not limited to manufacturing, owning, using, leasing and dealing in personal property of every class and description, and acquiring, owning, using and disposing of real property of any nature whatsoever.

Fourth. The term for which the Corporation is to exist is perpetual.

Fifth. The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is 75,000,000 shares of Common Stock, \$0.1 par value per share ("Common Stock"), and 14,398,600 shares of Preferred Stock ("Preferred Stock").

The voting rights, designations, preferences, qualifications, privileges, limitations, options, conversion rights and other special rights (the "Rights and Preferences") of the shares of the respective classes of stock of the Corporation are and will be determined as follows:

A. Preferred Stock

The Board of Directors of the Corporation shall have full and complete authority, by resolution from time to time, to establish one or more series and to issue shares of Preferred Stock and to fix, determine and vary the Rights and Preferences of each series of Preferred Stock, including, but not limited to, dividend rates and manner of payment, preferential amounts payable upon voluntary or involuntary liquidation, voting rights, conversion rights, redemption prices, terms and conditions and sinking fund and stock purchase prices, terms and conditions.

B. Common Stock and Class Preferred Stock

The Rights and Preferences of the shares of Common Stock and Class Preferred Stock, as between themselves only and subject to the Rights and Preferences of Preferred Stock, are as follows:

(i) Definitions. For the purpose of this Article Fifth, except as otherwise expressly provided herein or unless the context otherwise requires, the following words and terms shall have the following definitions:

(a) "Net Income Per Share" means the net profit per share of Common Stock for a fiscal year of the Corporation, excluding items of extraordinary income and expense, on a fully diluted basis, and after provision for federal, state and local income taxes, as determined by the Corporation's independent certified public accountant, in accordance with generally accepted accounting principles applied on a basis consistent with prior periods.

(b) "Average Bid Price" means the average of the daily reported closing price per share of Common Stock during any period of 120 consecutive trading days. If the Common Stock is listed for trading on an organized stock exchange, the closing price shall be the closing price as reported on said exchange; and if the Common Stock is not listed for trading on any such exchange, the closing price shall be the closing bid price as reported by NASDAQ, and if not so reported, the closing bid price as furnished by any dealer in securities dealing in the Common Stock.

(c) "Conversion Number" means the number of shares of Common Stock which a holder of Class Preferred Stock is entitled to receive upon the conversion of one share of Class Preferred Stock. The initial Conversion Number shall be fifty (50). The Conversion Number shall be subject to adjustment from time to time as set forth in Paragraphs v(d) and (e) hereof.

(d) "Expiration Date" means December 12, 1986.

(ii) Dividends. Holders of Common Stock shall be entitled to receive dividends when and as declared by the Board of Directors of the Corporation. Dividends shall be payable out of the assets of the Corporation legally available therefor and not otherwise. Holders of Class Preferred Stock shall not be entitled to receive dividends, and no dividends shall be declared or paid thereon.

(iii) Liquidation.

(a) Class Preferred Stock. In the event that the Corporation shall be liquidated, dissolved or wound up, whether voluntarily or involuntarily, after all creditors of the Corporation shall have been paid in full, the holders of Class Preferred Stock shall be entitled to receive an amount equal to \$.05 per share before any amount shall be paid to the holders of Common Stock. If the assets of the Corporation available for distribution to the holders of Class Preferred Stock shall be insufficient to permit payment of an amount equal to \$.05 per share to the holders of Class Preferred Stock, then all such assets of the Corporation shall be distributed, to the exclusion of the holders of Common Stock, ratably among the holders of Class Preferred Stock, according to the amount which they respectively would be entitled to receive if such assets were sufficient to permit the payment in full of said amounts.

(b) Common Stock. The holders of Common Stock shall be entitled to receive, pro rata, all of the assets of the Corporation available for distribution to its shareholders after distribution has been made as aforesaid to holders of Class Preferred Stock.

(iv) Voting Rights

(a) Except as otherwise required herein or by law or as may be provided to holders of Preferred Stock, the holders of Common Stock shall

possess full and exclusive voting power for the election of directors and for all other purposes. Every holder of Common Stock shall have the right to one vote for each share of Common Stock owned. The holders of Class Preferred Stock shall have no right to vote at, to participate in, or to receive any notice of any meeting of the shareholders of the Corporation, unless and then only to the extent to which their vote shall be required by law or by Paragraph B(iv)(b) hereof. On any matter which the holders of Class Preferred Stock shall be entitled to vote, they shall be entitled to one vote for each share of Class Preferred Stock owned.

(b) The Corporation shall not merge into or consolidate with any other corporation, or sell all or substantially all of its assets without the consent, given in writing or by resolution adopted at a meeting duly called for that purpose, of the holders of a majority of all outstanding Common Stock and Class Preferred Stock, voting as a single class, with each share of Common Stock and Class Preferred Stock, regardless of class, being entitled to one vote; provided, however, that no holder of Class Preferred Stock shall be entitled to vote on such merger, consolidation or sale if, under the terms thereof, each such holder of Class Preferred Stock, in exchange for Class Preferred Stock, will receive preferred stock of the surviving, resulting or acquiring entity which shall, in the aggregate, possess redemption, liquidation, voting and conversion rights which are at least as favorable as those possessed by the Class Preferred Stock held immediately prior to the effective date of the merger, consolidation or sale.

(v) Conversion into Common Stock. At any time on or prior to the Expiration Date (and at no time after the Expiration Date), shares of Class Preferred Stock shall be convertible into Common Stock as follows:

(a) Class "A" Preferred Stock. If (x) during the twenty-four (24) months following November 12, 1981, the Average Bid Price shall be Sixteen and 50/100 (\$16.50) Dollars per share or more; or (y) after twenty-four (24) months following November 12, 1981, the Average Bid Price shall be Twenty-Five (\$25.00) Dollars per share or more (the amount of the Average Bid Price which must be achieved to permit conversion pursuant to Subparagraphs (a) (x) and (y) and Subparagraphs (b) (x) and (y) hereof shall be hereinafter referred to as the "Conversion Average Bid Price"); or (z) for any fiscal year of the Corporation ending on or before December 31, 1985, the Corporation has net Income Per Share of One (\$1.00) Dollar or more, (the amount of net Income Per Share, which must be achieved in order to permit conversion pursuant to Subparagraphs (a) (z) and (b)

(z) hereof, shall be hereinafter referred to as the "Conversion Net Income Per Share"), then the holders of Class "A" Preferred Stock, at their option, shall have the right, exercisable at any time on or prior to the Expiration Date, to convert their shares of Class "A" Preferred Stock into shares of Common Stock at the rate of the Conversion Number in effect on the date the conversion right is exercised.

(b) Class "B" Preferred Stock. If (x) during the twenty-four (24) months following November 12, 1981, the Average Bid Price shall be Sixteen and 50/100 (\$16.50) Dollars per share or more; or (y) after twenty-four (24) months following November 12, 1981, the Average Bid Price shall be Twenty-Five (\$25.00) Dollars per share or more; or (z) for any fiscal year of the Corporation ending on or before December 31, 1985, the corporation has Net Income Per Share of One and 50/100 (\$1.50) Dollars or more, then the holders of Class "B" Preferred Stock, at their option, shall have the right, exercisable at any time on or prior to the Expiration Date, to convert their shares of Class "B" Preferred Stock

into shares of Common Stock at the rate of the Conversion Number in effect on the date the conversion right is exercised.

(c) The holder of any certificate for shares of Class Preferred Stock desiring to convert any of such shares pursuant to the provisions of Paragraph (v) hereof shall surrender the holder's certificate at the principal office of the Transfer Agent for the Common Stock, with the form of written notice on the certificate of such election to convert into Common Stock duly complete and executed. The holder of the shares so surrendered for conversion shall be entitled to receive a certificate or certificates for the number of shares of Common Stock to which the holder shall be entitled upon such conversion, registered in the name of such holder.

The Corporation shall not be required to deliver certificates for shares of its Common Stock or new certificates for unconverted shares of Class Preferred Stock while the stock transfer books for the respective classes of stock are duly closed for any purpose, but the right of surrendering such shares for conversion shall not be suspended during any period that the stock transfer books of either of such classes of stock are closed.

The conversion right shall be deemed to have been exercised and the shares of Common Stock issuable upon such conversion shall, subject to the provisions of the first paragraph of this Subparagraph (c), be deemed to have been issued on the date of the receipt by the Transfer Agent for the Common Stock of the certificate representing such shares of Class Preferred Stock with the requirements for conversion satisfied, except that if the transfer books for the Common Stock are closed on the date of such receipt, the conversion right shall be deemed to have been exercised on the first date thereafter on which the transfer books shall be open. The person entitled to receive the Common Stock issuable upon such conversion shall, on the date such conversion right is deemed to have been exercised and thereafter, be treated for all purposes as the record holder of such Common Stock, and the record holder of the Class Preferred Stock being converted shall, on the same date, cease to be treated for any purpose as the record holder of such Class Preferred Stock.

(d) The Conversion Number, the Conversion Average Bid Price and the Conversion Net Income Per Share shall be subject to adjustment from time to time as follows:

(x) If the Corporation shall, at any time prior to the Expiration Date, effect a subdivision of its Common Stock, by reclassification or otherwise, or if the Corporation shall, at any time prior to the Expiration Date, effect a combination of its Common Stock, by reclassification or otherwise, the Conversion Number in effect immediately prior to such subdivision or combination shall be increased or decreased, as the case may be, and the Conversion Average Bid Price and the Conversion Net Income Per Share shall be decreased or increased, as the case may be, each such change to be in proportion to the change in the number of the then outstanding shares of Common Stock. In each such case, the adjustment in the Conversion Number, the Conversion Average Bid Price and the Conversion Net Income Per Share shall be effective on the date that such subdivision or combination becomes effective.

(y) If the Corporation shall at any time, prior to the Expiration Date, declare a dividend on Common Stock or make a distribution on Common Stock payable in Common Stock, then, in each such case, from and after the record date for determining the shareholders entitled to receive such dividend or distribution, the Conversion Number, the Conversion Average Bid Price and the Conversion Net Income Per Share in effect immediately prior to such date shall be increased or decreased proportionately, as the case may be.

(e) In the case of any reclassification or change other than as set forth in Subparagraph (d) above of the outstanding shares of Common Stock prior to the Expiration Date (other than a change in par value, or from par value to no par value, or from no par value to par value, or a change of such shares into a greater or lesser number of shares of the same or a different par value or without par value), or in case of any consolidation or merger of the Corporation prior to the Expiration Date with or into any other corporation (other than a merger in which the Corporation is the surviving or continuing corporation and which does not result in any reclassification, conversion or change of the outstanding shares of Common Stock), or in the case of any sale or conveyance to another corporation of all or substantially all the assets of the Corporation, in connection with which shares or other securities or cash or other property shall be issuable, distributable, payable or deliverable for outstanding shares of Common Stock, provision shall be made so that holders of Class Preferred Stock shall thereafter have the right to convert each share of Class Preferred Stock into the kind and amount of shares of stock and/or other securities or property receivable upon such reclassification, change, consolidation or merger by a holder of the number and kind of shares of Common Stock into which such share of Class Preferred Stock might have been converted, subject to the terms of Paragraphs v(a) and (b) hereof, immediately prior to such reclassification, change, consolidation or merger. The foregoing provisions of this Subparagraph (e) shall similarly apply to successive reclassifications and changes of shares of capital stock and to successive consolidations or mergers.

(f) Whenever the Conversion Number, the Conversion Average Bid Price and the Conversion Net Income Per Share are required to be adjusted pursuant to Paragraphs v(d) and (e) hereof, the Corporation's independent certified public accountant shall compute the Conversion Number, the Conversion Average Bid Price and the Conversion Net Income Per Share are adjusted, and shall prepare a certificate setting forth such adjustments and the facts upon which such adjustments are based, and such certificate shall forthwith be filed with the Transfer Agent for the Class Preferred Stock and the Common Stock. The Corporation shall mail notice of such adjusted Conversion Number, Conversion Average Bid Price and Conversion Net Income Per Share to each holder of Class Preferred Stock.

(g) Within thirty (30) days after conversion privileges, as set forth in Paragraphs v(a) and/or (b) hereof shall accrue, the Corporation shall cause notice thereof to be mailed to the holders of record of the Class "A" Preferred Stock and/or the Class "B" Preferred Stock, as the case may be. Such holder shall thereafter be entitled to receive all notices mailed by the Corporation to holders of record of Common Stock.

(h) The Corporation shall at all times prior to the Expiration Date reserve from the authorized and unissued shares of its Common Stock a

sufficient number of shares to provide for the conversion of the Class Preferred Stock. Shares of Common Stock issued upon the conversion of Class Preferred Stock shall be fully paid for an non-assessable. Upon the conversion of any shares of Class Preferred Stock, the Corporation's Retained Earnings (Surplus) Account shall be charged with an amount equal to the difference between the aggregate par value of the shares of Class Preferred Stock which are converted and the aggregate par value of the shares of Common Stock which are issued upon such conversion.

(i) Any and all issue taxes which may be imposed in respect of any issue or delivery of stock upon the conversion of any shares of Class Preferred Stock into Common Stock, or of stock receivable upon conversion thereof, shall be paid by the person or persons surrendering such stock for conversion.

(vi) Redemption. Within six (6) months after the Expiration Date, the Corporation shall redeem all Class Preferred Stock then outstanding at a redemption price of \$.05 per share. Holders of Class Preferred Stock shall, within fifteen (15) days of the date fixed by the Corporation for redemption, return all certificates evidencing said Class Preferred Stock to the Corporation, and the only rights of said holders shall be to receive the redemption price.

(vii) Prohibition Against Reissuance. Any shares of Class Preferred Stock which shall be redeemed or otherwise acquired by the Corporation, or which shall have been converted into Common Stock, shall not be reissued, and the authorized number of shares of Class Preferred Stock of the Corporation shall be decreased by the number of shares of Class Preferred Stock redeemed, otherwise acquired by the Corporation or converted into Common Stock.

(viii) Elimination of Preemptive Rights. No holder of securities of any class of the Corporation shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of securities of any class of the Corporation, whether now or hereafter authorized, except only as may be otherwise expressly provided with respect to Preferred Stock.

Sixth. Shareholder's cumulative voting rights for the election of directors are eliminated and denied.

Seventh. (a) The Directors, other than those who may be elected by the holders of any class or series of stock entitled to elect directors separately, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-laws of the Corporation, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1985, another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1986, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1987, with each class to hold office until its successor is elected and qualified. At each annual meeting of the shareholders of the Corporation, 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.

(b) Except as otherwise provided for or fixed by or pursuant to the provisions of Article Fifth hereof relating to the rights of the holders of any class or series of stock entitled to elect Directors separately, newly created directorships resulting from any increase in the number of Directors and separately, newly created directorships resulting from any 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 Directors in the manner provided in the By-laws of the Corporation, to hold

office for the remainder of the full term of the class of Directors in which the new 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.

(c) Except for the rights 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 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.

(d) Notwithstanding anything contained in the Articles of Incorporation or By-laws to the contrary, and subject to the rights of any class or series of stock entitled to elect Directors separately, the affirmative vote of the holders of at least 80 percent or more 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, shall be required to alter, amend or repeal this Article Seventh or to adopt any provision inconsistent herewith."

"Eighth. (a) The holders of all the shares outstanding and entitled to vote may, by a majority vote, in the manner set forth in the By-laws, alter, amend or repeal the By-laws of the Corporation, provided, however, that the affirmative vote of the holders of 80 percent or more 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, shall be required to alter, amend or repeal Sections 3.1, 3.4, 3.11 or 8.1 of the By-laws, as set forth in Exhibit C to the Proxy Statement of April 27, 1984, of the Corporation, or to adopt any provision inconsistent therewith.

(b) The Board of Directors, by a majority vote of the members thereof, may make, alter, amend or repeal any provisions of the By-laws, in the manner set forth in the By-laws. 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 duly convened after notice to the shareholders of such purpose, 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 8.1."

(c) Notwithstanding anything contained in the Articles of Incorporation to the contrary, and subject to the rights of any class or series of stock entitled to elect Directors separately, 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, shall be required to alter, amend or repeal this Article Eighth or to adopt any provision inconsistent herewith."

Ninth. The vote of shareholders of the Corporation required to approve any Business Combination shall be as set forth in this Article Ninth. The term "Business Combination" shall have the meaning ascribed to it in (a)(B) of this Article; each other capitalized term used in this Article shall have the meaning ascribed to it in (c) of this Article.

(a)(A) In addition to any affirmative vote required by law or the Articles of Incorporation or any resolution adopted pursuant to Article Fifth of the Articles of Incorporation, and except as otherwise expressly provided in (b) of this Article Ninth, a Business Combination shall not be consummated without the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of stock of all classes and series of the Corporation entitled to vote generally in the election of Directors ("Voting Stock"), in each case voting together as a single class (it being understood that for purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article Fifth of the Article of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by



law or by the Articles of Incorporation or any resolution or resolutions adopted pursuant to Article Fifth of the Articles of Incorporation or in any agreement with any national securities exchange or otherwise.

(B) The term "Business Combination" as used in this Article Ninth shall mean:

(1) any merger of consolidation of the Corporation or any Subsidiary with (i) any Interested Shareholder or (ii) any other corporation or entity (whether or not itself an Interested Shareholder) which is, or after each merger or consolidation would be, an Affiliate of an Interested Shareholder; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of all or a Substantial Part of the assets of the Corporation or any Subsidiary; or

(3) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof), other than the issuance of securities upon the conversion of convertible securities of the Corporation or any Subsidiary which were not acquired by such interested Shareholder (or such Affiliate) from the Corporation or a Subsidiary; or

(4) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(5) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an interested Shareholder) which in any such case has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of stock or securities convertible into stock of the Corporation or any Subsidiary which is directly or indirectly beneficially owned by any Interested Shareholder or any Affiliate of any Interested Shareholder;

(b) The provisions of (a) of this Article Ninth shall not be applicable to any Business Combination in respect of which all of the conditions specified in either of the following paragraphs A and B are met, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of the Articles of Incorporation and any resolution or resolutions of the Board of Directors adopted pursuant to Article Fifth of the Articles of Incorporation.

(A) Such Business Combination shall have been approved by a majority of the Disinterested Directors, or

(B) Each of the six conditions specified in the following clauses

(1) through (6) shall have been met:

(1) the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination (the "Consummation Date") of any consideration other than cash to be received by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of Common Stock beneficially owned by the Interested

Shareholder which were acquired beneficially by such Interested Shareholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Shareholder, whichever is higher; or

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the Determination Date), whichever is higher; and

(2) the aggregate amount of the cash and the Fair Market Value as of the Consummation Date of any consideration other than cash to be received per share by holders of shares of any other class or series of Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this clause (B)(2) shall be required to be met with respect to every class and series of such outstanding Voting Stock, whether or not the Interested Shareholder beneficially owns any shares of a particular class or series of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class or series of Voting Stock beneficially owned by the Interested Shareholder which were acquired beneficially by such Interested Shareholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an interested Shareholder, whichever is higher;

(ii) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation; and

(iii) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or the Determination Date, whichever is higher; and

(3) the consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire beneficially shares of such class or series of Voting Stock that are beneficially owned by the Interested Shareholder and if the Interested Shareholder beneficially owns shares of any class or series of Voting Stock that were acquired with varying forms of consideration, the form of consideration to be received by holders of such class or series of Voting Stock shall be either cash or the form used to acquire beneficially the largest number of shares of such class or series of Voting Stock beneficially acquired by it prior to the Announcement Date; and

(4) after such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination:

(i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular dates therefor the full amount of any dividends (whether or not cumulative) payable on any class or series of stock having preference over the Common Stock as to dividends or upon liquidation;

(ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split) recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate was approved by a majority of the Disinterested Directors; and

(iii) such Interested Shareholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction in which it became an Interested Shareholder; and

(5) after such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise; and

(6) a proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(c) For the purposes of this Article Ninth:

(A) A "person" shall mean any individual, firm, corporation or other entity.

(B) "Interested Shareholder" shall mean any person (other than the Corporation or any Subsidiary) who or which:

(1) is the beneficial owner, directly or indirectly, of more than 20 percent of the combined voting power of the then outstanding shares of Voting Stock; or

(2) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 20 percent or more of the combined voting power of the then outstanding shares of Voting Stock; or

(3) is an assignee or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock that were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(C) A person shall be a "beneficial owner" of any Voting Stock:

(1) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(2) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(D) For the purposes of determining whether a person is an Interested Shareholder pursuant to (c)(B) of this Article Ninth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of (c)(C) of this Article but shall not include any other shares of Voting Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(E) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on May 25, 1984.

(F) "Subsidiary" means any corporation of which more than 50 percent of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors is owned, directly or indirectly, by the Corporation or by a Subsidiary or by the Corporation and one or more Subsidiaries; provided, however, that for the purposes of the definition of Interested Shareholder set forth in (c)(B) of this Article Ninth, the term "Subsidiary" shall mean only a corporation of which a majority of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors is owned, directly or indirectly, by the Corporation.

(G) "Disinterested Director" means any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, the Interested Shareholder and was a member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Shareholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(H) "Fair Market Value" means: (1) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of such stock during the 30-day period preceding the date in question as quoted by the National Association of Securities Dealers, Inc. Automated Quotations Systems or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (2) in the case of stock of any class or series which is not traded on any United States registered securities exchange nor in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors in good faith.

(I) In the event of any Business Combination in which the Corporation survives, the phrase "other consideration to be received" as used in (b)(B)(1) and (2) of this Article Ninth shall include the shares of the Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(J) "Announcement Date" means the date of first public announcement of the proposed Business Combination.

(K) "Determination Date" means the date on which the Interested Shareholder became an Interested Shareholder.

(L) "Substantial Part" means more than 50 percent of the book value of the total assets of the entity in question, as of the end of its most recent fiscal year ending period to the Consummation Date.

(d) A majority of the Disinterested Directors of the Corporation shall have the right and power to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Ninth, including, without limitation (A) whether a person is an Interested Shareholder, (B) the number of shares of Voting Stock beneficially owned by any person, (C) whether a person is an Affiliate or Associate of another person and (D) whether the requirements of (b) of this Article Ninth have been met with respect to any

Business Combination. The good faith determination of a majority of the Disinterested Directors on such matters shall be conclusive and binding for all purposes of this Article Ninth.

(e) Nothing contained in this Article Ninth shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

(f) Notwithstanding anything contained in the Articles of Incorporation to the contrary, the affirmative vote of the holders of at least 80 percent of the voting power of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article Ninth or to adopt any provision inconsistent herewith.

# INTERDIGITAL COMMUNICATIONS CORPORATION

(a Pennsylvania corporation)

## BY-LAWS

(as amended through October 6, 1996)

### Section 1.1 Registered Office:

The Registered Office of the Corporation shall be at 781 Third Avenue, 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 Articles 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 as 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.

The Board of Directors may elect a Chairman who shall, when present, preside at all meetings of the Board of Directors and at all meetings of shareholders. The Chairman may appoint another member of the Board to preside in his absence.

#### 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 facsimile transmission, 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 3.12 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 4.1 Officers:

The Officers of the Corporation shall be a Chief Executive Officer, 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 Chief Executive Officer - Powers and Duties:

The Chief Executive Officer shall have responsibility for general supervision and direction of the business of the Corporation, subject to the overall supervision of the Board of Directors. Unless otherwise directed by the Board of Directors, the Chief Executive Officer 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 owner thereof, might have possessed and exercised if present. Further, unless otherwise directed by the Board of Directors, the Chief Executive Officer 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 4.3 The President - Powers and Duties:

The President shall have responsibility for day-to-day supervision and direction of the regular business and operations of the Corporation, subject to the overall supervision of the Board of Directors and the Chief Executive Officer. Unless otherwise directed by the Board of Directors, the President shall 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.

# INTERDIGITAL COMMUNICATIONS CORPORATION

## 1995 STOCK OPTION PLAN FOR EMPLOYEES AND OUTSIDE DIRECTORS

(As amended June 24, 1996)

### SECTION 1. PURPOSES.

The purposes of the Plan are (a) to recognize and compensate selected Employees and Outside Directors of the Company and its Subsidiaries who contribute to the development and success of the Company and its Subsidiaries; (b) to maintain the competitive position of the Company and its Subsidiaries by attracting and retaining qualified Employees and Outside Directors of the Company; and (c) to provide incentive compensation to Employees based upon the Company's performance as measured by the appreciation in Common Stock. The Discretionary Options granted pursuant to the Plan are intended to constitute either Incentive Stock Options within the meaning of Section 422 of the Code or Non-Qualified Stock Options except that no Incentive Stock Option will be granted to persons other than Employees as that term is specifically defined with respect to Incentive Stock Options. The Non-Discretionary Options granted pursuant to the Plan are intended to constitute Non-Qualified Stock Options. The terms of this Plan shall be incorporated in any Option Agreement to be executed by an Optionee and the type of Options granted will be specified in the Agreement.

### SECTION 2. DEFINITIONS.

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

(b) "Change of Control" shall mean the occurrence of any of the following events:

(i) the acquisition in one or more transactions by any "Person" (as the term person is used for purposes of Sections 13(d) or 14(d) of the Exchange Act) of "Beneficial Ownership" (as the term beneficial ownership is used for purposes of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities (the "Voting Securities"), provided that for purposes of this Section 2(b)(i), the Voting Securities acquired directly from the Company by any Person shall be excluded from the determination of such Person's Beneficial Ownership of Voting Securities (but such Voting Securities shall be included in the calculation of the total number of Voting Securities then outstanding); or

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



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

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

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

(d) "Committee" shall mean the Compensation and Stock Option Committee of the Board, or any committee of the Board performing similar functions, as appointed from time to time by the Board. The Committee shall be constituted so as to permit the Plan to comply with Rule 16b-3 promulgated under the Exchange Act, as the same may be amended from time to time.

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

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

(g) "Disability" or "Disabled" shall mean the inability of an Optionee to render his or her normal services to the Company resulting from a mental or physical illness, impairment or any other similar occurrence which can be expected to result in death or which has lasted or can be expected to last for a period of twelve (12) consecutive months, as determined by the Board of Directors.

(h) "Discretionary Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option (other than a Non-Discretionary Option).

- (i) "Employee" shall mean (i) any person (including directors and officers) who is employed by the Company or a Subsidiary and is compensated for such employment by a regular salary and (ii) any consultant or advisor engaged by the Company or a Subsidiary (other than officers or directors), provided that bona fide services shall be rendered by consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction; except that an Employee for purposes of a Discretionary Option that is an Incentive Stock Option shall mean only a person (including officers and directors) who is employed by the Company or a subsidiary and is compensated for such employment by a regular salary.
- (j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as in effect from time to time.
- (k) "Fair Market Value" shall mean the fair market value of a share of Common Stock, as determined pursuant to Section 9 hereof.
- (l) "Grant Date" shall mean July 1 of each year during the term of this Plan commencing 1995.
- (m) "Incentive Stock Option" shall mean any option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.
- (n) "Non-Discretionary Option" shall mean a Non-Qualified Stock Option to purchase Common Stock that is granted to Outside Directors pursuant to Section 7 hereof.
- (o) "Non-Qualified Stock Option" shall mean an Option which does not qualify as an Incentive Stock Option.
- (p) "Option" shall mean a Discretionary Option or an Non-Discretionary Option.
- (q) "Option Agreement" shall mean a written agreement in such form or forms as the Committee (subject to the terms and conditions of this Plan) may from time to time approve evidencing and reflecting the terms of a Option.
- (r) "Optionee" shall mean any Participant to whom an Option has been granted under the Plan.
- (s) "Outside Director" shall mean any member of the Board who, on the date of the granting of an Option hereunder, is not an officer or employee of the Company.
- (t) "Participant" shall mean each Employee, Outside Director, consultant and advisor who is eligible to participate in the Plan.

(u) "Plan" shall mean this 1995 Stock Option Plan for Employees and Outside Directors, as amended from time to time.

(v) "Proprietary Information" shall mean any and all confidential, proprietary, business and technical information or trade secrets of the Company or of any Subsidiary or affiliate of the Company revealed, obtained or developed in the course of Optionee's employment with the Company or in the course of Optionee's performance of services for the Company in any other capacity. Such Proprietary Information shall include but shall not be limited to, methods of production and manufacture, research, marketing and development plans and efforts, cost information, pricing information, marketing methods and plans, identities of customers and suppliers, the Company's relationship with actual or potential customers and the needs and requirements of any such actual or potential customers, and any other confidential information relating to the business of the Company. Proprietary Information shall not include (i) such information as may be necessary or appropriate for an Optionee to disclose in the course of his employment for the effective and efficient discharge of his duties as an Employee of the Company or as may be required by law to be disclosed; and (ii) such information as is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Optionee's breach of his obligation to maintain confidentiality.

(w) "Securities Act" shall mean the Securities Act of 1933, as in effect from time to time.

(x) "Shares" shall mean shares of Common Stock.

(y) "Stock Purchase Agreement" shall mean an agreement in such form as the Committee may from time to time approve (subject to the terms and conditions of this Plan), which an Optionee may be required to execute as a condition of purchasing Shares upon exercise of an Option.

(z) "Subsidiary" shall mean a subsidiary corporation of the Company, whether now or hereafter existing, and whether direct or indirect, as defined in Sections 424(f) and (g) of the Code.

### SECTION 3. PARTICIPATION.

Options shall be granted to such Participants as may be selected from time to time by either the Committee or the Board as set forth herein, each in its sole discretion. Participants who are Employees shall be eligible to receive Discretionary Options under the Plan except that no Discretionary Option that is an Incentive Stock Option will be granted to a Participant

other than an Employee as that term is specifically defined with respect to Incentive Stock Options. Participants who are Outside Directors shall be eligible only to receive Non-Discretionary Options under the Plan.

#### SECTION 4. ADMINISTRATION.

(a) Procedure. The portion of the Plan relating to the grant of Discretionary Options shall be administered by the Committee. The portion of the Plan relating to the grant of Non-Discretionary Options shall be administered by the Board. All decisions, determinations and interpretations of the Committee or the Board, as the case may be, shall be final and binding on the respective Optionees and any other holders of any Options granted under the Plan.

(b) Powers of the Committee. Subject to the provisions of the Plan, the Committee shall have the authority, in its discretion: (i) to grant Discretionary Options; (ii) to determine the Fair Market Value per Share in accordance with Section 9 of the Plan; (iii) to determine the exercise price of the Discretionary Options to be granted in accordance with Sections 6 and 9 of the Plan; (iv) to determine the Employees to whom, and the time or times at which Discretionary Options shall be granted, and the number of Shares to be subject to each such Discretionary Option as described in greater detail in Section 6 hereof; (v) to prescribe, amend and rescind rules and regulations relating to the Plan; (vi) to determine the terms and provisions of each Discretionary Option granted under the Plan, each Option Agreement and each Stock Purchase Agreement, if any (which need not be identical with the terms of other Discretionary Options, Option Agreements and Stock Purchase Agreements) and, with the consent of the Optionee, to modify or amend an outstanding Discretionary Option, Option Agreement or Stock Purchase Agreement provided that no Incentive Stock Option may be modified if such action would cause it to cease to be an "Incentive Stock Option", unless the Optionee specifically acknowledges and consents to the tax consequences of such action; (vii) to accelerate the exercise date of any Discretionary Option; (viii) to determine whether any Employee will be required to execute a stock repurchase agreement or other agreement as a condition to the exercise of a Discretionary Option, and to determine the terms and provisions of any such agreement (which need not be identical with the terms of any other such agreement) and, with the consent of the Optionee, to amend any such agreement; (ix) to interpret the Plan or any agreement entered into with respect to the grant or exercise of Discretionary Options; (x) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of a Discretionary Option previously granted by the Committee or to take such other actions as may be necessary or appropriate with

respect to the Company's rights pursuant to Discretionary Options or agreements relating to the grant or exercise thereof; and (xi) to make such other determinations and establish such other procedures as it deems necessary or advisable for the administration of the Plan, including without limitation any early termination or extension of the Plan.

(c) Criteria for Award of Discretionary Options.

In determining the Employees to whom Discretionary Options may be granted, the Committee may condition the grant of Discretionary Options upon the fulfillment of performance goals applicable to the individual, a business unit, or the Company as a whole, including, for example, stock price, market share or penetration, sales, earnings per share, return on equity, decrease in costs, operating cash flow or any other performance criteria.

(d) Powers of the Board. The granting of Non-Discretionary Options under the Plan and the amount, price, vesting and timing of Non-Discretionary Options shall be automatic, as described in Section 7 hereof. All questions of interpretation of the Plan with respect to Non-Discretionary Options will be determined by the Board.

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

SECTION 5. STOCK SUBJECT TO THE PLAN.

Subject to this Section 5 and to the provisions of Section 9 of the Plan, the maximum aggregate number of Shares which may be subject to Options under the Plan is Four Million (4,000,000). If an Option expires or becomes unexercisable for any reason without having been exercised in full, the Shares subject to such Option shall, unless the Plan shall have been terminated, return to the Plan and become available for future grant under the Plan. The maximum number of shares that shall be awarded to any Optionee over the term of the Plan shall be One Hundred Fifty Thousand (150,000).

SECTION 6. TERMS AND CONDITIONS OF DISCRETIONARY OPTIONS.

Each Discretionary Option granted pursuant to the Plan shall be authorized by the Committee and shall be evidenced by an Option Agreement. Each Option Agreement shall incorporate by reference all other terms and conditions of the Plan, and shall contain the following terms and conditions:

(a) Number of Shares. The number of Shares subject to the Discretionary Option.

(b) Option Price. Except as hereinafter provided, the price per Share payable on the exercise of any Discretionary Option shall be stated in the Option Agreement and shall be no less than the Fair Market Value per share of Common Stock on the date such Option is granted, as determined by the Committee, except that Discretionary Options that are Non-Qualified Stock Options granted to consultants and advisors, and to any other Employee who shall be rewarded for unusual and special achievements, shall be at any price determined by the Committee equal to or exceeding \$.01 per share of the Common Stock.

With respect to any Discretionary Option which is an Incentive Stock Option granted to any Employee who, at the time of grant, owns stock possessing more than ten percent of the total combined voting power of the Common Stock, the price per share payable upon exercise shall be at an option price determined by the Committee which at least equals 110% of the Fair Market Value of the Common Stock on the date the Discretionary Option is granted and such Discretionary Option, by its terms, may not be exercisable more than five years after the date of grant.

(c) Consideration. The consideration to be paid for the Shares to be issued upon exercise of a Discretionary Option may be paid to the Company: (i) in cash or certified funds, (ii) by delivery of Shares having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Discretionary Option shall be exercised, (iii) by means of a brokers' cashless exercise procedure or (iv) any combination of such methods of payment.

Where payment of the option price is to be made with Shares acquired under any compensation plan of the Company, such Shares will not be accepted as payment unless the Optionee has acquired such shares at least six months prior to such payment.

If the consideration for the exercise of an Option is the surrender of previously acquired and owned Shares, the Optionee will be required to make representations and warranties satisfactory to the Company regarding his title to the Shares used to effect the purchase (the "Payment Shares"), including without limitation, representations and warranties that the Optionee has good and marketable title to such Payment Shares free and clear of any and all liens, encumbrances, charges, equities, claims, security interests, options or restrictions, and has full power to deliver such Payment Shares without obtaining the consent or approval of any person or governmental authority other than those which have already given consent or approval in a manner satisfactory to the Company. The value of the Payment Shares shall be the Fair Market Value of such Payment Shares on the date of exercise as determined by the Board in its

sole discretion, exercised in good faith. If such Payment Shares were acquired upon previous exercise of incentive stock options granted within two years prior to the exercise of the Option or acquired by the Optionee within one year prior to the exercise of the Option, such Optionee shall be required, as a condition to using the Payment Shares in payment of the exercise price of the Option, to acknowledge the tax consequences of doing so, in that such previously exercised incentive stock options may have, by such action, lost their status as incentive stock options, and the Optionee may have to recognize ordinary income for tax purposes as a result.

(d) Form of Option. The Option Agreement shall state whether the Discretionary Option granted is an Incentive Stock Option or a Non-Qualified Stock Option, and will constitute a binding determination as to the form of the Discretionary Option granted.

(e) Exercise of Options. Any Discretionary Option granted hereunder shall be exercisable at such times and under such conditions as shall be set forth in the Option Agreement (as may be determined by the Committee and as shall be permissible under the terms of the Plan), which may include performance criteria with respect to the Company and/or the Optionee. In the event that a holder of a Discretionary Option is indebted to the Company on account of an advance, loan or any other reason, as a condition to being permitted to exercise the Discretionary Option, the holder will be required to satisfy the debt in a manner satisfactory to the Committee, including being required to sell the Shares received upon exercise of the Discretionary Option. A Discretionary Option may be exercised in accordance with the provisions of this Plan as to all or any portion of the Shares then exercisable under a Discretionary Option from time to time during the term of the Discretionary Option. A Discretionary Option may not be exercised for a fraction of a Share.

(f) Term and Vesting of Options.

(i) Notwithstanding any other provision of this Plan, no Discretionary Option shall be (A) granted under this Plan after ten (10) years from the date on which this Plan is adopted by the Board of Directors, or (B) exercisable more than ten (10) years from the date of grant; provided, however, that with respect to any Incentive Stock Option granted under this Plan to any person who, at the time of the grant of such Discretionary Option, owns stock possessing more than 10% of the total combined voting power for all classes of the Company's stock, the foregoing clause (B) shall be read by substituting "five (5) years" for the term "ten (10) years" that appears therein.

(ii) No Discretionary Option granted to any Optionee shall be treated as an Incentive Stock Option to the extent such Discretionary Option would cause the aggregate Fair

Market Value (determined as of the date of grant of each such Option) of the Shares with respect to which

Incentive Stock Options are exercisable by such Optionee for the first time during any calendar year to exceed \$100,000. For purposes of determining whether an Incentive Stock Option would cause the aggregate Fair Market Value of the stock to exceed the \$100,000 limitation, Incentive Stock Options shall be taken into account in the order granted. For purposes of this subsection, Incentive Stock Options include all Incentive Stock Options under all plans of the Company that are Incentive Stock Option plans within the meaning of Section 422 of the Code.

(iii) Except as otherwise provided herein, Discretionary Options granted hereunder shall mature and become exercisable in whole or in part, in accordance with such vesting schedule as the Committee shall determine, which schedule shall be stated in the Option Agreement. Discretionary Options may be exercised in any order elected by the Optionee whether or not the Optionee holds any unexercised Discretionary Options under this Plan or any other plan of the Company.

(g) Termination of Options.

(i) Unless sooner terminated as provided in this Plan, each Discretionary Option shall be exercisable for the period of time as shall be determined by the Committee and set forth in the Option Agreement, and shall be void and unexercisable thereafter.

(ii) Except as otherwise provided herein or in the Option Agreement,

(1) upon the termination of the Optionee's employment with the Company or a Subsidiary for any reason, Discretionary Options exercisable on the date of said termination shall be exercisable by the Optionee (or in the case of the Optionee's death subsequent to termination, by the Optionee's executor(s) or administrator(s)) in the case of Incentive Stock Options, for a period of three

(3) months from the date of the Optionee's termination of employment, and in the case of Non-Qualified Stock Options, for a period of six (6) months from the date of the Optionee's termination of employment, and (2) the termination provisions set forth in clause (1) above shall not apply to Options granted to consultants or advisors (other than officers or directors of the Company).

(iii) Except as otherwise provided herein or in the Option Agreement, upon the Disability or death of an Optionee while employed or engaged by the Company or a Subsidiary, Discretionary Options held by such Optionee



which are exercisable on the date of Disability or death shall be exercisable for a period of twelve (12) months commencing on the date of the Optionee's Disability or death, by the Optionee or his legal guardian or, in the case of death, by his executor(s) or administrator(s); provided, however, that if such Disabled Optionee shall commence any employment during such one (1) year period with a competitor of the Company (including, but not limited to, full or part-time employment or independent consulting work), as determined solely in the judgment of the Board, all Options held by such Optionee which have not yet been exercised shall terminate immediately upon the commencement thereof.

(iv) Options may be terminated at any time by agreement between the Company and the Optionee.

(h) Forfeiture. Notwithstanding any other provision of this Plan, if the Optionee's employment or engagement is terminated by the Company and the Board makes a determination that the Optionee (i) has engaged in any type of disloyalty to the Company, including without limitation, insubordination, fraud, embezzlement, theft, or dishonesty in the course of his employment or engagement, or (ii) has been convicted of a felony or (iii) has disclosed any Proprietary Information without the consent of the Company or (iv) has breached the terms of any written confidentiality agreement or any non-competition agreement with the Company in any material respect, all unexercised Discretionary Options held by such Optionee shall terminate upon the earlier of the date of termination of employment or engagement for "cause" or the date of such a finding.

#### SECTION 7. TERMS AND CONDITIONS OF NON-DISCRETIONARY OPTIONS.

(a) Number of Shares. On each Grant Date, each person who served as an Outside Director from July 1 of the year preceding the Grant Date through the Grant Date (herein called a "Full Year") shall receive a Non-Discretionary Option to purchase 12,000 shares. Any person who served as an Outside Director for less than a Full Year shall receive a pro rata portion of the Non-Discretionary Options he would have received had he served as an Outside Director for a Full Year, based on the number of days served by such person as an Outside Director from July 1 of the year preceding the Grant Date through the Grant Date.

(b) Committee Member. In addition to (a) above, on each Grant Date, a Non-Discretionary Option to purchase (i) 2,000 Shares shall be granted to each person who served as Chairman of a Board Committee as an Outside Director for a Full Year, and (ii) 1,000 Shares shall be granted to each person who served on any

Committee of the Board as an Outside Director for a Full Year; provided, however, that an Outside Director who receives a Non-Discretionary Option under clause (i) above for service as Chairman on a particular Board Committee will not receive an additional Non-Discretionary Option under clause (ii) above for service on the same Committee. Any person who served for less than a Full Year as Chairman or a member of a Board Committee while he was an Outside Director shall receive a pro rata portion of the Non-Discretionary Options he would have received had he served in such capacity for a Full Year, based on the number of days he served as such from July 1 of the year preceding the Grant Date through the Grant Date.

(c) Option Price. The exercise price of all Non-Discretionary Options shall be the Fair Market Value of the Common Stock on the Grant Date of such Non-Discretionary Options; provided, however, that the exercise price of all Non-Discretionary Options granted on the Grant Date occurring in 1996 shall be the lower of the Fair Market Value of the Common Stock on the Grant Date or the Fair Market Value of the Common Stock on January 11, 1996.

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

(e) Exercise of Options. A Non-Discretionary Option may be exercised in accordance with the provisions of this Plan as to all or any portion of the Shares then exercisable under a Non-Discretionary Option from time to time during the term of the Option. A Non-Discretionary Option may not be exercised for a fraction of a Share.

(f) Term and Vesting of Non-Discretionary Options. Non-Discretionary Options shall be exercisable in full or in part, and shall be fully vested, from and after their respective Grant Dates except that no Non-Discretionary Option shall be exercisable more than 10 years from the Grant Date.

(g) Termination of Non-Discretionary Options. If an Optionee ceases to be an Outside Director for any reason (including death or Disability), Non-Discretionary Options exercisable on the date of such event shall be exercisable by the Optionee (or in the case of death or Disability, by his executor(s), administrator(s) or legal guardian as the case may be) for a period of one year from the date on which he ceases to be an Outside Director, but in no event later than the date it would have expired had the Optionee continued to be an Outside Director.

## SECTION 8. STOCK APPRECIATION RIGHTS

(a) Stock Appreciation Rights. (a) The Committee may grant Stock Appreciation Rights ("SAR"s) in conjunction with

Discretionary Options under the Plan such that, upon exercise of the SAR by an Optionee, the Company shall pay, in cash, stock or both as determined by the Committee in its sole discretion, an amount equal to the excess of the Fair Market Value of a share of Common Stock on the date of exercise over the exercise price, multiplied by the number of shares covered by the SAR.

(b) Exercise of an SAR for a certain number of shares shall reduce by such number the number of shares exercisable under the Discretionary Option, and exercise of the Option shall correspondingly reduce the number of shares exercisable under the SAR. Except as otherwise provided herein, any exercise of an SAR for cash in full or partial settlement thereof may be made only from the third business day until the twelfth business day following the public release of the Company's quarterly or annual sales and earnings.

#### SECTION 9. DETERMINATION OF FAIR MARKET VALUE OF COMMON STOCK.

(a) Except to the extent otherwise provided in this Section 9, the Fair Market Value of a share of Common Stock shall be determined by the Committee in its sole discretion.

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

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

#### SECTION 10. ADJUSTMENTS.

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

(b) No fractional shares of Common Stock shall be issuable on account of any action mentioned in paragraph 9(a) above, and the aggregate number of shares into which Shares then covered by the Option, when changed as the result of such action, shall be reduced to the number of whole shares resulting from such action, unless the Board, in its sole discretion, shall determine to issue scrip certificates with respect to any fractional shares, which scrip certificates, in such event, shall be in a form and have such terms and conditions as the Board in its discretion shall prescribe.

#### SECTION 11. RIGHTS AS A SHAREHOLDER.

The Optionee shall have no rights as a shareholder of the Company and shall have neither the right to vote nor receive dividends with respect to any Shares subject to an Option until such Option has been exercised.

#### SECTION 12. TIME OF GRANTING DISCRETIONARY OPTIONS.

The date of grant of a Discretionary Option shall, for all purposes, be the date on which the Committee authorizes the granting of such Option. Notice of the grant shall be given to each Participant to whom an Option is so granted within a reasonable time after the date of such grant.

#### SECTION 13. PROCEDURE FOR EXERCISE OF AN OPTION.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company at its principal executive office in accordance with the terms of any Option Agreement by the person entitled to exercise the Option and full payment for the Shares with respect to the Option which is exercised has been received by the Company, accompanied by any agreements required by the Company, including an executed Stock Purchase Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Option is exercised, except as provided in Section 10 of the Plan.

As soon as practicable after any proper exercise of an Option in accordance with the provisions of the Plan, the Company

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

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

#### SECTION 14. CONDITIONS TO ISSUANCE OF SHARES UPON EXERCISE.

(a) The obligation of the Company to issue and sell Shares to an Optionee upon the exercise of an Option granted under the Plan is conditioned upon (i) the Company obtaining any required permit or order from appropriate governmental agencies, authorizing the Company to issue and sell such Shares, and (ii) such issuance and sale complying with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed.

(b) At the option of the Board, the obligation of the Company to issue and sell Shares to an Optionee upon the exercise of an Option granted under the Plan may be conditioned upon obtaining appropriate representations, warranties and agreements of the Optionee set forth in the Stock Purchase Agreement. Among other representations, warranties, restrictions and agreements, the Optionee may be required to represent and agree that the purchase of Shares of Common Stock under the Option Agreement shall be for investment, and not with a view to the public resale or distribution thereof, unless the Shares subject to the Option are registered under the Securities Act and the issuance and sale of the Shares complies with all other laws, rules and regulations applicable thereto. Unless the issuance of such Shares is registered under the Securities Act, the Optionee shall acknowledge that the Shares purchased on exercise of the Option are not registered under the Securities Act and may not be sold or otherwise transferred unless such Shares have been registered under the Securities Act in connection with the sale or other transfer, or counsel satisfactory to the Company has issued an opinion satisfactory to the Company that the sale or other transfer is exempt from registration under the Securities Act, and unless said sale or other transfer is in compliance with any

other applicable laws, rules and regulations including all applicable federal and state securities laws, rules and regulations. Unless the Shares subject to an Option are registered under the Securities Act, the certificates representing all Shares issued upon exercise of such Option shall contain the following legend:

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

#### SECTION 15. TRANSFERABILITY.

No Option shall be assignable or transferable otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order as defined by the Code.

#### SECTION 16. OTHER PROVISIONS.

The Option Agreement and Stock Purchase Agreement may contain such other provisions as the Committee in its discretion deems advisable and which are not inconsistent with the provisions of this Plan.

#### SECTION 17. CHANGE OF CONTROL.

(a) For purposes of the Plan, "Option Cancellation Date" shall mean, as to each Option, the later of: (i) the first business day after the expiration of a period of six (6) months from the date of grant of the Option; (ii) in the event of a Change of Control as defined in Section 2(b)(ii)(A) or 2(b)(ii)(B)(2), the date on which the transaction approved by shareholders of the Company (as provided in Section 2(b)(ii)) is consummated; and (iii) in the event of the Change of Control as defined in Section 2(b)(i) or 2(b)(iii), the first business day after the expiration of a period of sixty (60) days after the occurrence of such event.

(b) Upon a Change of Control, all Options (whenever granted) outstanding on the date of such Change of Control shall be or become immediately and fully exercisable.

(c) In the event of the Change of Control as defined in Section 2(b)(i), 2(b)(ii)(A), 2(b)(ii)(B)(2) or 2(b)(iii), all Options (whenever granted) outstanding on the Option Cancellation Date which are not exercised on or before the Option Cancellation Date shall be canceled on such date by the Company, and the Company shall on such date pay to each holder of each such canceled Option a cash amount equal to the excess, if any, in respect of each Option canceled, of (i) the greater of (A) the Fair Market Value of the shares of Common Stock subject to the Option on the business day immediately preceding the Option Cancellation Date or (B) the Adjusted Fair Market Value of the Common Stock subject to the Option over (ii) the aggregate purchase price for such shares of Common Stock.

#### SECTION 18. AMENDMENT OF THE PLAN.

The Board is authorized to make such changes in the Plan as it may deem to be in the best interests of the Company; subject, however, to the prior approval of the stockholders of the Company if such alteration would: (a) materially increase benefits to Participants, (b) materially increase the number of Shares issuable under the Plan, or (c) materially modify the requirements as to eligibility for participation in the Plan. Notwithstanding the foregoing, the Plan shall not be amended with respect to non-Discretionary Options more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder. The Board may at any time suspend or discontinue the Plan. No termination or amendment of the Plan, however, shall adversely affect any Option theretofore granted under the Plan without the consent of the Optionee.

#### SECTION 19. APPLICATION OF FUNDS.

The proceeds received by the Company from the sale of Shares pursuant to the exercise of Options shall be used for general corporate purposes or such other purpose as may be determined by the Company.

#### SECTION 20. NO OBLIGATION TO EXERCISE OPTION.

The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

#### SECTION 21. RESERVATION OF SHARES.

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

The Company, during the term of this Plan, shall use its best efforts to seek to obtain from appropriate regulator agencies any requisite authorization in order to issue and sell such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain from any such regulator agency having jurisdiction the requisite authorization(s) deemed by the Company's counsel to be necessary for the lawful issuance and sale of any Shares hereunder, or the inability of the Company to confirm to its satisfaction that any issuance and sale of any Shares hereunder will meet applicable legal requirements, shall relieve the Company of any liability in respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

#### SECTION 22. TAXES, FEES, EXPENSES AND WITHHOLDING OR TAXES.

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

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

#### SECTION 23. NOTICES.

Any notice to be given to the Company pursuant to the provisions of this Plan shall be addressed to the Company in care of its Secretary (or such other person as the Company may designate from time to time) at its principal executive office, and any notice to be given to an Optionee shall be delivered personally or addressed to him or her at the address given beneath his or her signature on his or her Option Agreement, or



at such other address as such Participant or his or her transferee (upon the transfer of the Shares purchased upon exercise) may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, registered or certified, and deposited, postage and registry or certification fee prepaid, in a post office or branch post office regularly maintained by the United States Postal Service. It shall be the obligation of each Optionee and each transferee holding Shares purchased upon exercise of an Option to provide the Secretary of the Company, by letter mailed as provided herein, with written notice of his or her direct mailing address.

#### SECTION 24. NO ENLARGEMENT OF OPTIONEE RIGHTS.

This Plan is purely voluntary on the part of the Company, and the continuance of the Plan shall not be deemed to constitute a contract between the Company and any Optionee, or to be consideration for or a condition of the employment or service of any Optionee. Nothing contained in this Plan shall be deemed to give any Optionee the right to be retained in the employ or service of the Company or any Subsidiary, or in the case of Outside Directors, obligate the Company to nominate any Participant for election as a director, or to interfere with the right of the Company or any Subsidiary to discharge or retire any Optionee thereof at any time, subject to applicable law. No Optionee shall have any right to or interest in Options authorized hereunder prior to the grant thereof to such Optionee, and upon such grant he shall have only such rights and interests as are expressly provided herein, subject, however, to all applicable provisions of the Company's Certificate of Incorporation, as the same may be amended from time to time.

#### SECTION 25. INVALID PROVISIONS.

With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee or Board fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board.

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

SECTION 26. APPLICABLE LAW.

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

SECTION 27. PLAN ADOPTION AND TERM.

(a) This Plan shall become effective upon the later to occur of (i) its adoption by the Board and (ii) its approval by the Company's stockholders at an Annual Meeting of Stockholders.

(b) Subject to the provisions herein relating to amendment or discontinuance, this Plan shall terminate ten years from its effective date as determined by subparagraph (a) above.

**EXHIBIT 11**

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

**COMPUTATION OF NET INCOME (LOSS) PER SHARE  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

(UNAUDITED)

COMPUTATION OF PRIMARY EARNINGS (LOSS) PER SHARE: -----	NINE MONTHS ENDED SEPTEMBER 30, 1995 -----
Net Income (Loss) Applicable to Common Shareholders	\$ 37,337 =====
Weighted Average of Primary Shares: Common Stock	43,770
Assumed Conversion of Options and Warrants	2,563 -----
	46,333 =====
Primary Earnings Per Share	\$ 0.81 =====

A calculation for the three month periods ended September 30, 1995 and 1996 and the nine month period ended September 30, 1996 have not been presented since the effect of the options and warrants would be anti-dilutive.

## ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD END	SEP 30 1996
CASH	16,011
SECURITIES	51,421
RECEIVABLES	13,037
ALLOWANCES	389
INVENTORY	8,581
CURRENT ASSETS	92,698
PP&E	18,268
DEPRECIATION	7,474
TOTAL ASSETS	117,349
CURRENT LIABILITIES	24,901
BONDS	3,126
PREFERRED MANDATORY	0
PREFERRED	10
COMMON	480
OTHER SE	79,712
TOTAL LIABILITY AND EQUITY	117,349
SALES	14,356
TOTAL REVENUES	40,931
CGS	16,652
TOTAL COSTS	16,652
OTHER EXPENSES	15,054
LOSS PROVISION	81
INTEREST EXPENSE	132
INCOME PRETAX	844
INCOME TAX	3,519
INCOME CONTINUING	(3,565)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(3,565)
EPS PRIMARY	(.08)
EPS DILUTED	(.08)

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