

# INTERDIGITAL INC.

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 04/02/01 for the Period Ending 12/31/00

Address	781 THIRD AVE KING OF PRUSSIA, PA 19406-1409
Telephone	6108787800
CIK	0000354913
SIC Code	6794 - Patent Owners and Lessors
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

---

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO THE SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2000

OR

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

For the transition period from to

*Commission File Number 1-11152*

**INTERDIGITAL COMMUNICATIONS  
CORPORATION**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State of Incorporation)

23-1882087  
(I.R.S. Employer Identification Number)

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

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

**Securities registered pursuant to Section 12(b) of the Act:**

(Title of each class) (Name of each exchange on which registered)

**Securities registered pursuant to Section 12(g) of the Act:**

Common Stock, Par Value \$0.01 Per Share  
Series B Junior Participating Preferred Stock Rights

**\$2.50 Cumulative Convertible Preferred Stock, Par Value \$0.10 Per Share**  
(Title of class)

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 short 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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not herein contained, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ x ]

On March 22, 2001 the aggregate market value of the registrant's Common Stock, \$0.01 par value, held by non-affiliates of the registrant was approximately \$1,487,233,943.

On March 22, 2001 there were approximately 54,035,665 shares of the registrant's Common Stock, \$0.01 par value, outstanding.

#### **Documents Incorporated by Reference**

Portions of the registrant's definitive proxy statement to be filed in connection with the annual meeting of shareholders to be held in 2001 are incorporated by reference into Items 10 through 13 inclusive.

## PART I

### Item 1. BUSINESS

#### General

InterDigital Communications Corporation (collectively with its subsidiaries referred to as "InterDigital", "the Company", "we", "us" or "our") specializes in the design and development of technology content and system solutions for advanced digital wireless communications applications. Over the course of our nearly thirty-year history, we have amassed a substantial and significant library of systems experience, know-how and patents related to digital wireless technology around the world.

We market our technologies and solutions capabilities primarily to telecommunications equipment producers and related suppliers. Our inventions are embedded into products targeted for the following applications:

- Mobile phones
- Personal digital assistants
- Mobile computing devices
- Base stations and other infrastructure equipment
- Other terminal-end wireless devices

In addition, we license our Time Division Multiple Access (TDMA) and Code Division Multiple Access (CDMA) patents, technology and know-how to third parties. We are continuing to broaden and deepen our extensive body of technical know-how and broad patent portfolio related to wireless technologies and systems through continuous invention and innovation.

We intend to position the Company as a leader in the evolving market for advanced wireless products, or the third generation (3G) marketplace, as an end-to-end technology enabler offering a broad portfolio of standards-compliant products, including core technology, software solutions, systems expertise and finished Application Specific Integrated Circuits (ASICs) based on these and other technologies. To achieve this objective we are focusing our strategy in three areas. First, we intend to capitalize on the value of our intellectual property through patent licensing, technology and know-how transfer and specialized engineering services. Second, we plan to bring to market, with partners or on our own, 3G products, including system-on-chip ASICs, to enable the delivery of high quality voice and high-data rate services in mobile and portable terminals and base stations. Third, we intend to dedicate a portion of our engineering resources to incubate extensions of our current technology, examine derivative products and evaluate new derivative technologies by executing this strategy.

The Company is a public corporation, incorporated in Pennsylvania in 1972. Our corporate and administrative offices are located in King of Prussia, Pennsylvania, USA. Our development teams are located in King of Prussia, Pennsylvania, USA, Melville, New York, USA, and Montreal, Quebec, Canada.

#### Wireless Telecommunications Industry Overview

For the last several years the wireless telecommunications industry has been experiencing rapid growth worldwide. While the industry growth rates have tempered in recent months, new technologies and products are being developed to substantially enhance the capabilities and performance of wireless services available to consumers and businesses. This combination of growth in the sales of current generation wireless devices and accelerating technological change sets the stage for continued growth in wireless products and services that should fuel growth in the industry during this decade.

The wireless market is in the early stage of a shift from voice-oriented wireless products (primarily handsets which provide basic voice service on the move) to data-oriented devices which provide voice as well as high speed data to support advanced wireless services, including imaging and Internet access. Consumers are likely to gain access to these services through a broad range of mobile terminal-end products, including handsets, personal digital assistants, and laptop or notebook computers, among other products. Demand for the new wireless technology, that would enable mobile devices to deliver advanced services, is projected to grow faster than the market for voice mobile products and services.

## Industry Growth Projections

The evolving market for advanced mobile wireless products and services is generally referred to as the 3G market. First generation mobile wireless products and services were introduced in the 1980s utilizing analog technology. Second generation (2G) products and services were introduced in the early 1990s, taking advantage of new digital technology which greatly increased the capacity, quality of service and flexibility of wireless networks. The first and second generations of wireless products and services delivered voice service, often with limited ability to transmit data. Advanced versions of 2G systems (commonly referred to as 2.5G systems) are being deployed. These systems offer substantially higher data rate services, typically up to 144 kbs. In 2G, a standard called GSM (Global System for Mobile) emerged and proliferated as the dominant 2G technology worldwide, permitting almost seamless global roaming outside the United States. 3G products and services are expected to add high speed data communications capability to both the GSM and other mobile networks.

The emergence of the 3G market is expected to be evolutionary rather than revolutionary. Most existing wireless service providers are likely to install network infrastructure gradually over a period of years as expansions to existing systems and/or replacement of cells served by obsolete equipment or where the capacity cannot be provided by existing pre-3G equipment. Industry analysts expect the first 3G products and services to be introduced in Japan sometime during 2001, with product and service availability in other parts of Asia, Europe and North America following throughout this decade. As the market expands, it is likely to encourage a dynamic product development environment with traditional wireless equipment producers and new market entrants bringing a wide range of mobile and portable terminals to consumers and businesses. The majority of those products are expected to utilize advanced 3G air interface technology to deliver a combination of voice and high data-rate services.

At the end of 2000, over 700 million wireless subscribers were using current wireless products and services around the world. Market analysts expect that number to grow rapidly over the next three years and reach approximately 1.3 billion subscribers by 2004. On an annual basis, industry analysts project that handset sales are expected to grow from more than 400 million in 2000 to over 600 million in 2003 and 700 million in 2005.

Wireless penetration rates have risen dramatically in the last year. In Western Europe, more than 50 percent of the population owns and uses mobile phones. In most developed nations, wireless penetration is at the level of at least 20 percent of the population. In the United States, it reached approximately 25 percent at the end of 2000.

Industry observers expect that the use of advanced wireless technology in mobile and portable computing products will grow rapidly through the year 2003. Analysts forecast that during this period unit shipments of notebook computers, ultra-portables and palm-sized computers will grow by over 20 percent per year worldwide. Experts predict that high-data rate wireless technology will be embedded in these products over the next several years, providing an additional market for advanced wireless technology.

## The Technology Landscape

Two principal digital wireless technologies are in use today to enable wireless applications: TDMA and CDMA. Standards employing these technologies have been adopted around the world. The GSM and IS 54/136 (AMPS-D) standards, which utilize TDMA technology, serve the vast majority of wireless subscribers worldwide. GSM is the far more dominant technology, being widely deployed in Europe, Asia, Africa, the Middle East and other regions (including the United States) and represents over 60% of the wireless subscribers as of year end 2000. IS 54/136 has been deployed in North, Central and South America. IS-95, which employs narrowband CDMA technology, was commercialized in the 1990s and serves portions of the United States, Korea and several Latin American countries.

InterDigital has been developing TDMA and CDMA technologies for many years for both fixed and mobile applications. With regard to TDMA, we were a leader in establishing IS-54 as a wireless standard in the United States in the 1980s and have established a substantial portfolio of patented TDMA inventions. Our core TDMA inventions include (among others):

- The fundamental architecture of commercial Time Division/Frequency Division Multiple Access (TD/FDMA) systems.
- Methods of synchronizing the operation of TD/FDMA systems. A unique approach of managing system capacity and maintaining agility through the reassignment of online subscriber units to different time slots and/or frequencies in response to system conditions.
- The design of a multi-component base station utilizing distributed intelligence which allows for more robust performance.
- Initializing procedures that enable roaming.

A number of our core TDMA inventions are being used in a broad range of 2G wireless networks and terminal-end mobile and fixed devices.

With respect to CDMA, in 1992 we acquired a technology development company that had been involved in fundamental research in CDMA technology with an emphasis on wideband or broadband application since the mid-1980s. We expanded that development program, anticipating the commercial demand for wide bandwidth technology that would enable high data-rate wireless services. As part of that development work, we designed and produced a state-of-the-art system-on-a-chip ASIC, containing our proprietary Broadband Code Division Multiple Access (TM) (B-CDMA(TM)) technology which was initially deployed in Wireless Local Loop (WLL) products. Many of the essential elements of our B-CDMA solution are applicable to advanced high data-rate products being developed for the 3G market and are being incorporated in our current 3G technology development programs.

As with our TDMA inventions, we have patented our CDMA inventions and today hold a significant worldwide portfolio of patents and patent applications for CDMA technology. Our key CDMA inventions, many of which are applicable to multiple implementations of CDMA including TDD, FDD and Multi-carrier CDMA (CDMA 2000), include among others or relate to:

- Global Pilot: The use of a common pilot channel to synchronize sub-channels in a multiple access environment.
- Bandwidth Allocation: Techniques including multi-channel and multi-code mechanisms.
- Power Control: Highly efficient schemes for controlling transmission power output of terminal and base station devices vital in a CDMA system.
- Overlay techniques for communication systems, which allow new wireless systems to be deployed with existing wireless technologies without frequency reallocation.
- Joint detection and interference cancellation for reducing multiple access interference in a physical receiver.
- Soft Handover enhancement techniques between designated cells.
- Various sub-channel access and coding techniques.
- Packet Data.
- Fast handoff.
- Geo-location for calculating the position of terminal users.

We believe that certain of our inventions are essential to the implementation of the 2G IS-95 systems. (See, "-Business Activities. Patent and Technology Licensing".) We also believe that a number of our inventions are essential to the implementation of the 3G standard, referred to as IMT-2000, approved by the International Telecommunications Union Radio Sector (ITU-R). The ITU-R approved the new standard for IMT-2000 (3G) wireless networks to enable global roaming for mobile users and compatibility with the dominant existing wireless standards. IMT-2000 defines five sets of alternative specifications for the digital mobile radios which can be selected or aggregated by equipment manufacturers to produce standards-compliant third generation wireless products for their customers. The five specifications under the standard include three forms of CDMA technology: Time Division Duplex (TDD) and Frequency Division Duplex (FDD), forms of wideband CDMA, and CDMA 2000. The standard also includes two forms of TDMA technology: Digital Enhanced Cordless Telephone (DECT) and UWC-136, an evolved form of the U.S. TIA/EIA-136 digital cellular TDMA standard. Products built to one or more of these specifications are being designed to deliver a varying range of high bandwidth wireless services, including high speed Internet access, multimedia communications, video conferencing, and other forms of data transmission. InterDigital has made more than 300 contributions to the various 3G standards bodies as the standard has been formulated and expects to continue to do so as the standard is refined.

We believe that our patent portfolio is, or when applications result in granted patents, will be applicable to all of the air interface protocols described in the IMT-2000 standard. We have indicated to the appropriate standards setting bodies that we hold patents and patent applications that are either essential or commercially important for implementation of the present 3G standards specifications into products.

Our current technology development programs are focused on creating hardware and software products for the wideband CDMA protocols of the 3G standard. We have focused on this market segment because we expect that wideband CDMA technology (as opposed to the other 3G protocols) will be the dominant technology in the 3G marketplace. The large majority of GSM service providers, along with TDMA and some IS-95 service providers, have selected wideband CDMA as their 3G air interface protocol because its adoption offers them the most attractive route to 3G services worldwide. Given the dominant global market position today of the GSM service providers, analysts expect that they will maintain a dominant market position in the next generation market. Technology providers or enablers such as InterDigital serving this market by transferring their technology to companies producing silicon, software or final products could benefit from a leading market position for wideband CDMA. We believe that our heritage of know-how and patented wireless inventions based upon both TDMA and CDMA air interface protocols differentiates us among enabling 3G technology providers.

## Strategy

Our strategic objective is to create long-term growth as one of the leading developers of advanced air interface and full system-on-a-chip technology for the wireless communications industry. To achieve this objective, we are actively participating in worldwide 3G markets, with the following focus:

- Emphasizing Core Technology Development and System Design Capability. We possess longstanding core competencies in digital air interface design and the development of full system solutions for wireless products. By building on these strengths, we can give our customers the full advantage of the depth of our engineering know-how and long heritage of wireless inventions that enhance the effectiveness of end products.
- Building a Base of Strategic Relationships. To secure our position in the 3G market and define our growth opportunities, we intend to establish a network of customer/partner relationships to complement our strengths and enhance our ability to create value in a broader market. We seek partners that bring complementary technologies, production capability and market access, including semiconductor producers, original equipment manufacturers and suppliers of complementary technology. Our potential customers are companies such as medium and smaller equipment producers and semiconductor companies that do not have extensive resources and capabilities to develop core air interface technologies. In some cases our potential customers may include the largest equipment manufacturers to the extent that we develop specialized air interface technologies for which they had not initiated or fully funded technology development projects. In other circumstances our customers may include competing software companies with whom we may seek to enter into cooperative efforts to produce broad-based platforms including the software contributions of both parties.
- Leveraging Technology and Intellectual Property Rights into 3G Standards and Products. We have been a leader in developing and promoting key industry standards starting with 2G in the 1980s and continuing with the 3G standard development. We believe this strategy enables us to promote the adoption of our technology into new standards-based products. Moreover, our customers would have time-to-market and other advantages.
- Licensing Intellectual Property Worldwide. Our substantial portfolio of patented TDMA and CDMA inventions is a unique asset. Access to these inventions, and the technological know-how they represent, through licensing agreements has proven invaluable to producers of wireless devices who provide advanced services around the world. By continuing to build our licensing program, we believe that we can capture substantial value in the future.
- Providing Specialized Engineering Services. We intend to selectively enter into agreements to develop and/or modify technology for leading companies and offer technology integration and implementation assistance. Our goals are to stay in close touch with market demands, take advantage of technology re-use opportunities, build our core technology base and add to our portfolio of patented inventions.
- Incubation of New Technologies and Products. We intend to explore derivative products and technologies and new offerings that take advantage of our core technology and systems capabilities.

## **Business Activities**

### **Core Technology and Product Development**

Through 1999, the Company was engaged in the development, marketing, sales and servicing of WLL equipment utilizing our proprietary TDMA or CDMA technology. We redirected our business strategy in 1999. Driven by emergence of the 3G market and the applicability of our technology to that market, intensified product and price competition in the WLL market, and a significant decline in demand worldwide for WLL systems, we sought to enter into arrangements with key equipment providers involving 3G technology and products. These 3G technologies incorporated wideband CDMA protocols as well as other CDMA and TDMA technologies. Today, a significant part of our business activity involves the development of core technology building blocks for the two aspects of the wideband CDMA protocol: TDD and FDD technologies. Executing on our business plan, we entered into a strategic engineering relationship with Nokia Corporation (Nokia) in 1999 involving the development of high data-rate 3G technology. That development effort is continuing. Since 1999, we have also been engaged in a self-funded research and development effort to develop FDD building blocks for wideband CDMA products.

In March, 2001, we entered into a broad, long-term cooperative relationship with Infineon Technologies AG (Infineon) involving the development of FDD (Layer 2/3) software for use with Infineon's terminal unit 3G system-on-a-chip ASICs (Joint 3G Protocol Stack). Each party will own the technology it develops under the agreement. The agreement provides for us to be compensated on a per unit royalty basis on sales of Infineon ASICs containing the Joint 3G Protocol Stack. The agreement also provides that we will serve as Infineon's sole source of certain portions of the FDD (Layer 2/3) software in its 3G terminal unit ASICs except where Infineon customers require use of their own or a third party's protocol stack. If we commence a comparable FDD (Layer 2/3) development effort with another semiconductor company, Infineon may choose to secure another source for its Layer 2/3 solution. The agreement provides for joint marketing of the Joint 3G Protocol Stack in terminal unit applications, as mutually agreed, subject to certain time-to-market restrictions as regards each new software version. Infineon and the Company are each permitted to independently market and use their own portions of the Joint 3G Protocol Stack without restriction. Infineon has committed to cooperate in enabling us to design custom 3G ASICs based on an Infineon platform for both infrastructure and selected terminal unit applications where Infineon would serve as the foundry. Infineon is permitted to sell InterDigital's custom ASICs within its portfolio of products and to re-use our reference design in non-competitive products. We are permitted to market Infineon's standard ASICs which are not a part of the co-development agreement and should receive a commission fixed at then current standard rates. Under the agreement, the parties have cross-licensed each other under patents generally applicable to the jointly developed software and related products. The parties have also agreed to a framework for determining royalties in other 2G and 3G products.

The TDD format operates by using a single frequency band to transmit signals alternately in the downlink (forward) and uplink (reverse) direction (sometimes referred to as "ping-pong" operation). In the TDD design, the relative capacity of the downlink and uplink can be altered in favor of one direction or the other (usually the downlink). This is accomplished by giving a greater time allocation to transmission intervals going in one direction over the other direction. Exploitation of this asymmetric capability is very useful for communication processes characterized by unbalanced information flow. One important application of this technique is Internet access where users typically send short messages (like a URL address) and receive large information payloads such as a full web page. Importantly, due to the fact that only one radio carrier is used, frequency re-use is enhanced and planning is simplified.

FDD technology supports two-way radio communication using paired radio frequencies. In the FDD format, one frequency supports transmission from a base station to a mobile terminal (the downlink) while the other frequency supports transmission in the uplink direction. Because of the paired frequencies, simultaneous communication in both directions is possible. Both frequencies typically have the same capacity. This technique is useful for high volume mobile voice traffic and is the traditional cellular and PCS radio spectrum allocation format. It provides high-quality voice transmission and can support high-speed wireless Internet access and multimedia imaging but it is inefficient in these unbalanced traffic applications.

Based on these core technology platforms, we intend to develop 3G products for sale to telecommunications equipment manufacturers. Those products are expected to include ASICs, software and combined RF/Baseband boards, among others. Our business plan is to develop those products either alone or through partnering relationships with appropriate companies. We also expect to seek to license the technology to third parties on a royalty-bearing basis. (See, "-Patent and Technology Licensing".)

We are currently developing the core building blocks for a TDD ASIC platform, as well as dual and tri-mode ASICs incorporating TDD and FDD functionality. The initial ASICs will be targeted for mobile handsets; however, we may also extend our TDD ASIC offering to the infrastructure market segment. We are also currently developing the core building blocks for our next generation FDD system-on-a-chip. Our engineering team is developing the technology for incorporation into ASIC products which can be embedded into a wide range of wireless products. In 2000, we made substantial progress in both of these technology development programs, hitting key milestones in algorithm, software and systems development. Our goal is to be ready with Wideband CDMA (W-CDMA) technology and system-on-a-chip ASICs for producers when market products are ready for production.

InterDigital recorded expenses of \$26.0 million, \$20.5 million and \$17.2 million during 2000, 1999 and 1998, respectively, related to all of its research and development efforts for TDMA, B-CDMA and 3G based product and technology development. Revenues recognized in 2000, 1999 and 1998 associated with development efforts were \$17.2 million, \$13.9 million and \$8.0 million, respectively.

In 2000, 31% of our revenue was from our customer, Nokia, in Finland. An additional 51% of revenue was from our licensees in Japan. In 1999, 60% of our revenue was from Nokia. An additional 26% of revenue was derived from our licensees in Japan. In 1998, more than 84% of total revenue was derived from our licensees in Japan.

### **Strategic Engineering Services**

Based on core competencies of our engineering team resulting from research and development work in TDMA and wideband CDMA technical areas dating back to the 1980s, we believe that we are positioned to deliver valuable engineering services to companies seeking to develop 3G compliant technologies and product embodiments.

Because the 3G market is in its early stage, we believe that we can accelerate the core development timeline for our customers' 3G products. In early 1999, we entered into our first strategic technology development agreement with Nokia covering the development of core high data rate technology for 3G wireless communication products designed for applications such as Internet access and multimedia. The current arrangement provides that we are to deliver technology building blocks for Nokia to use in 3G wireless products. It also provides that Nokia will fund the project, maintain an active role in the development plan and, when the development is complete, be able to use the technology in 3G products. We will own the developed technology and will have the ability to license the technology to other companies, as well as design, manufacture, sell and use products and components that utilize the resulting technology. Nokia has the right to terminate the arrangement both for convenience (with certain financial ramifications) and for cause.

We anticipate offering an additional form of strategic engineering services in which we would assist equipment suppliers in developing specific products based on our TDD and FDD platforms. As part of this service, we would build upon the existing core high data rate technology and provide our customers with technology integration and applications engineering for their 3G products. We may also develop reference designs which customers could use to customize their products. We anticipate that while such services may be attractive to a wide number of companies, our target market will typically be the second and third tier equipment producers.

Most telecommunications companies develop product and application designs in-house. While in-house engineering and development staffs, particularly at well-resourced companies, represent a competitive threat to our strategic engineering services market strategy because they typically function as exclusive suppliers to a single customer - their affiliated equipment supply company - the shortage of qualified engineers, the need for background technology, and the fast pace of market development, has created an opportunity for companies like InterDigital that can provide ready access to both engineering talent and relevant know-how. Other companies are competing in this market segment, seeking to provide comparable engineering services. While these companies may have qualified engineers and relevant know-how, we believe we have a competitive advantage over those companies because of our deep history in TDMA and CDMA technologies (which form the technical foundation of 3G), and our system and semiconductor design experience. Nonetheless, we cannot predict what level of market share, if any, of the strategic engineering services market that we will capture.

## Patent and Technology Licensing

Since our inception, we have employed an aggressive program of acquiring and protecting our intellectual property. Our wholly-owned subsidiary, InterDigital Technology Corporation (ITC), currently holds approximately 161 United States patents and approximately 390 foreign patents relating specifically to digital wireless radiotelephony technology (TDMA and/or CDMA) which expire at various times beginning in 2001 and ending in 2021. ITC has a total of approximately 304 United States and approximately 823 foreign patents and patent applications relating primarily and variously to the CDMA and TDMA technologies. During 2000, ITC received 38 new patents, 17 in the United States (the majority of which were for CDMA inventions), and applied for more than 142 new patents worldwide. ITC's patents have effective terms of up to 20 years from the date of their first filing.

In 1992, we undertook a comprehensive patent licensing program, the ultimate objective of which is the realization of licensing revenues from third party use of inventions underlying ITC's patent portfolio. ITC believes that, in many instances, licenses for certain of its patents are required in order for third parties to manufacture and sell digital cellular products in compliance with TDMA-based standards currently in use worldwide. Those standards include, but are not limited to, the U.S. Digital Cellular Standard (IS-54/136), the Global System for Mobile Communications (GSM), the Pan-Asian Digital Cellular Standard, Digital Enhanced Cordless Telephone and Personal Handyphone System. Currently, numerous manufacturers supply digital cellular equipment conforming to such standards.

ITC offers non-exclusive, royalty bearing patent licenses to telecommunications manufacturers that manufacture, use or sell, or intend to manufacture, use or sell, equipment that utilizes our extensive portfolio of intellectual property. At December 31, 2000, in the 2G arena, ITC had granted a total of 25 non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use its patents, including 19 licenses relating to TDMA patents, three licenses relating to CDMA patents and four licenses relating to both TDMA and CDMA patents. In 2000, we recognized revenue of \$34.1 million from these licensees. While discussions with unlicensed companies are proceeding in a normal manner, these companies can present significant negotiation issues given their substantial sales over the years. We are trying to be both aggressive and creative in structuring broad-based agreements that enable them to meet their obligations to us and position us as a value added partner, although there can be no assurance that these discussions will result in new licensing agreements. If, in order to protect the integrity of our intellectual property, we must use litigation as a tool, we will do so, but generally only after we have exhausted other options. The cost of such patent litigation can be significant.

Also, with regard to existing 2G licensees, the Company and a licensee, in the normal course of business, may have disagreements as to the rights and obligations of the parties under the applicable license agreement. In certain cases, a licensee may significantly under-report sales. The license agreements typically provide private arbitration as the mechanism for resolving disputes, including disputes involving under-reporting of sales. The Company is currently involved in one such arbitration with NEC Corporation (NEC). (See, Item 3. Legal Proceedings.)

We also anticipate that we will be able to generate significant revenue from the licensing of patents for 3G applications. Based on standards as adopted, we believe we have a number of patents essential to the implementation of all the technology modes incorporated in the current 3G standards. We also expect that many of our patents or patents issuable from existing applications will be commercially important in the actual product implementations. In March 2001, ITC signed a world-wide, royalty bearing CDMA patent license agreement with Matsushita Communications Industrial Co., Ltd (Matsushita), for Matsushita to manufacture, have manufactured, distribute and sell 3G terminal units, test equipment and infrastructure. Under the Agreement, ITC will receive an up-front payment of \$19.5 million as an advance against future royalties. After the initial prepayment is exhausted through product sales, Matsushita has agreed to pay additional recurring royalties to ITC as it sells products using ITC's patents issued around the world.

We are in active discussions on a worldwide basis regarding the licensing of our CDMA patents, and some of our current agreements include rights as to 3G products. Our current license agreements with Nokia, Siemens and Qualcomm do include rights under certain of our patents to manufacture and sell products compliant with 3G standards, with some limitations. The Nokia arrangement is paid-up, generally, through a period during which Nokia and InterDigital are engaged in the 3G development project. (See, "-Strategic Engineering Services".) After that period, a structure is provided for determining future royalty payments. All of our current essential patents for 3G standards are included under the Nokia Agreement. The Siemens and Qualcomm agreements are fully paid-up with regard to the rights granted, which includes certain rights as to 3G products. The Siemens agreement does not include any rights under patents issuing from patent applications filed after December 15, 1999. The Qualcomm license agreement excludes, among other things, any rights under our patents as regards TDMA standards, any rights under our patent applications filed after March 7, 1995, as well as patents relating to cellular overlay and interference cancellation. Based on these limitations, neither the Siemens nor the Qualcomm agreement provides rights under all the ITC patents which we believe to be essential to 3G, or all of the inventions which we believe will be essential and which are contained in pending patent applications. The Qualcomm license agreement grants Qualcomm the paid-up right to grant sub-licenses under certain of our patent and patent applications to Qualcomm's customers. For certain ITC patents, Qualcomm's sublicensing rights are limited to those situations where Qualcomm is selling ASICs to the customer. For a limited number of patents, Qualcomm may grant licenses under ITC's patents regardless of whether the customer is also purchasing an ASIC from Qualcomm.

In high technology fields characterized by rapid change and engineering distinctions, the validity and value of patents are often subject to complex legal and factual challenges and other uncertainties. Accordingly, ITC's patent claims are subject to uncertainties which are typical of patent enforcement generally. The validity of certain of ITC's key patents has been challenged in patent opposition proceedings in various jurisdictions, including Germany, Sweden, Japan, and Finland. While in certain cases, ITC patents have been invalidated or substantially narrowed, ITC benefits from the fact that its patent licensing program in both 2G and 3G is based on a broad portfolio of patents, held worldwide, and not on a single patent or invention. Nonetheless, if any third party successfully asserts that certain of our patent claims are not valid or do not cover their products, or if products are implemented in a way such that patents that we believe to be commercially important are not infringed, InterDigital's licensing potential and revenues could be adversely affected. The cost of enforcing and protecting the patent portfolio can be significant.

In that regard, we are currently in litigation with Ericsson, Inc., which is seeking the court's declaration that Ericsson's products do not infringe ITC's United States TDMA patents, that certain of ITC's United States TDMA patents are invalid and that certain of ITC's United States TDMA patents are unenforceable. Ericsson has also asserted claims of tortious interference with contractual and business relations, defamation and commercial disparagement, violation of ss. 43 (A) of the Lanham Act, breach of contract as a third-party beneficiary, and fraud and negligent misrepresentation for which Ericsson seeks an unspecified amount of actual damages, cost and attorneys' fees. We are vigorously contesting each of Ericsson's allegations. In addition, ITC has counterclaimed against Ericsson alleging that Ericsson is willfully infringing certain United States TDMA patents owned by ITC. ITC seeks permanent injunction against Ericsson's infringement of these patents, and an unspecified amount of actual and exemplary damages, costs and attorneys' fees. (See, Item 3. "Legal Proceedings -Ericsson.")

In addition to patent licensing, we have also been actively engaged since 1994 in the licensing of know-how both to companies with whom we have had strategic relationships (including alliance partners) and to other companies. Our initial technology transfer program involved our proprietary B-CDMA technology, a wideband CDMA technology initially adapted for WLL applications but with mobile capacity. In 1994, we entered into a technology licensing arrangement with Siemens AG under which Siemens was provided access and use, on a royalty-bearing basis, to our developed and to-be-developed B-CDMA technology. In January 1996, we added Samsung as a licensee both to our B-CDMA technology and our UltraPhone(R) product know-how. Alcatel Espana signed a license with us in 1998 for B-CDMA technology.

In 1999, both Siemens and Alcatel made corporate decisions not to invest further in the development of proprietary B-CDMA technology for fixed wireless applications and to focus their energies on the 3G market. Samsung has effectively made a similar decision. We, in turn, elected to discontinue our B-CDMA development efforts. In 1999, we signed a technology transfer and licensing agreement with Nokia covering high data rate W-CDMA technology. (See, "-Business Activities. Strategic Engineering Services".)

The following table summarizes the technology areas in which we granted licenses under our patents and technology.

IS-54/136	GSM	PHS
American Telephone & Telegraph	American Telephone & Telegraph	American Telephone & Telegraph
Hitachi, Ltd.	Hitachi, Ltd.	Denso Corporation
Hughes Network Systems	Japan Radio Company	Hitachi, Ltd.
Kyocera Corporation	Kyocera Corporation	Iwatsu America, Inc.
Matsushita Electrical Co, Ltd.	Matsushita Electrical Co, Ltd.	Japan Radio Company
Mitsubishi Electric Corp.	Mitsubishi Electric Corp.	Kokusai Electric Co., Ltd.
NEC Corporation	NEC Corporation	Kyocera Corporation
Nokia Corporation	Nokia Corporation	Matsushita Electrical Co, Ltd.
Oki Electric Industry, Ltd.	Oki Electric Industry, Ltd.	Mitsubishi Electric Corp.
Pacific Comm. Sciences, Inc.	Pacific Comm. Sciences, Inc.	NEC Corporation
Robert Bosch GmbH	Robert Bosch GmbH	Nokia Corporation
Samsung Electronics Co. Ltd.	Samsung Electronics Co. Ltd.	Oki Electric Industry, Ltd.
Sanyo Electric Corporation	Sanyo Electric Corporation	Robert Bosch GmbH
Siemens AG	Shintom Company	Samsung Electronics Co. Ltd.
Toshiba Corporation	Siemens AG	Sanyo Electric Corporation
Ubinetics Ltd.	Toshiba Corporation	Sharp Corporation
	Ubinetics Ltd.	Shintom Corporation
		Siemens AG
PDC	B-CDMA Technology	Toshiba Corporation
American Telephone & Telegraph	Advanced Digital Technologies	Ubinetics Ltd.
Denso Corporation	Alcatel Espana	
Hitachi, Ltd.	Samsung Electronics Co. Ltd.	IS-95
Japan Radio Company	Siemens AG	American Telephone & Telegraph
Kokusai Electric Company, Ltd.		Nokia Corporation
Kyocera Corporation	DECT	Oki Electric Industry, Ltd.
Matsushita Electrical Co, Ltd.	Kyocera Corporation	Qualcomm, Inc.
Mitsubishi Electric Corp.	Nokia Corporation	Siemens AG
NEC Corporation	Siemens AG	
Nokia Corporation	Sanyo Electric Corporation	TETRA
Oki Electric Industry, Ltd.	Toshiba Corporation	Japan Radio Company
Pacific Comm. Sciences, Inc.		Matsushita Electrical Co, Ltd.
Robert Bosch GmbH	W-CDMA	Nokia Corporation
Samsung Electronics Co. Ltd.	Siemens AG	Siemens AG
Sanyo Electric Corporation	Qualcomm Inc.	
Sharp Corporation	Nokia Corporation	UltraPhone Product Know-How
Siemens AG	Matsushita Communications Industrial	Samsung Electronics Co. Ltd.
Toshiba Corporation	Infineon Technologies AG	
Ubinetics Ltd.		

## Technical Standards Activity

The ITU-R has established a standard for 3G wireless access known as IMT-2000. We have participated actively in the 3G standards development process, contributing more than 300 proposed concepts and methodologies to standards bodies in Europe and the United States. Our Senior Vice President for Standards is also the Chair of a task force under the Institute of Electrical and Electronic Engineers (IEEE) that is developing standards for broadband wireless access systems and one of our senior engineers is the Vice-Chairman of a 3G Partnership Project (3GPP) working group. In addition, we are active members of various standards bodies including the ITU-R, 3GPP, Telecommunications Industries Association (TIA), Engineering Subcommittee T1P1, European Telecommunications Standards Institute (ETSI), American National Standards Institute (ANSI), and the Japanese Association of Radio Industries and Businesses (ARIB).

## Employees; Research & Development Resources and Expenses

As of March 22, 2001, we had approximately 257 full-time employees. In addition, we use the services of consultants and part-time employees. None of our employees are represented by a collective bargaining unit. A breakdown of InterDigital's full-time employees by functional area is as follows:

FUNCTIONAL AREA -----	NUMBER OF EMPLOYEES -----
Sales and Marketing	8
Research and Development	199
Patent Administration and Licensing	8
Corporate and Administration	42
	---
Total	257
	===

In addition to our own employees who perform technology development, we utilize the efforts of outside engineering resources as well as engineering contributions from Nokia. Further development of InterDigital's technologies is expected to require additional technical and administrative support, as well as additional marketing resources and higher levels of sustained efforts for the next several years. We have undertaken an aggressive effort to increase and retain our engineering resources, and expect to increase our research and development staff by approximately 80-100 people over the next 15 months. The recruitment of personnel with technical expertise in wireless communications technology development is highly selective and competitive. In addition to recruiting high quality engineers, we intend to attempt to satisfy our increasing need for engineering resources through, among other things, consulting services and further strategic relationships.

## Executive Officers

The Executive Officers of InterDigital are:

NAME ----	AGE ---	POSITION -----
Howard E. Goldberg	55	President and Chief Executive Officer
Alain C. Briancon	41	Executive Vice President and Chief Technology Officer
Richard J. Fagan	44	Executive Vice President and Chief Financial Officer
Mark A. Lemmo	43	Executive Vice President, Product Management
William J. Merritt	42	Executive Vice President, General Counsel and Secretary
Charles "Rip" Tilden	47	Executive Vice President, Communications and Strategic Planning
Brian G. Kiernan	54	Senior Vice President, Standards
William C. Miller	46	Senior Vice President, Programs and Engineering

Howard E. Goldberg was promoted to Chief Executive Officer and appointed as a director of the Company in November 2000 and to President in January 2001 from his prior position as Interim President, which he had held since September 1999. Mr. Goldberg also serves as President of ITC. Prior to becoming Chief Executive Officer, Mr. Goldberg also held the position of Executive Vice President - Strategic Alliances from October 1998 to September 1999. Mr. Goldberg also held the positions of Executive Vice President, General Counsel and Secretary from May 1995 to October 1998.

Alain C. Briancon joined InterDigital as Executive Vice President and Chief Technology Officer in January 2001. From 1996 through December 2000, Dr. Briancon served as Vice President and General Manager of Motorola Inc., with the Advanced Services Applications Platform Division within the Semiconductor Product Sector from 1999 to December 2000, the Digital Experience within the Personal Communication Sector from 1998 to 1999, and the FLEX(TM) Information Networking Division Messaging Systems Product Group during 1998. Prior to that, he served as Vice President and Director of Motorola's FLEX(TM) Architecture, Protocols and Standards Group from 1995 to 1997.

Richard J. Fagan joined InterDigital as a Senior Vice President and Chief Financial Officer in November 1998, and was promoted to Executive Vice President in September 1999. Prior to that, Mr. Fagan served as Controller and Treasurer of Quaker Chemical Corporation, a Pennsylvania corporation, since 1994 and as Assistant Corporate Controller of that corporation from 1993 to 1994.

Mark A. Lemmo was named Executive Vice President, Product Development in April 2000. Prior to that, Mr. Lemmo held the position of Executive Vice President, Engineering and Product Operations since October 1996 and Vice President, Sales and Marketing since June 1994.

William J. Merritt was promoted to Executive Vice President in September 1999 and continues in the capacity of General Counsel and Secretary. Prior to that, Mr. Merritt held the position of Senior Vice President, General Counsel and Secretary since October 1998 and Vice President- Legal and Assistant Secretary since January 1996.

Charles "Rip" Tilden was named Executive Vice President, Communications and Strategic Planning in January 2000. Prior to that, Mr. Tilden held the positions of Executive Vice President Communications, Investor Relations and Strategic Planning since March 1988, Senior Vice President from May 1997 and Vice President from November 1996 until May 1997. Before joining InterDigital, Mr. Tilden served as Vice President, Corporate Affairs at Alco Standard Corporation in Wayne, Pennsylvania, an office products and paper distribution company, since December 1994.

Brian G. Kiernan was promoted to Senior Vice President, Standards in July 1997. Prior to that Mr. Kiernan held the position of Vice President, Marketing Support from January 1993.

William C. Miller joined InterDigital as Senior Vice President, Programs and Engineering in July 2000. Before joining InterDigital, Mr. Miller served as Vice President, Programs with Telephonics Corporation, an aircraft and mass transit communications systems corporation located in Farmingdale, New York, since 1993.

InterDigital's Executive Officers are elected to the offices set forth above to hold office until their successors are duly elected and have qualified. All of such persons are parties to agreements which provide severance pay benefits, among other things, in certain events of terminations of employment. Mr. Goldberg's agreement generally provides for the payment of severance of up to a maximum of eighteen months salary and up to a maximum of eighteen months continuation of medical and dental benefits. The other executives' agreements generally provide for the payment of severance up to a maximum of one year's salary and up to a maximum of one year's continuation of medical and dental benefits. In addition, with respect to all of these agreements, in the event of a termination or resignation within one year following a change of control, which is defined as the acquisition (including by mergers or consolidations, or by the issuance by InterDigital of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of InterDigital, the executive would generally receive two years of salary and the immediate vesting of all restricted stock and stock options.

## Risk Factors

### Item 1, "Business" and Item 7, "Management's Discussion and Analysis"

contained within this Annual Report on Form 10-K contain forward-looking statements reflecting, among other things, (i) our current intentions and plans

(a) to position ourself in the marketplace as an end-to-end "technology enabler" offering a broad portfolio of products, (b) to capitalize on the value of our intellectual property through patent licensing, technology and know-how transfer and specialized engineering services, (c) to bring to market, with strategic partners or on our own, 3G products to enable the delivery of high quality voice and high data rate services in mobile terminals and base stations, and (d) to dedicate a portion of our engineering resources to incubate extensions of our current technology, derivative products and new technologies; (ii) analysts', industry observers' and experts' beliefs and forecasts as to the market for wireless products and services, 3G market growth, and the timing of market development; (iii) our current beliefs and expectations as to 3G product and technological capability, the successful development and the applications for our technology and potential products, 3G markets, demand for 3G products, timing of 3G market development, applicability of standards, preferences of service providers, our competition and competitive advantages, and growth in revenues and operating expenses; and (iv) our ability to enter into new business relationships, enter into new licenses, bring 3G products to market on a timely basis or at all, deliver engineering services, hire additional personnel, and derive revenues from our patents. Words such as "should", "likely to", "expect", "forecast", "believe", "strategy", "intend", "plan", "targeting", "anticipate", "project", and "may seek", variations of such words, and words with similar meaning or connotations are intended to identify such forward-looking statements.

Such statements are subject to risks and uncertainties. We caution readers that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such forward looking statement. You should not place undue reliance on these forward-looking statements, which apply on or as of the date of this report. Certain of these risks and uncertainties are described in greater detail below. It should be noted that risks described as affecting one forward looking statement may affect other forward looking statements. In addition, other factors may exist that are not detailed below or that are not fully known to us at this time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Our Strategy as it Relates to our Position in 3G is in the Early Stages of Implementation and, as such, is Based on Numerous Assumptions

We are in the early stages of executing on our strategic plan as it relates to our position in 3G. Our strategic plan involves numerous assumptions. Assumptions are forward-looking in nature and as such are inherently subject to risks and uncertainties, including the Risk Factors detailed below, which could affect our potential revenues and profitability and our ability to effectively execute our strategy. For example, in order to generate revenues and profits from sales of ASICs, we must continue to make substantial investments and technological innovations. A significant assumption in our strategic plan is that TDD will be adopted and widely used in the 3G market. If TDD is not so adopted and widely used, a significant element of our anticipated revenue may be impaired. (See, "-Our Technologies May Not Be Widely Deployed".) In addition, we intend to rely on strategic partnerships to channel certain ASIC products into the marketplace. The failure or delay in entering into such relationships, either on acceptable terms or at all, could impair our ability to introduce our technology and resultant products. (See, "-We Intend to Rely Heavily on Additional Relationships with Third Parties".) Other key assumptions include the availability of financial and human capital, our ability to sustain and grow our patent position in the 2G and 3G markets, and that the 3G market will develop at a time when we are prepared to enter it. (See, "-We Depend on Sufficient Engineering Resources", "-The Company's Revenue in the Short and Long Term Depends Upon the Company's Success in Enforcing Patent Rights and Protecting Other Intellectual Property", and "-Our Markets are Unpredictable and Subject to Rapid Technological Change".) Should any of these assumptions fail to materialize, our ability to meet our strategic plan could be impaired.

### **Our Technologies May Not Be Widely Deployed**

Much of our development work is in the nature of research and therefore is subject to the risks typically associated with research activities. New technological innovations generally require a substantial investment before they are commercially viable, and we may make substantial, non-recoverable investments in new technologies that may not result in meaningful revenues. For example, in order to generate revenues and profits from sales of ASIC products, we must continue to make substantial investments and technological innovations. A significant assumption in our strategic plan is that TDD will be adopted and widely used in the 3G market. Other digital wireless technologies, particularly wireless LAN, FDD used in data applications and alternative forms of TDD (such as TD-SCDMA), are expected to be competitive with TDD. There can be no assurance that our technology will ultimately have market relevance, be selected by wireless service providers for their networks, or that Nokia will continue to fund our TDD development if TDD is determined to have unacceptable market risk (as well as for other reasons). If TDD is not so adopted and widely used, a significant element of our anticipated revenue may be impaired.

## **Our Future Operating Results are Likely to Fluctuate**

Our revenues, earnings and other operating results have fluctuated significantly in the past and may fluctuate significantly in the future. These operating results are likely to continue to fluctuate because (i) our markets are subject to increased competition from other products and technologies and announcements of new products and technologies by our competitors; (ii) it is difficult to predict the timing and amount of licensing revenue associated with past infringement and new licenses, or the timing, nature or amount of revenues associated with strategic partnerships; (iii) we may not be able to enter into additional strategic partnerships or license agreements, either at all or on acceptable terms; (iv) the strength of our patent portfolio could be weakened through patents being declared invalid, design-arounds, changes to the standards, and adverse court decisions; (v) our revenues are partially dependent on sales by our licensees which is outside of our control; and (vi) a significant portion of our revenue is generated from two companies, and the loss or significant reduction of revenue from either of such companies could cause our revenues to decrease materially. General economic and other conditions causing a downturn in the market for our products in development or technology could also adversely affect our operating results. The foregoing factors are difficult to forecast and these, as well as other factors, could harm our quarterly or annual operating results. If our operating results fail to meet the expectations of investors in any period, the market price of our common stock may decline. Nevertheless, we base our decisions regarding our operating expenses on a combination of current cash balances, anticipated revenue trends and the level of expenditures required to execute our strategic plan. Because the base level of many of our expenses is relatively fixed, revenue from a small number of customers could cause our operating results to vary from quarter to quarter and result in operating losses. In addition, increased expenses which could result from factors such as increased hiring and retention costs or actions designed to keep pace with technology and product market targets could adversely impact near-term profitability targets.

## **We Intend to Rely Heavily on Additional Relationships with Third Parties**

The successful execution of our strategic plan is partially dependent on the establishment and success of relationships with equipment producers and other third parties. Our plan contemplates that these third parties will give us access to product capability, markets and additional libraries of technology. Our failure to enter into such additional relationships, either on acceptable terms or at all, or our failure to successfully execute such relationships, could impair our ability to introduce portions of our technology and resulting products. In addition, delays in entering into such relationships could cause us to miss critical market windows. This, in turn, could adversely affect our future revenue streams.

## **We Have Substantial Global Competition**

Competition in the wireless telecommunications industry is intense. There can be no assurance that we will be able to successfully compete, or that our competitors will not develop new technologies and products that are more commercially effective than our own. We face competition from companies providing services comparable to ours. We also face competition from the in-house development teams at telecommunication equipment suppliers. Many of our competitors are substantially larger than we are, and have financial, technical, marketing, sales, and distribution resources greater than ours. In addition, our customers may face competition from other telecommunication equipment providers. It is also possible that new competitors may enter the market. These competitors may have more established relationships and distribution channels than we do. These competitors may also have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. Many current and potential competitors have advantages over us, including (a) existing royalty-free cross-licenses to competing and emerging technologies; (b) longer operating histories and presence in key markets; (c) greater name recognition; (d) access to larger customer bases; and (e) greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we have. As a result of these factors, these competitors may be more successful than us.

Our ability to derive revenues from the licensing of technology will depend in part on the successful and timely development of our technologies and in part on our ability to gain additional customers. Our competitive position could be compromised by the introduction of superior technology or our delay in (or a competitor's more timely introduction of) relevant technology.

Finally, our principal semiconductor partner(s) must be able to provide capacity, competitively priced products, and possess adequate manufacturing and distribution networks. If costs are higher than expected or they are capacity limited, our direct and/or indirect market penetration could be hampered, leaving potential customers to seek alternate solutions.

## **We Need to Effect Further Technology & Product Development**

We may experience technical, financial or other difficulties or delays related to the further development of our technologies. Delays can be costly, and there can be no assurance that our development efforts will ultimately be successful. Further, if such engineering efforts are not successful or delays are serious, our existing and potential strategic relationships could suffer or these strategic partners could be hampered in their marketing efforts of products containing our technologies. This means that we could experience reduced royalty revenues or lower royalty revenues on such organizations' products containing our technology, or that we could miss a critical market window. Further, if we do not meet the material obligations under our existing or potential contracts with our existing or potential partners, the partner could terminate the relationship and/or seek to hold us liable for breach. Moreover, our technologies are in the development stage, and have not been fully tested in commercial use. It is possible that they may not perform as expected or may not be market relevant. In such case, our business, financial condition and operating results could be adversely affected.

## **Our Markets are Unpredictable and Subject to Rapid Technological Change**

We are positioning our current development projects for the yet to emerge 3G market. These projects are not suited for the 2.5G (an evolved form of the 2G market), GPRS, EDGE, or any other market which might develop after the 2G market wanes prior to the development of the 3G market. If the 3G market does not evolve, we would not be able to execute on our strategic plan, and our business, financial condition and operating results could be materially affected.

Further, the 3G market may develop at a slower rate or pace than we expect and may be of a smaller size than we expect. For example, the potential exists for 3G preemption by the hangover of 2.5G solutions now being bought, tested and fielded. In addition, there could be fewer applications for our technology and products than we expect. Moreover, spectrum licensing unavailability or costs could also impede investment in 3G infrastructure. Many factors could affect the rate and pace of 3G market development including, but not limited to, economic conditions, customer buying patterns, timeliness of equipment development, pricing of 3G products, continued growth in telecommunications services that would be delivered on 3G devices, and availability of capital for and high cost of infrastructure improvements. Failure of the 3G market to materialize to the extent or at the rate which we expect would reduce our opportunities for sales and licensing and could materially adversely affect our business, financial condition and operating results.

The entire communications market in which we compete is characterized by rapid technological change, frequent product introductions and evolving U.S. and non-U.S. industry standards. Existing technology and products become obsolete and unmarketable when products using new technologies are introduced and new industry standards emerge. As a result, marketability and the potential life cycles of the products and technologies that we are developing can not be assured and are difficult to estimate. In addition, new industry standards, falling prices or technology changes may render the products and/or technologies obsolete or non-competitive. To be successful, we must continue to develop new products and technologies that successfully respond to such changes. We may not be able to form strategic relationships, either at all or on acceptable terms, to enable us to develop such new products and technologies. Even if we do, we may not be able to introduce such products or technologies successfully in a timely manner. Missing a critical market window could reduce or eliminate our ability to capitalize on the technology and products as to which the window applies.

Our future success will depend on our ability to continue to develop and introduce new products, technology and enhancements on a timely basis. Our future success will also depend on our ability to keep pace with technological developments, satisfy varying customer requirements, price our products competitively and achieve market acceptance. The introduction of products embodying new technologies and the emergence of new industry standards could render our products and technology currently under development obsolete and unmarketable. If we fail to anticipate or respond adequately to technological developments or customer requirements, or experience any significant delays in development, introduction or shipment of our products and technology in commercial quantities, our competitive position could be damaged.

These efforts will require continued significant investment in research and development. We cannot be sure that we will have sufficient resources to make such investments, that we will be able to make the technological advances necessary to achieve these goals, or that the costs of the acquired efforts will be acceptable. Our business, financial condition and operating results could be materially adversely affected if we are unable to respond to the need for technological change or if these products or technologies do not achieve market acceptance when released.

We Currently Derive a Significant Portion of Our Revenue from Two Customers. The Loss of Either One of These Customers Could Reduce Our Revenues and Could Harm Our Ability to Achieve or Sustain Acceptable Levels of Profitability.

Revenues attributable to Nokia Corporation, a strategic engineering partner, and Sharp Corporation, one of our TDMA patent licensees, comprised approximately 63% of total revenue in 2000. The loss of either one of these customers or the delay or reduction in receipt of revenues from either of these customers would reduce our revenues and cash flow and could harm our ability to achieve or sustain acceptable levels of profitability.

We Rely On and May Be Unable to Adequately Enforce Our Intellectual Property Rights

Our business opportunities substantially depend upon the development of know-how and patent inventions. To protect these rights, we rely primarily on a combination of patent laws, confidentiality agreements with employees and third parties, and protective contractual provisions. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our technology and information that we regard as proprietary. Other parties may breach confidentiality agreements and other protective contracts into which we have entered. We may not have adequate remedies in the event of such breach. Further, there can be no assurance that the pending patent applications will be granted, or that our existing or new patents will provide adequate protection or coverage.

In addition, the cost of defending our intellectual property has been and may continue to be significant. Litigation may be required to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to protect our intellectual property rights could be costly and could absorb significant management time and attention which, in turn, could negatively impact our results of operations. Moreover, third parties could circumvent the patents held by our wholly-owned subsidiary, ITC, through design changes. Any of these events could adversely affect our prospects for realizing future income.

From time to time, certain companies may also assert that their patent, copyright and other intellectual property rights are also important to the industry or to us. In that regard, from time to time third parties provide us with copies of their patents relating to digital wireless technologies and offer licenses to such technologies. We in turn evaluate such patents and the advisability of obtaining such licenses. If any of our products were found to infringe on protected technology, we could be required to redesign such products, license such technology, and/or pay damages to the infringing party. If we are unable to license protected technology used in our products and/or if we cannot economically redesign such products, we could be prohibited from marketing such products. In such case, our prospects for realizing future income could be adversely affected.

#### Our Revenue in the Short and Long Term Depends Upon our Success in Enforcing Patent Rights and Protecting Other Intellectual Property

---

Our strategic plan depends, in the short term, upon our ability to generate patent licensing revenue related to the sale by third parties of handsets and infrastructure compliant with the TDMA digital cellular standards in use today, among them GSM, IS-54/136 and PDC (2G products). Our ability to collect such revenue is subject to a number of risks. First, major telecommunications equipment manufacturers have challenged, and we expect will continue to challenge, the validity of the ITC patents. In some instances, certain of ITC's patent claims have been declared invalid or substantially narrowed. While ITC continues to maintain a world-wide portfolio of patents that it believes are valid and infringed, and while we intend to vigorously defend and enforce such patents, we cannot assure that the validity of our patents will be maintained or that any of our key patents will be determined to be applicable to any 2G or 3G product. Any significant adverse finding as to the validity or scope of ITC's key patents could result in the loss of patent licensing revenue from existing licensees and could substantially impair our ability to secure new patent licensing arrangements.

Second, we are currently engaged in a significant patent infringement litigation with Ericsson, Inc. over certain of the ITC patents. During the course of this litigation (or a future yet unidentified and unfiled litigation, should such litigation arise), certain of ITC's key patents could be found to be invalid or not infringed. Any such adverse finding as to the validity or scope of ITC's key patents could result in the loss of patent licensing revenue from existing licensees and could substantially impair our ability to secure new patent licensing arrangements.

In the long term, our strategic plan depends upon our ability to generate patent licensing revenue from the sale by third parties of products compliant with the standards adopted for 3G (3G Products). Our ability to generate such revenue is subject to certain risks. First, many of the inventions which we believe will be employed in 3G Products are the subject of patent applications which have not yet been issued by the relevant patent reviewing authorities. While we intend to vigorously prosecute such patents, we cannot assure that these patent applications will be granted and that the resulting patents will be infringed by 3G Products. Second, we expect that the validity of our patents will be challenged, and that we will be required to enforce our patents against parties that refuse to take a license under our patents. While we intend to vigorously defend and enforce our patents, we cannot assure that the validity of our patents will be maintained or that any of our patents will be determined to be applicable to any 3G Product.

Certain of our licenses contain "most favored nations" and other provisions, applied on a going forward basis only, which could, in certain events, cause the licensee's obligation to pay royalties to us to be reduced, terminated or suspended for an indefinite period, with or without the accrual of the royalty obligation. In addition, certain of our licensees had, in the past, stated, among other things, that the outcome of a prior litigation over ITC's patents materially impacted the royalties due under their license agreements. While we believe that these positions have been meritless, similar positions could be asserted in the event that a licensee's obligation to pay royalties to us in the future is either terminated or indefinitely suspended or in the event that ITC's patents are held invalid or unenforceable or this position could be found to have merit. Such positions taken could interfere with ITC's ability to secure new licenses or to generate recurring licensing revenue under the existing agreements. In addition, ITC may have to incur expenses and suffer further delays to mediate, arbitrate and/or litigate such assertions, with no assurance of ultimate success. ITC's licensing opportunities are also affected by the increasing concentration of the wireless industry, particularly as to infrastructure, which results in a substantial portion of the licensing opportunities being concentrated in a small number of non-licensed manufacturers, many of whom are generally opposing the validity of ITC's patents in multiple forums. In such cases, our operating results and revenues could be adversely affected.

### **We Depend on Sufficient Engineering Resources**

Competition for qualified and talented individuals with engineering experience in emerging technologies, like Wideband CDMA, is intense. Further, none of the persons that we currently employ are parties to agreements that require them to provide services to us for a minimum period of time. Our success and ability to enter into additional strategic or other relationships may depend on our ability to attract and retain a significant number of talented and qualified technical personnel; and there can be no assurance that we will be able to do so. The failure to attract and retain highly qualified personnel could interfere with our ability to undertake additional technology and product development efforts as well as our ability to meet our strategic objectives.

### **Analyst and Market Predictions are Forward-Looking in Nature**

Our market predictions, as well as analyst, industry observer and expert predictions described herein are forward looking in nature and, as such, are inherently subject to risks and uncertainties. Many factors could affect these predictions including, but not limited to, the validity of their and our assumptions, economic conditions, customer buying patterns, timeliness of equipment development, pricing of 3G products, continued growth in telecommunications services that would be delivered on 3G devices, and availability of capital for infrastructure improvements. Also, the 3G market may not develop at the rate or pace that we or they predict.

If Wireless Handsets Pose Health and Safety Risks, Demand for Our Products in Development and Those of Our Licensees and Customers Could Decrease.

Media reports and certain studies have suggested that radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. If concerns over radio frequency emissions grow, this could have the effect of discouraging the use of wireless handsets, which would decrease demand for our products and those of our licensees and customers. There also are some safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that may be adopted in response to these risks could reduce demand for our products in development and those of our licensees and customers.

### **We Face Risks From Doing Business in Global Markets**

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international markets. In doing so, we are subject to the effects of government regulations, tariffs and other applicable trade barriers, currency control regulations, political instability, potentially adverse tax consequences, inability to enforce contractual commitments abroad, and general delays in remittance and difficulties of collecting non-U.S. payments, among other things. We are also subject to risks specific to the individual countries in which our customers, our licensees and we do business.

### **We Face Risks From Changing Global Economic Conditions**

We and our customers face risks from economic conditions generally which affect, among other things, the ability and willingness of companies to invest in technological and product development, our need for working capital, and our revenue recognition.

## **Item 2. PROPERTIES**

InterDigital owns one facility, subject to a mortgage, in King of Prussia, Pennsylvania. InterDigital is party to a lease expiring in 2007, for approximately 67,000 square feet of space in Melville, New York. InterDigital is a party to a lease expiring in 2006, for approximately 11,918 square feet of space in Montreal, Quebec, Canada. These facilities are the locations for our technology development activities. InterDigital is also a party to a lease expiring in 2001 for approximately 1,125 square feet of office space in Tokyo, Japan.

### Item 3. LEGAL PROCEEDINGS

#### Ericsson

In September 1993, ITC filed a patent infringement action against Ericsson GE Mobile Communications, Inc. ("Ericsson GE"), its Swedish parent, Telefonaktiebolaget LM Ericsson ("LM Ericsson") and Ericsson Radio Systems, Inc. ("Ericsson Radio"), in the United States District Court for the Eastern District of Virginia (the "Ericsson action") which was subsequently transferred to the United States District Court for the Northern District of Texas. The Ericsson action seeks a jury's determination that in making, selling or using, and/or in participating in the making, selling or using of digital wireless telephone systems and/or related mobile stations, Ericsson has infringed, contributed to the infringement of and/or induced the infringement of eight patents from ITC's patent portfolio. The Ericsson action also seeks an injunction against Ericsson from infringement and seeks unspecified damages based upon the Court's determination of what constitutes a reasonable royalty for infringement, royalties, costs and attorney's fees. Ericsson GE filed an answer to the Virginia action in which it denied the allegations of the complaint and asserted a Counterclaim seeking a Declaratory Judgment that the asserted patents are either invalid or not infringed. On the same day that ITC filed the Ericsson action in Virginia, two of the Ericsson Defendants, Ericsson Radio and Ericsson GE, filed a lawsuit against InterDigital and ITC in the United States District Court for the Northern District of Texas (the "Texas action"). The Texas action, which involves the same patents that are the subject of the Ericsson action, seeks the court's declaration that Ericsson's products do not infringe ITC's patents, that ITC's patents are invalid and that ITC's patents are unenforceable. The Texas action also seeks judgment against InterDigital and ITC for tortious interference with contractual and business relations, defamation and commercial disparagement, and Lanham Act violations. The Ericsson action and the Texas action have been consolidated. ITC agreed to the dismissal without prejudice of LM Ericsson.

In December 1997, Ericsson Inc., the successor to Ericsson GE and Ericsson Radio, filed an action against ITC in the United States District Court for the Northern District of Texas (the "1997 Texas action") seeking the court's declaration that Ericsson Inc.'s products do not infringe two patents issued to InterDigital earlier in 1997 as continuations of certain patents at issue in the Texas action. Later that month, Ericsson Inc. filed an amendment Complaint seeking to include these two new patents in the Texas action in an effort to consolidate the two cases. In January 1998, both Ericsson Inc. and InterDigital and ITC filed motions requesting that Ericsson Inc.'s amended Complaint be allowed and that the 1997 Texas action be dismissed, to which the Court agreed. In 1998, Ericsson Inc. filed a motion for Partial Summary Judgment, which was denied by the Court in early 1999. Also in 1998, the United States District Court for the Northern District of Texas granted InterDigital's Motion to amend its Counterclaim by adding four additional patents. During the third quarter of 1999, Ericsson Inc. filed for leave to file an Amended Complaint to add causes of action for breach of contract and fraud and negligent misrepresentation. The Court granted Ericsson's request. Fact discovery has been concluded. The "Markman" hearing was held in April 2000, where a Special Master later made recommendations in September 2000 to the Court as to the meaning of certain terms contained in the patents. The Court has yet to rule on the Special Master's recommendations. In addition, in May 2000, InterDigital filed a motion for Partial Summary Judgment, which has yet to be ruled on. InterDigital and ITC intend to vigorously defend the Texas action. However, if any of ITC's patents are held invalid, ITC's licensing opportunities and collections of royalty revenues could be materially and adversely affected. No date for trial has been set by the Court.

## **NEC**

In March 2001, ITC filed a Complaint against NEC with the American Arbitration Association. The Complaint alleges that NEC has substantially under-reported sales of TDMA-based products for which NEC is obligated to pay ITC royalties pursuant to the TDMA patent license agreement entered into by the parties in 1995. ITC is seeking payment of the under-reported royalties.

## **Other**

ITC has filed patent applications in numerous foreign countries. ITC is and expects from time to time to be subject to challenges with respect to its patents and patent applications in foreign countries. ITC intends to vigorously defend its patents. However, if any of ITC's patents or applications are revoked, ITC's patent licensing opportunities in the relevant foreign countries, and possibly in other countries, could be materially and adversely affected.

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

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

None.

## PART II

### Item 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the range of the high and low sales prices of InterDigital's Common Stock as reported by the American Stock Exchange through April 25, 2000 and by the National Association of Securities Dealers and Quotations thereafter.

		High	Low
2000		----	---
	First Quarter	\$80.00	\$20.625
	Second Quarter	27.5625	12.9375
	Third Quarter	25.00	12.00
	Fourth Quarter	14.50	4.50
1999		High	Low
		----	---
	First Quarter	\$6.9375	\$4.125
	Second Quarter	5.75	4.0625
	Third Quarter	6.75	4.25
	Fourth Quarter	82.00	5.3125

As of March 22, 2001, there were approximately 1,802 holders of record of our Common Stock.

We have not paid cash dividends on our Common Stock since inception. It is anticipated that, in the foreseeable future, no cash dividends will be paid on our Common Stock and any cash otherwise available for such dividends will be reinvested in our business. The payment of cash dividends will depend on our earnings, the prior dividend requirements on our remaining series of Preferred Stock and other Preferred Stock which may be issued in the future, our capital requirements and other factors considered relevant by our Board of Directors.

**Item 6. SELECTED CONSOLIDATED FINANCIAL DATA**

## Consolidated Statement of Operations Data:

	2000	1999	1998	1997	1996
	-----	-----	-----	-----	-----
Revenues:					
Product and services	\$ 5,634	\$ 4,496	\$ 6,751	\$ 43,854	\$ 24,974
Licensing and strategic partner	51,244	66,171	92,470	5,982	28,719
Total revenues	56,878	70,667	99,221	49,836	53,693
Net income (loss) applicable to common shareholders before cumulative effect of change in accounting principle	5,564	26,451	36,713	(34,523)	(11,904)
Earnings (loss) per common share before cumulative effect of change in accounting principle - basic	\$ 0.11	\$ 0.55	\$ 0.76	\$ (0.72)	\$ (0.26)
Earnings (loss) per common share before cumulative effect of change in accounting principle - diluted	\$ 0.10	\$ 0.52	\$ 0.75	\$ (0.72)	\$ (0.26)
Cumulative effect of change in accounting principle	\$ (53,875)	\$ --	\$ --	\$ --	\$ --
Net income (loss) applicable to common shareholders	(48,311)	26,451	36,713	(34,523)	(11,904)
Earnings (loss) per share - basic	\$ (0.91)	\$ 0.55	\$ 0.76	\$ (0.72)	\$ (0.26)
Earnings (loss) per share - diluted	\$ (0.91)	\$ 0.52	\$ 0.75	\$ (0.72)	\$ (0.26)
Weighted average number of shares outstanding-basic	52,855	48,357	48,380	48,166	46,462
Weighted average number of shares outstanding-diluted	57,306	50,495	48,771	48,166	46,462
Pro forma effect of change in accounting principle					
Net income (loss) applicable to common shareholders before cumulative effect of change in accounting principle		\$ 35,488	\$ 4,573	\$ (32,004)	\$ (25,165)
Net income (loss) per share - basic		\$ 0.73	\$ 0.09	\$ (0.66)	\$ (0.54)
Net income (loss) per share - diluted		\$ 0.70	\$ 0.09	\$ (0.66)	\$ (0.54)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 12,343	\$ 14,592	\$ 20,059	\$ 17,828	\$ 11,954
Short-term investments	76,644	68,550	32,218	7,976	43,063
Working capital	90,566	95,498	54,752	22,903	57,076
Total assets	141,625	126,571	99,523	69,363	112,636
Long-term debt	2,560	3,005	3,772	4,460	5,011
Accumulated deficit	(181,899)	(133,588)	(160,039)	(196,752)	(162,229)
Total shareholders' equity	\$ 73,910	\$ 109,507	\$ 75,808	\$ 38,505	\$ 72,507

## **Item 7. 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 in this document.

We develop advanced wireless technologies and products that drive voice and data communications. We intend to position ourselves in the marketplace as an end-to-end "technology enabler" offering a broad portfolio of products, including core technology, software solutions, systems expertise and finished chips.

We are focusing our strategy in three areas. First, we intend to capitalize on the value of our intellectual property through patent licensing, technology and know-how transfer and specialized engineering services. Second, we plan to bring to market, with partners or on our own, 3G products to enable the delivery of high quality voice and high data rate services in mobile terminals and base stations. Third, we intend to dedicate a portion of our engineering resources to incubate extensions of our current technology, derivative products and new technologies.

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

We generated positive cash flows from operating activities of \$4.5 million in 2000 compared to \$24.0 million in 1999. The high level of positive operating cash flow in 1999 resulted from cash receipts of approximately \$42.0 million arising principally from license agreements with Nokia, Robert Bosch GmbH and Japan Radio Corporation. The positive operating cash flow in 2000 was mainly due to changes in operating working capital related to inventory reduction and cash receipts associated with completed performance bonds and insurance recoveries generated during the period.

Net cash flows used in investing activities decreased to \$16.1 million in 2000 from \$35.5 million in 1999. The decrease was mainly due to a lower level of additional investment of funds in short-term, highly liquid securities (\$8.1 million in 2000 versus \$36.3 million in 1999). In addition, investments in property, equipment, information systems and patents were \$8.8 million in 2000 as compared to \$2.9 million in 1999. The increase in 2000 reflects accelerated development program and new information system investments.

During 2000, net cash provided by financing activities was \$9.3 million as compared to \$6.1 million in 1999. The increase in 2000 primarily resulted from net proceeds of \$12.3 million related to option and warrant exercises and our employee stock purchase plan. This was partially offset by the use of \$2.4 million to repurchase approximately 458,000 shares of common stock under a share repurchase program.

As of December 31, 2000, we had \$89.0 million of cash, cash equivalents and short-term investments, compared to \$83.1 million as of December 31, 1999. Our working capital excluding cash, cash equivalents, short-term investments and current maturities of debt decreased to \$1.9 million at December 31, 2000 from \$12.8 million at December 31, 1999. The decrease was principally a result of an increase in short-term deferred revenue resulting from changes recorded in response to SAB No. 101 and the sale of inventory related to exiting the WLL business offset in part by higher receivables associated with increased royalty revenue in the second half of 2000.

Consistent with our strategy of accelerated development activity, we expect to increase staffing levels and investments in enabling capital assets in 2001. Capital expenditures in 2001 for hardware, software, patents and other items needed to support development program and product positioning initiatives are expected to be \$8.0 million - \$10.0 million. Absent cash flow from new license agreements, the impact of these accelerated investments may result in modest negative cash flow in 2001. We are capable of supporting these and other operating requirements for the foreseeable future through cash and short-term investments on hand as well as other internally generated funds. Should the need arise to fund new development activities, external growth activities or other matters, we may seek financing through bank facilities or the sale of debt or equity securities.

Property and equipment are currently being utilized in our on-going business activities, and we believe that no write-downs are required at this time due to lack of use or technological obsolescence. With respect to patent assets, we believe that the value of our patents is at least equal to the value included in the December 31, 2000 balance sheet.

## **RESULTS OF OPERATIONS**

### **Modification of Revenue Recognition Policy**

Effective January 1, 2000, we modified our licensing revenue recognition policy in response to SAB No. 101, "Revenue Recognition in Financial Statements", that was issued by the SEC in December 1999. SAB No. 101 expresses the views of the SEC Staff in applying generally accepted accounting principles to certain transactions, including licensing agreements involving non-refundable up-front payments. These payments can cover either royalty prepayments that are exhausted through future sales of licensee products or payments related to paid-up licenses in which the licensee makes a single payment for a lifetime patent license. Historically, we recorded such fees as revenue upon the signing of the applicable license agreement because we had delivered the license and had no remaining obligations. Following SAB No. 101 guidance, we reflected in our twelve months results a net after-tax cumulative effect of change in accounting principle of \$53.9 million to defer the net portion of up-front payments that represents amounts which either had not yet been exhausted through product sales by licensees as of January 1, 2000 or are expected to be recognized in the future based on the shorter of the expected remaining life of the technology or patents. In the year 2000, we recognized approximately \$12.5 million and \$10.4 million of revenue and earnings, respectively, related to the deferred amounts on a post-SAB No. 101 basis. Going forward, we will continue to recognize the revenue and net earnings associated with the deferred amounts either as licensees product sales occur or over the shorter of the expected remaining life of the technology or patents.

## **2000 Compared With 1999**

### **Revenues**

Revenues in 2000 totaled \$56.9 million, compared to \$70.7 million in 1999. The decrease was due to lower licensing revenue primarily related to past infringement obligations of new licensees. During 1999, we recorded approximately \$42.0 million of revenues for such items as compared to zero in 2000. In 2000, we recognized revenue of \$34.1 from recurring royalties (\$21.6 million on a pre-SAB No. 101 basis), \$17.2 million from specialized engineering services and \$5.6 million from final sales of WLL products. This compares with \$9.4 million from recurring royalties, \$10.8 million from specialized engineering services and approximately \$7.6 million from WLL product sales and related strategic partnership activities in 1999.

### **Cost of Product**

Cost of product in 2000 decreased to \$5.2 million from \$5.9 million in 1999. Cost of product in 2000 reflected amounts associated with final product sales in connection with our exit from the WLL product business. We experienced negative gross margins in both years as there were insufficient product sales to absorb manufacturing overhead.

### **Operating Expenses**

Sales and marketing expenses increased 8% to \$3.9 million during 2000 as compared to \$3.6 million in 1999. The increase was primarily due to costs associated with strategic marketing analysis activities.

General and administrative expenses for 2000 increased 73% to \$13.4 million from \$7.8 million in 1999. The increase was due largely to increased resources necessary to support development program expansion, non-recurring costs associated with severance for a departed executive and the settlement of a dispute with a former employee and various corporate strategic initiatives.

Patents administration and licensing expenses decreased 4% to \$5.1 million as compared to \$5.3 million in 1999. The decrease was mainly due to a decrease in net recognized costs related to ongoing litigation with Ericsson.

Development expenses increased 27% to \$26.0 million from \$20.5 million in 1999. This increase over 1999 was due primarily to increased staff and activity levels devoted to development of advanced 3G wireless applications.

## **Other Income and Expense**

Interest Income for 2000 was \$6.3 million as compared to \$3.9 million in 1999 as a result of higher average invested cash in 2000 as compared to 1999. Interest expense was \$0.2 million in 2000 compared to \$0.3 million in 1999 due to lower overall debt in 2000 as compared to 1999.

## **1999 Compared With 1998**

### **Revenues**

Revenues in 1999 totaled \$70.7 million, compared to \$99.2 million in 1998. The decrease relates to a lower amount of new licensing revenue. In 1999, we recognized \$42.8 million in new licensee revenue, \$10.8 million in specialized engineering services, \$9.4 million from recurring royalties and \$7.7 million from WLL product sales and related strategic partnership activities. In 1998, new licensee revenue was \$83.5 million, strategic partner revenue was \$8.0 million, recurring royalties were approximately \$1.0 million and product revenues were \$6.8 million.

### **Cost of Product**

Cost of product revenues decreased 67% to \$5.9 million from \$17.6 million in 1998. The decrease reflects decreased product sales as well as the impact of a write-down of inventory of \$7.9 million in 1998. We experienced negative gross margins in both years as there were insufficient product sales to absorb manufacturing overhead.

### **Operating Expenses**

Sales and marketing expenses decreased 6% to \$3.6 million during 1999 as compared to \$3.9 million in 1998. The decrease was primarily due to decreased sales commissions and marketing activity for the UltraPhone product.

General and administrative expenses for 1999 increased 43% to \$7.8 million from \$5.4 million in 1998 due in part to staffing level changes and higher compensation costs associated with restricted stock grants.

Patents administration and licensing costs decreased 52% to \$5.3 million as compared to \$11.1 million in 1998. We experienced reduced costs such as commissions and other expenses related to our activities supporting our licensing program, and recovered certain expenses related to an ongoing patent litigation with Ericsson. In February of 2000, InterDigital and its insurers defined the method, timing and limitations of reimbursement for covered litigation expenses.

Development costs increased 19% to \$20.5 million from \$17.2 million in 1998. This increase reflects the ramp up of costs associated with 3G development activities.

## **Repositioning**

In the second quarter of 1999, we recorded a pre-tax repositioning charge of \$1.2 million in connection with a change in our strategy from sales and development of WLL products to technology development for advanced wireless applications. This action was taken after assessing our long-term business prospects associated with continued investment in the development of WLL systems. The repositioning charge included costs associated with workforce reductions (approximately 27 employees) and asset impairment charges related to WLL development equipment. The components of the repositioning charge included severance and other benefit costs of \$0.4 million and asset impairment charges of \$0.8 million for fixed assets associated with WLL activities. Management's efforts with respect to this plan are complete.

## **Other Income and Expense**

Interest Income for 1999 was \$3.9 million as compared to \$2.6 million in 1998 as a result of higher average invested cash in 1999 as compared to 1998. Interest expense was \$0.3 million in 1999 compared to \$0.4 million in 1998 due to lower overall debt in 1999 as compared to 1998.

## **Expected Trends**

In 2001, we expect 10% to 20% growth in revenues from recurring royalties and specialized engineering services. Our operating expense levels should also ramp up in 2001 as we continue accelerated investment in 3G technology and product development, and marketing. Total growth in 2001 operating expenses should depend in part on the pace of hiring and, as a result, could be from 25% to 50% higher than 2000. Given the above, quarterly results in 2001, absent one-time revenue from past infringement or other licensing sources, could range from a modest loss to slight profitability.

**Item 8. INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

CONSOLIDATED FINANCIAL STATEMENTS	PAGE NUMBER
	-----
Report of Independent Public Accountants	36
Report of Management	37
Consolidated Balance Sheets	38
Consolidated Statements of Operations	39
Consolidated Statements of Shareholders' Equity	40
Consolidated Statements of Cash Flow	41
Notes to Consolidated Financial Statements	42

**SCHEDULES:**

**Schedule II - Valuation and Qualifying Accounts 67**

All other schedules are omitted because they are not required, are not applicable or equivalent information has been included in the financial statements and notes thereto.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

### To InterDigital Communications Corporation:

We have audited the accompanying consolidated balance sheets of InterDigital Communications Corporation (a Pennsylvania corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InterDigital Communications Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the consolidated financial statements, effective January 1, 2000, the Company changed its method of recognizing revenue.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material aspects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

**Arthur Andersen LLP**

Philadelphia, Pennsylvania  
February 6, 2001

## REPORT OF MANAGEMENT

Management is responsible for the consolidated financial statements and the other financial information contained in this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States considered appropriate in the circumstances to present fairly the company's financial position, results of operations and cash flows. The financial statements include some amounts that are based on management's best estimates and judgments.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and accounting records are reliable for preparing financial statements, management maintains a system of accounting and other controls. Even an effective system of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of controls and therefore can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. The system of accounting and other controls is continually assessed, modified and improved, where appropriate and cost effective, in response to changes in business conditions and operations and recommendations made by the independent accountants.

The Audit Committee of the Board of Directors, which is composed of independent directors, meets periodically with management and the independent accountants to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to corporate accounting, financial reporting practices and integrity of financial reports as well as legal and regulatory compliance therewith. Both management and the independent accountants periodically meet privately with the Audit Committee and have access to its individual members.

The financial statements have been audited by the company's independent accountants, Arthur Andersen LLP, in accordance with auditing standards generally accepted in the United States. Their report is presented herein.

Howard E. Goldberg  
President and Chief Executive Officer

Richard J. Fagan  
Executive Vice President and Chief Financial Officer

King of Prussia, Pennsylvania  
March 30, 2001

## FINANCIAL STATEMENTS

### INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

ASSETS -----	DECEMBER 31, 2000 -----	DECEMBER 31, 1999 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,343	\$ 14,592
Short-term investments	76,644	68,550
Accounts receivable, net of allowance of \$473 and \$975	16,928	10,884
Inventories	-	3,092
Other current assets	10,066	11,625
	-----	-----
Total current assets	115,981	108,743
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	11,302	7,393
PATENTS, NET	10,102	9,723
OTHER NON-CURRENT ASSETS	4,240	712
	-----	-----
	25,644	17,828
	-----	-----
	\$ 141,625	\$ 126,571
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 326	\$ 446
Accounts payable	4,482	2,454
Accrued compensation and related expenses	3,742	4,326
Deferred revenue	12,108	69
Foreign and domestic taxes payable	1,284	1,093
Other accrued expenses	3,473	4,857
	-----	-----
Total current liabilities	25,415	13,245
LONG-TERM DEBT	2,234	2,559
LONG-TERM DEFERRED REVENUE	40,066	-
OTHER NON-CURRENT LIABILITIES	-	1,260
	-----	-----
TOTAL LIABILITIES	67,715	17,064
	-----	-----

COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)

SHAREHOLDERS' EQUITY:

Preferred Stock, \$ .10 par value, 14,399 shares authorized-		
\$2.50 Convertible Preferred, 55 and 102 shares issued and		
outstanding, liquidation value of \$1,375 and \$2,550	5	10
Common Stock, \$.01 par value, 100,000 shares authorized,		
53,780 and 50,985 shares issued	538	510
Additional paid-in capital	267,936	249,976
Accumulated deficit	(181,899)	(133,588)
Unearned compensation	(4,597)	(1,769)
	-----	-----
	81,983	115,139
Treasury stock, 1,500 and 1,042 shares of common held at cost	8,073	5,632
	-----	-----
Total shareholders' equity	73,910	109,507
	-----	-----
	\$ 141,625	\$ 126,571
	=====	=====

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)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
REVENUES:			
Product revenues	\$ 5,634	\$ 4,496	\$ 6,751
Licensing and alliance	51,244	66,171	92,470
	-----	-----	-----
	56,878	70,667	99,221
	-----	-----	-----
COST OF PRODUCT AND OPERATING EXPENSES:			
Cost of product	5,200	5,876	17,577
Sales and marketing	3,919	3,614	3,864
General and administrative	13,408	7,761	5,434
Patents administration and licensing	5,095	5,330	11,145
Development	26,013	20,481	17,166
Repositioning charges	-	1,213	-
	-----	-----	-----
	53,635	44,275	55,186
	-----	-----	-----
Income from operations	3,243	26,392	44,035
OTHER INCOME (EXPENSE):			
Interest income	6,300	3,883	2,561
Interest and financing expenses	(244)	(323)	(367)
	-----	-----	-----
Income before income taxes	9,299	29,952	46,229
INCOME TAX PROVISION	(3,607)	(3,246)	(9,261)
	-----	-----	-----
Net income before cumulative effect of change in accounting principle	5,692	26,706	36,968
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET	(53,875)	-	-
NET income (loss)	(48,183)	26,706	36,968
PREFERRED STOCK DIVIDENDS	(128)	(255)	(255)
	-----	-----	-----
Net income (loss) applicable to common shareholders	\$ (48,311)	\$ 26,451	\$ 36,713
	=====	=====	=====
NET INCOME PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE - BASIC	\$ 0.11	\$ 0.55	\$ 0.76
	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE - BASIC	\$ (0.91)	\$ 0.55	\$ 0.76
	=====	=====	=====

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	52,855	48,357	48,380
=====			
NET INCOME PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE - DILUTED	\$ 0.10	\$ 0.52	\$ 0.75
=====			
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	\$ (0.91)	\$ 0.52	\$ 0.75
=====			
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	57,306	50,495	48,771
=====			
PRO FORMA EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NOTE 2):			
NET INCOME APPLICABLE TO COMMON SHAREHOLDER			
BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		\$ 35,488	\$ 4,573
NET INCOME PER SHARE - BASIC		0.73	0.09
NET INCOME PER SHARE - DILUTED		0.70	0.09

The accompanying notes are an integral part of these statements.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands except per share data)

	\$2.50 Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Unearned Compensation	Treasury Stock	Total
BALANCE, DECEMBER 31, 1997	\$ 10	\$ 482	\$ 234,765	\$ (196,752)	\$ -	\$ -	\$ 38,505
Exercise of Common Stock options	-	1	479	-	-	-	480
Dividend of Common Stock and cash to \$2.50 Preferred shareholders	-	-	53	(255)	-	-	(202)
Sale of Common Stock under Employee Stock Purchase Plan	-	1	334	-	-	-	335
Treasury Stock acquired	-	-	-	-	-	(278)	(278)
Net income	-	-	-	36,968	-	-	36,968
<hr/>							
BALANCE, DECEMBER 31, 1998	10	484	235,631	(160,039)	-	(278)	75,808
Exercise of Common Stock options	-	17	9,536	-	-	-	9,553
Exercise of Common Stock warrants	-	5	2,504	-	-	-	2,509
Dividend of Common Stock and cash to \$2.50 Preferred shareholders	-	-	87	(255)	-	-	(168)
Sale of Common Stock under Employee Stock Purchase Plan	-	1	324	-	-	-	325
Issuance of Restricted Common Stock	-	3	1,894	-	(1,897)	-	-
Amortization of unearned compensation	-	-	-	-	128	-	128
Treasury Stock acquired	-	-	-	-	-	(5,354)	(5,354)
Net income	-	-	-	26,706	-	-	26,706
<hr/>							
BALANCE, DECEMBER 31, 1999	10	510	249,976	(133,588)	(1,769)	(5,632)	109,507
Exercise of Common Stock options	-	7	3,706	-	-	-	3,713
Tax benefit related to Stock options	-	-	604	-	-	-	604
Exercise of Common Stock warrants	-	16	8,012	-	-	-	8,028
Dividend of Common Stock and cash to \$2.50 Preferred shareholders	-	-	53	(128)	-	-	(75)
Conversion of Preferred Stock to Common Stock	(5)	1	4	-	-	-	-
Sale of Common Stock under Employee Stock Purchase Plan	-	1	508	-	-	-	509
Issuance of Restricted Common Stock	-	3	5,073	-	(5,076)	-	-
Amortization of unearned compensation	-	-	-	-	2,248	-	2,248
Treasury Stock acquired	-	-	-	-	-	(2,441)	(2,441)
Net loss	-	-	-	(48,183)	-	-	(48,183)
<hr/>							
BALANCE, DECEMBER 31, 2000	\$ 5	\$ 538	\$ 267,936	\$ (181,899)	\$ (4,597)	\$ (8,073)	\$ 73,910

The accompanying notes are an integral part of these statements.

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

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
<hr/>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) before preferred stock dividends	\$ (48,183)	\$ 26,706	\$ 36,968
Adjustments to reconcile net income (loss) to net cash provided by operating activities-			
Depreciation and amortization	4,491	4,670	4,629
Deferred revenue	(12,500)	(3,867)	(3,121)
Cumulative effect of change in accounting principle, net of tax	53,875	-	-
Amortization of unearned compensation	2,248	128	-
Repositioning charges	-	1,213	-
Decrease (increase) in assets-			
Receivables	(6,044)	4,099	(11,925)
Inventories	3,092	2,010	7,182
Other current assets	7,852	(8,569)	(278)
Increase (decrease) in liabilities-			
Accounts payable	2,028	(3,519)	(2,250)
Accrued compensation	(584)	1,050	39
Other accrued expenses	(1,737)	35	(1,123)
Net cash provided by operating activities	4,538	23,956	30,121
<hr/>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of short-term investments, net	(8,094)	(36,332)	(24,242)
Purchases of property and equipment	(6,806)	(1,646)	(1,831)
Patent costs	(1,973)	(1,291)	(1,778)
Other non-current assets	797	3,748	314
Net cash used in investing activities	(16,076)	(35,521)	(27,537)
<hr/>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	12,250	12,387	815
Lease obligations incurred	-	-	251
Payments on long-term debt, including capital lease obligations	(445)	(767)	(939)
Cash dividends on Preferred Stock	(75)	(168)	(202)
Purchase of Treasury Stock	(2,441)	(5,354)	(278)
Net cash provided by (used in) financing activities	9,289	6,098	(353)
<hr/>			
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,249)	(5,467)	2,231
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	14,592	20,059	17,828
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 12,343	\$ 14,592	\$ 20,059
<hr/>			
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	\$ 235	\$ 296	\$ 350
Income taxes paid, including foreign withholding taxes	\$ 1,202	\$ 4,403	\$ 8,881
<hr/>			

The accompanying notes are an integral part of these statements.

# INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000

### 1. BACKGROUND

InterDigital Communications Corporation (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) develops and markets advanced digital wireless communications applications. In conjunction with our technology development, we have developed an extensive body of technical know-how, related product embodiments and a broad patent portfolio of Time Division Multiple Access (TDMA) and Code Division Multiple Access (CDMA) patents, which we license worldwide.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Principles of Consolidation

The consolidated financial statements include the accounts of InterDigital and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted 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 reported period. Actual results could differ from those estimates.

#### Cash, Cash Equivalents and Short-Term Investments

InterDigital considers all highly liquid investments purchased with remaining maturities of three months or less to be cash equivalents. Investments are held at amortized cost which approximates market value. At December 31, 2000 and 1999, all of InterDigital's short-term investments are classified as available-for-sale pursuant to Statement of Financial Accounting Standards (SFAS) No. 115. "Accounting for Certain Investments in Debt and Equity Securities". At December 31, 2000 and 1999, there were no significant unrealized holding gains or losses.

Cash and cash equivalents consist of the following (in thousands):

	December 31,	
	2000	1999
	----	----
Money market funds and demand accounts	\$11,519	\$14,350
Repurchase agreements	824	242
	-----	-----
	\$12,343	\$14,592
	=====	=====

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

Short term investments consist of the following (in thousands):

	December 31,	
	2000	1999
	----	----
US government agency instruments	\$45,000	\$ 35,600
Corporate bonds	31,644	32,950
	-----	-----
	\$76,644	\$68,550
	=====	=====

### **Inventories**

There were no inventories on hand at December 31, 2000 as a result of the Company's discontinuance of the sales and development of WLL products (See, Note 3). Inventories at December 31, 1999 are stated at the lower cost or market, with cost determined on a first-in-first-out basis and market determined based on net realizable value.

### **Property and Equipment**

Property and equipment are stated at cost. Depreciation and amortization of property, plant and equipment are provided using the straight-line method. The estimated useful lives for computer equipment, machinery and equipment, and furniture and fixtures are generally three to five years. Leasehold improvements are being amortized over their lease term, which is generally five to ten years. The buildings are being depreciated over twenty-five years. Expenditures for major improvements and betterments are capitalized and minor repairs and maintenance are charged to expense as incurred. Depreciation expense was \$3.0 million, \$3.2 million and \$3.5 million in 2000, 1999 and 1998, respectively.

### **Internal-Use Software Costs**

Under the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal-Use", we capitalize certain costs associated with software for internal-use. Capitalization begins when the preliminary project stage is complete and ceases when the project is substantially complete and ready for its intended purpose. Capitalized costs include external direct costs of hardware, software and services and payroll and payroll-related expenses for employees who are directly associated with developing internal-use software. In accordance with SOP-98-1, for the year ended December 31, 2000, we capitalized \$1.8 million of costs associated with a new ERP system. Such costs are included within property and equipment and are being amortized over five years. Accumulated amortization expense was \$92,000 at December 31, 2000 for the year then ended.

## **Patents**

The costs to obtain certain patents for InterDigital's TDMA and CDMA technologies have been capitalized and are being amortized on a straight-line basis over 10 years. Amortization expense was \$1.5 million, \$1.5 million and \$1.1 million in 2000, 1999 and 1998, respectively. Accumulated amortization was \$9.8 million and \$8.2 million at December 31, 2000 and 1999, respectively.

## **Development**

All engineering development expenditures are charged to expense in the period incurred.

## **Revenue Recognition**

Licensing and alliance revenue includes patent licensing revenue and strategic partner revenue. Patent licensing arrangements consist primarily of up-front, one-time, non-refundable fees and recurring royalties. Strategic partner revenue is generated by patent, technology and know-how licensing and development agreements, which generally include license fees and services. Product revenue includes sales of wireless local loop (WLL) products. As described in Note 3, in the second quarter of 1999, we changed our strategy from sales and development of WLL products to technology development for advanced wireless applications.

Prior to 2000, we recorded revenue from up-front, non-refundable patent license fees as revenue upon the signing of the applicable license agreement because we had delivered the license and had no remaining obligations. Effective January 1, 2000, we modified our revenue recognition policy with respect to up-front license fees in response to Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" that was issued by the Securities and Exchange Commission in December 1999. Following SAB No. 101 guidance, we reflected in our results for the year ended December 31, 2000, a net after-tax cumulative effect of change in accounting principle of \$53.9 million to defer the net portion of up-front payments that relate to future periods as of January 1, 2000. Payments are now recognized as revenue as licensee product sales occur or over the shorter of the expected remaining life of the technology or patents. For the year ended December 31, 2000, we recognized approximately \$12.5 million and \$10.4 million of revenue and net income, respectively, related to revenue that was recognized in prior years and subsequently recorded as deferred revenue as of January 1, 2000 in accordance with SAB No. 101. Pro forma data for the years ended December 31, 1999 and 1998 presents the Company's net income before cumulative effect of change in accounting principle and the related per share amounts as if SAB No. 101 was adopted at the beginning of each period presented. Following generally accepted accounting principles, no prior period results are restated related to the cumulative effect of change in accounting principles.

Royalty revenue is recognized as earned in accordance with the specified terms of each license agreement. Revenue from patent, technology and know-how licensing and development agreements are recognized based on the fair value of the elements delivered, which generally include servicing and patent license rights. Revenue from installation, training and other services was recognized when the related services were complete. Product revenue was recognized upon shipment of systems.

### **Concentration of Credit Risk and Fair Value of Financial Instruments**

Financial instruments which potentially subject us to concentration of credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. We place our cash equivalents and short-term investments only in highly rated financial instruments and in United States Government instruments. Our accounts receivable are derived principally from patent license agreements and engineering services. We believe that the book value of our financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and debt, approximate their fair values.

### **Impairment of Long-Lived Assets**

Pursuant to SFAS No.121. "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of", InterDigital is required to evaluate long-lived assets and certain intangible assets for impairment when factors indicate that the carrying amount of an asset may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, we review the realizability of our long-lived assets by analyzing the projected undiscounted cash flows in measuring whether the asset is recoverable. In 1999, a \$0.8 million charge was taken as a part of a repositioning program (See, Note 3). No such adjustments were recorded in 2000 or 1998.

## Net Income (Loss) Per Common Share

InterDigital follows SFAS No. 128 "Earnings per Share". The following tables reconcile the numerator and the denominator of the basic and diluted net income (loss) per share computation (in thousands, except for per share data):

Year Ended December 31, 2000

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income per Share - Basic:			
Net income before cumulative effect of change in accounting principle	\$ 5,692	n/a	n/a
Preferred Stock dividend	(128)	n/a	n/a
-----			
Net income before cumulated effect change in accounting principle available to common shareholders	5,564	52,855	\$0.11
Dilutive effect of options and warrants	-	4,451	(0.01)
Net income per Share - Diluted:			
-----			
Net income available to common shareholders before cumulative effect of change in accounting principle and dilutive effects of options and warrants	\$ 5,564	57,306	\$ 0.10
Cumulative effect of change in accounting principle	(53,875)		
Net income (loss) per Share-Basic:			
Net income (loss) available to common shareholders	(48,311)	52,855	(0.91)
Dilutive effect of options and warrants	-	-	-
Net income (loss) per Share-Diluted:			
-----			
Net income (loss) available to common shareholders and dilutive effects of options and warrants	\$(48,311)	52,855	\$ (0.91)
=====			

	Year Ended December 31,					
	1999			1998		
	Income	Shares	Per-Share Amount	Income	Shares	Per-Share Amount
(Numerator)	(Denominator)		(Numerator)	(Denominator)		
Net income per Share - Basic:						
Net income available to common shareholders	\$26,451	48,357	\$ 0.55	\$36,713	43,380	\$0.76
Dilutive effect of options and warrants	-	2,138	(0.03)	-	391	(0.01)
Net income per Share - Diluted:						
Net income available to common shareholders and dilutive effects of options and warrants	\$26,451	50,495	\$0.52	\$36,713	48,771	\$0.75
Pro forma effect of change in accounting principle:						
Net income applicable to common shareholders before cumulative effect of change in accounting principle	\$35,488	48,357	\$0.73	\$4,573	48,380	\$0.09
Dilutive effect of options and warrants	-	2,138	(0.03)	-	391	-
Net income per Share - Diluted:	\$35,488	50,495	\$0.70	\$4,573	48,771	\$0.09

For the year ended December 31, 2000, options to purchase 1.0 million shares were excluded from the calculation of diluted earnings per share (EPS) before the cumulative effect of change in accounting principle because the exercise price of the options were greater than the weighted average market price of our common stock during the period and, therefore, their effect would have been anti-dilutive. All options and warrants were excluded from the computation of diluted EPS for the year ended December 31, 2000 as a result of net loss for the period. For the years ended December 31, 1999 and 1998, there were options and warrants to purchase approximately 1.6 and 7.4 million shares of common stock, respectively, that were excluded from the computation of diluted EPS because their effect was anti-dilutive.

### 3. REPOSITIONING:

In the second quarter of 1999, we recorded a pre-tax repositioning charge of \$1.2 million in connection with a change in our strategy from sales and development of WLL products to technology development for advanced wireless applications. This action was taken after assessing our long-term business prospects associated with continued investment in the development of WLL systems. The repositioning charge included costs associated with workforce reductions (approximately 27 employees) and asset impairment charges of \$0.8 million for fixed assets associated with WLL activities. Management's efforts with respect to this plan are complete.

### 4. STRATEGIC PARTNER AGREEMENTS AND MAJOR CUSTOMERS:

Substantially all of the Company's revenue is derived from customers based outside of the United States (primarily Japan and Europe). These revenues are paid in U.S. dollars and are not subject to any substantial foreign exchange transaction risks.

#### **Patent Licensing Revenue**

For the year ended December 31, 2000, we recognized \$21.4 million in recurring royalty revenue from TDMA licensees, excluding Nokia, plus \$12.5 million of revenue that was recognized in prior years, but was deferred as of January 1, 2000 related to SAB No. 101 (See, Note 2). For the year ended December 31, 2000, royalty revenue from one customer accounted for approximately 32% of total revenue.

In 2000, we entered into a licensing agreement with Ubinetics Ltd. under our TDMA patents. Royalty revenues will commence with commercial manufacture of covered units and infrastructure.

In 1999, we entered into four new TDMA license agreements with Robert Bosch GMBH, Japan Radio Company, Ltd., Shintom Company, Ltd., and Iwatsu American, Inc. and granted a combination TDMA and CDMA license to Nokia. In prior years, we had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain TDMA patents (and, in certain instances, technology) to 13 additional corporations. Additionally, in prior years, we had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain CDMA patents (and, in certain instances, technology) to Alcatel, Qualcomm and Advanced Digital Technologies and to use TDMA and CDMA patents (and, in certain instances, technology) to Siemens, Samsung and AT&T. Many of these licenses contain "most favored licensee nations" provisions, applied on a going forward basis only, and provisions which could, in certain events, cause the licensee's obligations to pay future royalties to InterDigital to be suspended for an indefinite period, with or without the accrual of the royalty obligation.

Initial revenues from new TDMA licensees in 1999 totaled \$11.3 million, excluding Nokia. In 1999, InterDigital recognized \$9.1 million in recurring revenue from its TDMA licensees, excluding Nokia.

During 1998, we entered into four new TDMA licensing agreements and revised agreements with two existing licensees. These licensing transactions resulted in \$83.5 million of revenue in 1998. Additionally, recurring royalty fees of \$1.0 million were recognized in 1998.

### **Nokia Agreements**

In February 1999, we entered into a multi-year arrangement with Nokia for development of new technology for 3G wireless telecommunications products. As part of the multi-year arrangement, we are providing specialized engineering services and technology and know-how development and we will retain ownership rights over the technologies we develop thereunder. Additionally, in February 1999, we entered into a patent license agreement with Nokia related to certain TDMA and CDMA patents. For the years ended December 31, 2000 and 1999, we recognized revenue of \$17.4 million and \$42.6 million, respectively, under these agreements.

### **B-CDMA Alliance**

Prior to our 1999 strategic shift to focus on technology development for the 3G market, our development group was focused primarily on technology development of full systems to address needs in the fixed WLL market. As part of that effort, we entered into a series of agreements with Samsung, Siemens and Alcatel to develop our proprietary B-CDMA technology, a wideband CDMA technology, and products that embodied that technology. In early 1999, after reassessing the market potential of the residential WLL market, Siemens announced its withdrawal from the B-CDMA development effort. In April of 1999, Alcatel also withdrew from the B-CDMA development effort. Minimal activity took place with respect to the Samsung B-CDMA relationship during most of 1999. InterDigital recognized revenue associated with these agreements of \$3.1 million and \$8.0 million in 1999 and, 1998, respectively.

5. INVENTORIES:

	2000	December 31,	1999
	-----		-----
		(In thousands)	
Component parts and work-in-progress	-		\$1,522
Finished Goods	-		1,570
	-----		-----
	-		\$3,092
	=====		=====

The final shipments of UltraPhone products were completed in 2000. Inventories are stated net of valuation reserve of \$13.1 million as of December 31, 1999.

6. PROPERTY, PLANT AND EQUIPMENT:

	2000 ----	December 31, 1999 ----
		(In thousands)
Land, building and improvements	\$ 4,658	\$ 4,427
Machinery and equipment	9,746	8,463
Computer equipment and software	11,472	8,039
Furniture and fixtures	3,017	2,871
Leasehold improvements	1,324	1,196
	-----	-----
	30,217	24,996
Less Accumulated depreciation	(18,915)	(17,603)
	-----	-----
	\$11,302	\$ 7,393
	=====	=====

7. LONG-TERM DEBT OBLIGATIONS:

	2000 ----	December 31, 1999 ----
		(In thousands)
Mortgage debt	\$2,341	\$2,468
Capitalized leases	219	537
	-----	---
Total long-term debt obligations	2,560	3,005
Less - Current portion	(326)	(446)
	-----	-----
	\$2,234	\$2,559
	=====	=====

During 1996, InterDigital purchased its King of Prussia, Pennsylvania facility for \$3.7 million, including cash of \$930,000 and a 16 year mortgage of \$2.8 million with interest payable at a rate of 8.28% per annum.

Capitalized lease obligations are payable in monthly installments at an average rate of 11.2%, through 2001. The net book value of equipment under capitalized lease obligations is \$167,000 and \$1.7 million at December 31, 2000 and 1999, respectively.

Maturities of principal of the long-term debt obligations as of December 31, 2000 are as follows (in thousands):

2001	\$ 326
2002	146
2003	148
2004	162
Thereafter	1,778
	-----
	\$2,560

#### 8. COMMITMENTS AND CONTINGENCIES:

##### Leases:

InterDigital has entered into various operating lease agreements. Total rent expense was \$1.4 million in 2000, 1999 and 1998, primarily for office space. Minimum future rental payments for operating leases as of December 31, 2000 are as follows (in thousands):

2001	\$1,265
2002	1,261
2003	1,295
2004	1,331
2005	1,370
Thereafter	1,513
	-----
	\$ 8,035

##### Employment Agreements

InterDigital has entered into agreements with certain officers that provide for the payment of severance pay benefits (in the aggregate, approximately \$2.3 million at December 31, 2000), among other things, in certain events of termination of employment. All but one of these agreements generally provide for the payment of severance up to a maximum of one year of salary and up to a maximum of one year of continuation of medical and dental benefits. One of these agreements generally provides for the payment of severance up to a maximum of eighteen months of salary and up to a maximum of eighteen months of continuation of medical and dental benefits. In all of these agreements, in the event of a termination or resignation within one year following a change of control, which is defined as the acquisition (including by merger or consolidation, or by the issuance by InterDigital of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of InterDigital, the employee would generally receive two years of salary (approximately \$4.0 million at December 31, 2000) and the immediate vesting of all stock options.

## 9. LITIGATION

In September 1993, our wholly-owned subsidiary, InterDigital Technology Company (ITC), filed a patent infringement action against Ericsson GE Mobile Communications, Inc. ("Ericsson GE"), its Swedish parent, Telefonaktiebolaget LM Ericsson ("LM Ericsson") and Ericsson Radio Systems, Inc. ("Ericsson Radio"), in the United States District Court for the Eastern District of Virginia (Civil Action No. 93-1158-A (E.D.Va.))(the "Ericsson action") which was subsequently transferred to the United States District Court for the Northern District of Texas. The Ericsson action seeks a jury's determination that in making, selling, or using, and/or participating in the making, selling, or using of digital wireless telephone systems and/or related mobile stations, Ericsson has infringed, contributed to the infringements of and/or induced the infringement of eight patents from ITC's patent portfolio. The Ericsson action also seeks an injunction against Ericsson from infringement and seeks unspecified damages based upon the court's determination of what constitutes a reasonable royalty for infringement, royalties, costs and attorneys' fees. Ericsson GE filed an answer to the Virginia action in which it denied the allegations of the complaint and asserted a Counterclaim seeking a Declaratory Judgment that the asserted patents are either invalid or not infringed. On the same day that ITC filed the Ericsson action in Virginia, two of the Ericsson Defendants, Ericsson Radio and Ericsson GE, filed a lawsuit against InterDigital and ITC in the United States District Court for the Northern District of Texas ("the Texas action"). The Texas action, which involves the same patents that are the subject of the Ericsson action, seeks the court's declaration that Ericsson's products do not infringe ITC's patents, that ITC's patents are invalid and that ITC's patents are unenforceable. The Texas action also seeks judgment against InterDigital and ITC for tortious interference with contractual and business relations, defamation and commercial disparagement, and Lanham Act violation. The Ericsson action and the Texas action have been consolidated. ITC agreed to the dismissal without prejudice of LM Ericsson.

In December 1997, Ericsson Inc., the successor to Ericsson GE and Ericsson Radio, filed an action against ITC in the United States District Court for the Northern District of Texas (the "1997 Texas action") seeking the court's declaration that Ericsson Inc.'s products do not infringe two patents issued to InterDigital earlier in 1997 as continuations of certain patents at issue in the Texas action. Later that month, Ericsson Inc. filed an amended Complaint seeking to include these two new patents into the Texas action in an effort to consolidate the two cases. In January 1998, both Ericsson Inc. and InterDigital and ITC filed motions requesting that Ericsson Inc.'s amended Complaint be allowed and that the 1997 Texas action be dismissed, to which the Court agreed. In 1998, Ericsson Inc. filed a Motion for Partial Summary Judgment, which was denied by the Court in early 1999. Also during 1998, the United States District Court for the Northern District of Texas granted InterDigital's Motion to amend its Counterclaim by adding four additional patents. During the third quarter of 1999, Ericsson Inc. filed for leave to file an additional Amended Complaint to add causes of action for breach of contract and fraud and negligent misrepresentation. The Court granted Ericsson's request. Fact discovery has been concluded. The "Markman" hearing was held in April, 2000 where a Special Master later made recommendations to the court as to the meaning of certain terms contained in the patents. The Court has yet to rule on the Special Master's recommendations. In addition, in May 2000, InterDigital filed a motion for Partial Summary Judgment, which has yet to be ruled on. We have not recorded any contingencies related to this litigation. We record expenses related to the litigation as they are incurred net of expected reimbursements from our insurance carriers for certain covered litigation expenses. Such expenses are included as patents administration and licensing expense. Prior to February 2000, we generally recognized insurance recoveries when the timing or amount was known or received. In February 2000, the Company and its insurers defined the method, timing and limitations of reimbursements for covered litigation expenses.

In March 2001, ITC filed a Complaint against NEC with the American Arbitration Association. The Complaint alleges that NEC has substantially under-reported sales of TDMA-based products for which NEC is obligated to pay ITC royalties pursuant to the TDMA patent license agreement entered into by the parties in 1995. ITC is seeking payment of the under-reported royalties.

The Company is party to other litigations which management currently believes will not have a material effect on the Company's results of operations or financial condition.

#### 10. RELATED PARTY TRANSACTIONS:

In 2000, we engaged L.E.K. Consulting, a shareholder value consulting firm and paid approximately \$0.5 million for their services. One of our outside directors is Chairman of the Advisory Board to L.E.K. Consulting. Our board member did not receive any compensation or commissions related to the engagement.

## 11. PREFERRED STOCK:

The holders of the \$2.50 Convertible Preferred Stock are entitled to receive, when and as declared by our Board of Directors, cumulative annual dividends of \$2.50 per share payable in cash or Common Stock (as defined) at the Company's election (subject to a cash election right of the holder), if legally available. Such dividends are payable semiannually on June 1 and December 1. In the event we fail to pay two consecutive semiannual dividends within the required time period, certain penalties may be imposed. The \$2.50 Convertible Preferred Stock is convertible into Common Stock at any time prior to redemption at a conversion rate of 2.08 shares of common stock for each share of preferred. In 2000, 1999 and 1998, InterDigital declared and paid dividends on the \$2.50 Preferred Convertible Stock of \$137,000, \$255,000 and \$255,000, respectively. These dividends were paid with cash of \$75,000, \$168,000 and \$202,000, in 2000, 1999 and 1998, respectively, and 5,141, 17,530 and 8,860 shares of Common Stock in 2000, 1999 and 1998, respectively.

Upon any liquidations, dissolution or winding up of InterDigital, the holders of the \$2.50 Convertible Preferred Stock will be entitled to receive, from InterDigital's assets available for distribution to shareholders, \$25 per share plus all dividends accrued, before any distribution is made to Common shareholders. After such payments, the holders of the \$2.50 Convertible Preferred Stock would not be entitled to any other payments. The redemption price for each share of the \$2.50 Convertible Preferred Stock is \$25 per share. The \$2.50 Convertible Preferred Stock is redeemable at our option.

The holders of the \$2.50 Convertible Preferred Stock do not have any voting rights except on those amendments to the Articles of Incorporation which would adversely affect their rights, create any class or series of stock ranking senior to or not a parity with the \$2.50 Convertible Preferred Stock, as to either dividend or liquidation rights, or increase the authorized number of shares of any senior stock. In addition, if two or more consecutive semi-annual dividends on the \$2.50 Convertible Preferred Stock are not paid by InterDigital, the holders of the \$2.50 Convertible Preferred Stock, separately voting as a class, will be entitled to elect one additional director of InterDigital.

## 12. COMMON STOCK COMPENSATION PLANS AND WARRANTS

### **Stock Compensation Plans**

InterDigital has stock-based compensation plans under which, depending on the plan, directors, employees, consultants and advisors can receive stock options, stock appreciation rights, restricted stock awards and other stock unit awards.

### **Common Stock Option Plans**

InterDigital has granted options under two incentive stock option plans, four non-qualified stock option plans and two plans which provide for grants of both incentive and non-qualified stock options (Pre-existing Plans) to non-employee directors, officers and employees of InterDigital and certain others, depending on the plan. No further grants are allowed under the Pre-existing Plans. In 2000, the shareholders approved the 2000 Stock Award and Incentive Plan (2000 Plan) which allows for the grant of incentive and non-qualified options, as well as certain other securities. The 2000 Plan authorizes the offer and sale of up to 7.4 million shares of common stock. The Board of Directors or the Compensation & Stock Option Committee of the Board determines the number of options to be granted. Under the terms of the 2000 Plan, the option price cannot be less than 100% of fair market value of the Common Stock at the date of grant and incentive stock options granted become exercisable at 20% per year beginning one year after date of grant and generally remain exercisable for 10 years. Under all of these plans, options are generally exercisable for a period of 10 years from the date of grant and may vest on the grant date, another specified date or over a period of time. However, under both plans which provide for both incentive and non-qualified stock options, grants most commonly vest in six semi-annual installments. All incentive options granted under such plans have exercise prices of not less than 100% of the fair market value of the Common Stock on the grant date in accordance with Internal Revenue Code requirements.

**SFAS No. 123 Disclosure**

InterDigital has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). Accordingly, no compensation cost has been recognized in the Statements of Operations for InterDigital's stock option plans. Had compensation cost been calculated based on the fair value at the grant date for awards in 2000, 1999 and 1998 consistent with the provision of SFAS No. 123, InterDigital's net income (loss) and net income (loss) per share would have been changed to the following pro forma amounts (in thousands except per share amounts):

	2000	1999	1998
	----	----	----
Net income (loss) applicable to Common Shareholders as reported	\$ (48,311)	\$26,451	\$36,713
Net income (loss) applicable to Common Shareholders - pro forma	(78,898)	23,540	32,837
Net income (loss) per share - as reported - basic	(0.91)	0.55	0.76
Net income (loss) per share - as reported - diluted	(0.91)	0.52	0.75
Net income (loss) per share - pro forma - basic	(1.49)	0.49	0.68
Net income (loss) per share - pro forma - diluted	(1.49)	0.47	0.67

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998; no dividend yield; expected volatility of 130% for 2000, 125% for 1999 and 83% for 1998, risk-free interest rates of 6.33%, 5.66% and 5.27% for 2000, 1999 and 1998, respectively, and an expected option life of 3.93 years for 2000, 4.40 years for 1999 and 3.05 years for 1998. The weighted-average fair value at the date of grant for options granted during 2000, 1999 and 1998 is estimated as \$21.23, \$6.61 and \$3.05 per share, respectively.

Information with respect to stock options under the above plans is summarized as follows (in thousands except per share amounts):

	Available for Grant	Outstanding Number	Options Price Range	Weighted Average Exercise Price
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1997	3,944	6,046	\$ .01-\$11.625	\$6.14
Granted	(608)	608	\$3.250-\$5.6875	\$5.04
Canceled	715	(715)	\$5.375-\$10.750	\$3.13
Exercised	-	(153)	\$0.600-\$5.625	\$3.13
BALANCE AT DECEMBER 31, 1998	4,051	5,786	\$ .01-\$11.625	\$6.05
Granted	(689)	689	\$4.3750-\$11.0	\$7.49
Canceled	397	(397)	\$5.25-\$10.5	\$7.50
Exercised	-	(1,660)	\$0.1-\$11.625	\$5.77
BALANCE AT DECEMBER 31, 1999	3,759	4,418	\$ .01-\$11.65	\$6.260
Granted	(2,513)	2,513	\$5.19-\$39.00	\$23.900
Canceled	385	(386)	\$4.50-\$39.00	\$23.013
Exercised	-	(686)	\$0.1-\$11.625	\$5.409
2000 Plan Authorization	2,200			
BALANCE AT DECEMBER 31, 2000	3,831	5,859	\$ .01-\$39.00	\$12.899

The following table summarizes information regarding the stock options outstanding at December 31, 2000 (in thousands, except for per share amounts):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$0.0100 - \$5.2500	744	8.41	\$4.6701	525	\$4.5714
\$5.3125 - \$5.4375	1,388	6.75	\$5.4331	1,388	\$5.4331
\$5.5000 - \$7.6875	1,064	6.47	\$6.3743	964	\$6.3995
\$7.7500 - \$16.1900	1,052	17.31	\$10.5265	656	\$10.5387
\$16.3400 - \$37.0000	899	9.43	\$21.0775	305	\$22.0038
\$39.0000 - \$39.0000	712	9.04	\$39.0000	254	\$39.0000
-----	-----	-----	-----	-----	-----
\$0.0100 - \$39.0000	5,859	9.50	\$12.8985	4,092	\$9.6883
=====	=====	=====	=====	=====	=====

## **Common Stock Warrants**

As of December 31, 2000, we had various warrants outstanding to purchase 1.5 million shares of Common Stock at exercise prices ranging from \$5.50 to \$8.88 per share, with a weighted average exercise price of \$5.49 per share. As of December 31, 2000, all of these warrants were currently exercisable. These warrants expire in various years through 2004. The exercise price and number of shares of Common Stock to be obtained upon exercise of certain of these warrants are subject to adjustment under certain conditions.

## **Restricted Stock**

In 1999, we adopted the 1999 Restricted Stock Plan, under which we can issue up to 1,500,000 shares of restricted common stock and restricted stock units to directors, employees, consultants and advisors. The restrictions on issued shares lapse over periods ranging from 0 to 5.5 years from the date of the grant. The plan originally included a tax reimbursement feature, which has been replaced with grants of restricted stock units. As of December 31, 2000, we had 668,008 restricted stock units issued in the plan, of which 322,000 were issued in 1999. The balance of unearned compensation at December 31, 2000 is \$4.6 million, which is amortized over the vesting periods which are generally from one to three years.

## **13. SHAREHOLDER RIGHTS PLAN**

In December 1996, InterDigital's Board of Directors declared a distribution under its Shareholder Rights Plan of one right for each outstanding common share of InterDigital to shareholders of record as the close of business on January 3, 1997. In addition, any new common shares issued after January 4, 1997 will receive one right for each common share. The Plan was amended in a number of respects in March 2000. As amended, each right entitles shareholders to buy one-thousandth of a share of Series B Junior Participating Preferred Stock at a purchase price of \$250 per share, subject to adjustment. Ordinarily, the rights will not be exercisable until 10 days after a non-exempt person or group owns or acquires more than 10% of InterDigital's outstanding Common Stock or after a non-exempt person or group begins an offer for 10% or more of InterDigital's outstanding Common Stock or after a non-exempt person or group publicly announces an intent to acquire control over InterDigital and proposes in a proxy or consent solicitation to elect such a number of directors which, if elected, would represent a majority of the directors when compared with the Independent Directors continuing to serve on the Board. In general, in the event that InterDigital is acquired in a merger or other business combination interaction, each holder of a right will have the right to receive, upon exercise, Units of Preferred Stock (or, in certain circumstances, Company Common Stock, cash, property, or other securities of InterDigital) having a current market value equal to two times the exercise price of the Right.

#### 14. INCOME TAXES:

The 2000 income tax provision includes a federal alternative minimum tax provision of \$0.2 million and a foreign withholding tax provision of \$3.4 million. The 1999 income tax provision includes a federal alternative minimum tax provision of \$0.6 million and a foreign withholding tax provision of \$2.6 million. The 1998 income tax provisions include a federal alternative minimum tax provision of \$0.9 million, a foreign withholding tax provision of \$8.4 million.

At December 31, 2000, InterDigital had net operating loss carryforwards of approximately \$148.0 million. Since realization of the tax benefits associated with these carryforwards is not considered more likely than not, a valuation allowance of 100% of the potential tax benefit is recorded as of December 31, 2000.

The net operating loss carryforwards are scheduled to expire as follows (in millions):

2004	\$ 7.1
2005	11.9
2006	1.9
2007	15.8
2008	.2
Thereafter	111.1
	-----
	\$ 148.0

Pursuant to the Tax Reform Act of 1986, annual use of InterDigital'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 InterDigital'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. InterDigital believes that no ownership change for purpose of Section 382 occurred up to and including December 31, 2000. InterDigital'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.

15. SELECTED QUARTERLY RESULTS (Unaudited):

In the second quarter of 2000, we modified our revenue recognition policy in response to SAB No. 101. (See, Note 2). Following SAB No. 101 guidance, we reflected in our results for the six months ended June 30, 2000 a net after-tax cumulative effect of change in accounting principle of \$30.5 million to defer the net portion of upfront royalty payments that represented amounts which had not been exhausted through product sales by licensees as of January 1, 2000. We then recognized revenue related to these amounts as licensee product sales occurred. After the second quarter of 2000, there were refinements and clarifications of interpretations by the SEC and the accounting profession regarding payments related to SAB No. 101. As a result of these refinements and clarifications, we revised our cumulative effect of change in accounting principle adjustment in the fourth quarter ended December 31, 2000 by \$23.4 million, bringing the total full year SAB No. 101 adjustment to \$53.9 million. The additional adjustment was to defer revenue as of January 1, 2000 related to fully paid-up licenses in which the licensee makes a single payment for a perpetual patent license. Such payments are now being recognized as revenue over a period of years, based on the life of the products and patents licensed.

The table below presents quarterly data for the years ended December 31, 2000 and 1999, as reported and as adjusted for the impact of SAB No. 101:

Selected Quarterly Results  (in thousands, except per share figures, unaudited)	2000				
	First	Second (1)	Third (1)	Fourth (1)	Full Year
Revenues:					
As reported on Form 10Q	\$12,206	\$ 11,632	\$11,486	\$15,846	\$51,170
Impact of initial SAB 101 Adjustment	1,638	-	-	-	1,638
Impact of fourth quarter SAB 101 revision	1,357	1,356	1,357	-	4,070
Adjusted report	\$15,201	\$ 12,988	\$12,843	\$15,846	\$56,878
Net income (loss) applicable to common shareholders before cumulative effect of change in accounting principle:					
As reported on Form 10Q	\$ 417	\$ (1,104)	\$ 60	\$ 1,429	\$ 802
Impact of initial SAB 101 Adjustment	1,348	-	-	-	1,348
Impact of fourth quarter SAB 101 revision	1,137	1,138	1,139	-	2,390
Adjusted report	\$ 2,902	\$ 34	\$ 1,199	\$ 1,429	\$ 5,564
Earnings (loss) per share before cumulative effect of change in accounting principle - diluted					
As reported on Form 10Q	\$ 0.01	\$ (0.02)	\$ -	\$ 0.03	\$ 0.02
Impact of initial SAB 101 Adjustment	0.02	-	-	-	0.02
Impact of fourth quarter SAB 101 revision	0.02	0.02	0.02	-	0.06
Adjusted report	\$ 0.05	\$ -	\$ 0.02	\$ 0.03	\$ 0.10

(1) Results of operations in Form 10Q for the quarters ended June 30, 2000 and September 30, 2000 reflect the initial SAB No. 101 adjustment, which resulted in additional revenue and operating income of \$1.6 million and \$1.3 million, respectively, in the quarter ended June 30, 2000 and additional revenue and operating income of \$2.5 million and \$2.0 million, respectively, in the quarter ended September 30, 2000. The fourth quarter SAB No. 101 adjustment resulted in additional revenue and operating income of \$1.4 million and \$1.1 million, respectively, in the fourth quarter.

	1999				
	First	Second	Third	Fourth	Full Year
	-----	-----	-----	-----	-----
Revenues	\$35,142	\$ 12,346	\$10,819	\$12,360	\$70,667
Net income applicable to common shareholders	21,161	1,360	2,635	1,295	26,451
Net income per share - diluted	\$ 0.43	\$ 0.03	\$ 0.05	\$ 0.02	\$ 0.52
Pro Forma Effect of change in Accounting Principle					
Net income (loss) applicable to common shareholders	\$23,983	\$ 4,182	\$3,510	\$3,813	\$35,488
before cumulative effect of change in accounting principle					
Net income (loss) per share - basic	\$ 0.50	\$ 0.09	\$ 0.07	\$ 0.08	\$ 0.73
Net income (loss) per share - diluted	\$ 0.49	\$ 0.09	\$ 0.07	\$ 0.08	\$ 0.70

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Cash Equivalents and Investments.**

We do not use derivative financial instruments in our investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. This policy also limits the amount of credit exposure to any one issue, issuer, and type of instrument. We do not expect any material loss with respect to our investment portfolio.

The following table provides information about our investment portfolio. For investment securities, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. All investment securities are expected to mature in 2001.

(in thousands)

Cash Equivalents.....	\$12,343
Average interest rate.....	6.5%
Short-term investments.....	76,644
Average interest rate.....	6.1%
Total portfolio.....	\$88,987
Average interest rate.....	6.13%

## Long-Term Debt.

The table below sets forth information about our long-term debt obligation, by expected maturity dates.

	Expected Maturity Date December 31,				Total Fair Value
	2001 ----	2002 ----	2003 ----	2004 and beyond -----	-----
Fixed Rate	\$326,000	\$146,000	\$148,000	\$1,940,000	\$2,560,000
Weighted Average Interest Rate	7.41%	8.30%	8.28%	8.28%	8.17%

## Item 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## PART III

### **Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF INTERDIGITAL**

Information concerning executive officers appears under the caption Item 1. "Business -Executive Officers" in Part 1 of this Form 10-K. Information concerning directors is incorporated by reference herein from the information following the caption "ELECTION OF DIRECTORS - Nominees for Election to the Board of Directors for a Three Year Term Expiring at 2003 Annual Meeting" to, but not including, "-Committees and Meetings of the Board of Directors" in InterDigital's proxy statement to be filed with the Commission within 120 days after the close of InterDigital's fiscal year ended December 31, 2000 and forwarded to shareholders prior to the 2000 annual meeting of shareholders (Proxy Statement).

Information in the two paragraphs immediately following the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement is incorporated by reference herein.

### **Item 11. EXECUTIVE COMPENSATION**

Information following the caption "Executive Compensation-Summary Compensation Table" to, but not including, the caption "Shareholder Return Performance Graph" and information following the caption "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated by reference herein.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information following the caption "Security Ownership of Certain Beneficial Owners" to, but not including, the caption "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated by reference herein.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

None.

## PART IV

### Item 14. EXHIBITS, FINANCIAL STATEMENT OF SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements.

(2) Financial Statement Schedules.

(3) The Index to Financial Statements and Schedules and the Financial Statements begin on page 35.

\*3.1 Restated Articles of Incorporation (Exhibit 3.1 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).

\*3.2 By-laws, as amended March 2, 2000 (Exhibit 3.2 InterDigital's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).

\*4.1 Rights Agreement between InterDigital and American Stock Transfer & Trust Co., ("AST") (Exhibit 4 to InterDigital's Current Report on Form 8-K filed on December 31, 1987).

\*4.2 Amendment No. 1 to the Rights Agreement between InterDigital and AST (Exhibit 4.2 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (the "June 1997 Form 10-K")).

\*4.3 Amendment No. 2 to the Rights Agreement between InterDigital and AST (Exhibit 4.3 to the June 1997 Form 10-Q).

\*4.4 Amendment No. 3 to the Rights Agreement between InterDigital and AST (Exhibit 4.4 to the 1999 Form 10-K).

\*10.1 Non-Qualified Stock Option Plan, as amended (Exhibit 10.4 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1991).

\*10.2 Intellectual Property License Agreement between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.39 to InterDigital's Registration Statement No. 33-28253 filed on April 18, 1989).

\*10.3 1992 License Agreement dated February 29, 1992 between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.3 to InterDigital's Current Report on Form 8-K dated February 29, 1992 (the "February 1992 Form 8-K")).

\*10.4 CE-TDMA License Agreement dated February 29, 1992 between InterDigital and Hughes Network Systems, Inc. (Exhibit 10.4 to the February 1992 Form 8-K).

\*10.5 1992 Non-Qualified Stock Option Plan (Exhibit 10.1 to InterDigital's Current Report on Form 8-K dated October 21, 1992).

\*10.6 1992 Employee Stock Option Plan (Exhibit 10.71 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1992).

- \*10.7 1995 Employee Stock Option Plan, as amended (Exhibit 10.7 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 Form 10-K")).
- \*10.8 1997 Stock Option Plan for Non-Employee Directors (Exhibit 10.34 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 (the "September 1997 Form 10-Q")).
- \*10.9 Amendment #2 to the Employee Stock Purchase Plan (Exhibit 10.9 to the 1997 Form 10-K).
- \*10.10 Amendment #1 to the Employee Stock Purchase Plan (Appendix to InterDigital's Proxy Statement filed May 23, 1996).
- \*10.11 Employee Stock Purchase Plan (Exhibit 10.52 to InterDigital's Registration Statement No. 33-65630 filed June 6, 1993).
- 10.12 Amended and Restated Employment Agreement dated as of November 20, 2000 by and between InterDigital Communications Corporation and Howard E. Goldberg.
- \*10.13 Employment Agreement dated November 18, 1996 by and between InterDigital Communications Corporation and Charles R. Tilden (Exhibit 10.26 to the 1996 Form 10-K).
- \*10.14 Employment Agreement dated June, 1997 by and between InterDigital and Joseph Gifford (Exhibit 10.33 to the September 1997 Form 10-Q).
- \*10.15 Employment Agreement dated May 7, 1997 by and between InterDigital and Mark A. Lemmo (Exhibit 10.32 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- \*10.16 Employment Agreement dated September 3, 1998 by and between InterDigital and William J. Merritt (Exhibit 10.23 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1998 (the "1998 Form 10-K")).

- \*10.17 Employment Agreement dated November 16, 1998 by and between InterDigital and Richard J. Fagan (Exhibit 10.24 to the 1998 Form 10-K).
- \*10.18 Separation and Confidentiality Agreement dated September 23, 1999 by and between InterDigital and William A. Doyle (Exhibit 10.25 to InterDigital's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999).
- \*10.19 Amendment to the 1995 Stock Option Plan for Employees and Outside Directors (Exhibit 10.25 to the 1999 Form 10-K).
- \*10.20 Employment Agreement dated April 17, 2000 by and between InterDigital and Mark Gercenstein (Exhibit 10.26 to InterDigital's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (the "June 2000 Form 10-Q)).
- \*10.21 Separation and Confidentiality Agreement dated June 30, 2000 by and between InterDigital and Joseph Gifford (Exhibit 10.27 to the June 2000 Form 10-Q).
- \*10.22 2000 Stock Award and Incentive Plan (Exhibit 10.28 to the June 2000 Form 10-Q).
- \*10.23 Amendment to 1992 Employee Stock Option Plan (Exhibit 10.29 to the June 2000 Form 10-Q).
- \*10.24 Amendment to 1992 Incentive Stock Option Plan (Exhibit 10.30 to the June 2000 Form 10-Q).
- \*10.25 Amendment to Non-Qualified Stock Option Plan (Exhibit 10.31 to the June 2000 Form 10-Q).
- \*10.26 Amendment to 1992 Non-Qualified Stock Option Plan (Exhibit 10.32 to the June 2000 Form 10-Q).
- \*10.27 Amendment to 1995 Stock Option Plan for Employees and Outside Directors (Exhibit 10.33 to the June 2000 Form 10-Q).
- \*10.28 Amendment to 1997 Stock Option Plan for Non-Employee Directors (Exhibit 10.34 to the June 2000 Form 10-Q).
- \*10.29 Amendment to Incentive Stock Option Plan (Exhibit 10.35 to the June 2000 Form 10-Q).
- \*10.30 Amendment dated as of April 6, 2000 by and between InterDigital and Richard J. Fagan (Exhibit 10.36 to the June 2000 Form 10-Q).
- \*10.31 Amendment dated as of April 6, 2000 by and between InterDigital and Mark Lemmo (Exhibit 10.37 to the June 2000 Form 10-Q).

- \*10.32 Amendment dated as of April 6, 2000 by and between InterDigital and William Merritt (Exhibit 10.38 to the June 2000 Form 10-Q).
- \*10.33 Amendment dated as of April 6, 2000 by and between InterDigital and Charles R. Tilden (Exhibit 10.39 to the June 2000 Form 10-Q).
- \*10.34 Amendment dated as of April 6, 2000 by and between InterDigital and Joseph Gifford (Exhibit 10.40 to the June 2000 Form 10-Q).
- \*10.35 1997 Stock Option Plan for Non-Employee Directors, as amended March 30, 2000 (Exhibit 10.42 to the June 2000 Form 10-Q).
- \*10.36 1999 Restricted Stock Plan, as amended April 13, 2000 (Exhibit 10.43 to the June 2000 Form 10-Q).
- 10.37 Employment Agreement dated November 19, 1996 by and between InterDigital and Brian G. Kiernan.
- 10.38 Amendment dated as of April 6, 2000 by and between InterDigital and Brian G. Kiernan.
- 10.39 Employment Agreement dated July 24, 2000 by and between InterDigital and William C. Miller.
- 10.40 Agreement dated December 6, 2000, by and between InterDigital and Mark Gerckenstein.
- 10.41 Agreement dated January 2, 2001, by and between InterDigital and Alain Briancon.
- 10.42 Agreement of Lease dated November 25, 1996 by and between InterDigital and We're Associates Company.
- 10.43 Modification of Lease Agreement dated December 28, 2000 by and between InterDigital and We're Associates Company.
- 21 Subsidiaries of InterDigital.
- 23.1 Consent of Arthur Andersen LLP.

-----

Incorporated by reference to the previous filing indicated.

(b) Reports filed on Form 8-K during the last quarter of 2000:

None.

**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**  
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

Description -----	Balance Beginning of Period -----	Charged to Costs and Expenses -----	Deductions -----	Balance at End of Period -----
2000 Allowance for uncollectible accounts	\$975	-----	\$502	\$473
1999 Allowance for uncollectible accounts	\$897	\$87	\$9	\$975
1998 Allowance for uncollectible accounts	\$558	\$508	\$169	\$897

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, InterDigital has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March 2001.

### INTERDIGITAL COMMUNICATIONS CORPORATION

*By: /s/ Howard E. Goldberg*

*Howard E. Goldberg  
Chief Executive Officer*

*By: /s/ Richard J. Fagan*

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

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of InterDigital and in the capacities and on the dates indicated.

Date: March 30, 2001

/s/ D. Ridgely Bolgiano

-----  
D. Ridgely Bolgiano, Director

Date: March 30, 2001

/s/ Harry G. Campagna

-----  
Harry G. Campagna, Director

Date: March 30, 2001

/s/ Steven T. Clontz

-----  
Steven T. Clontz, Director

Date: March 30, 2001

/s/ Joseph S. Colson, Jr.

-----  
Joseph S. Colson, Jr., Director

Date: March 30, 2001

/s/ Robert S. Roath

-----  
Robert S. Roath, Director

Date: March 30, 2001

/s/ Howard E. Goldberg

-----  
Howard E. Goldberg, Director

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of this 20th day of November, 2000, by and between Howard E. Goldberg, a Pennsylvania resident (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company").

WHEREAS, the Company is engaged in the business of the design and development of advanced wireless technologies and products that drive voice and data communications and the licensing of wireless digital technology (as more particularly described in the Company's Form 10-K for the year ended December 31, 1999 and Form 10-Q for the quarter ended September 30, 2000 (the "Business")). The definition of Business shall change and evolve over time as the Company's business changes and evolves, and such definition shall automatically adjust each year with the filing of the Company's then current Form 10-K to be consistent with the business of the Company described therein.

WHEREAS, Employee and the Company are parties to a certain Employment Agreement dated February 25, 1997 and amended as of April 6, 2000 (the "Original Agreement").

WHEREAS, Employee has been promoted to the position of Chief Executive Officer of the Company (Employee's "Position").

WHEREAS, the Company has offered Employee a substantial increase in compensation and extended severance benefits on the condition that Employee enter into this Agreement in order to amend and restate the Original Agreement so as to set forth certain terms and conditions relating to Employee's continued employment and directorship with the Company.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. Salary Increase. The Company hereby grants Employee an increase to his base salary as set forth in Section 5 below and Employee hereby accepts such increase.
2. Term and Duties. Until such time as Employee's employment hereunder is terminated pursuant to the provisions of Section 10 hereto (the "Term"), Employee shall serve the Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his Position. Employee agrees to assume such duties and responsibilities as may be customarily incident to such position, and as may be reasonably assigned to Employee from time to time by the Board of Directors of the Company. Employee shall report to the Board of Directors of the Company.

3. Director Appointment. Employee is being appointed a director of the Company contemporaneously with Employee's assumption of the Position. Employee agrees that, without further action or acknowledgment by Employee or the Company, his position as a director shall terminate upon Employee's termination of employment regardless of the reason for termination.

4. Other Business Activities. During the Term, Employee will not, without the prior written consent of the Company, directly or indirectly engage in any other business activities or pursuits whatsoever, except activities in connection with any charitable or civic activities, personal investments and serving as an executor, trustee or in other similar fiduciary capacity; provided, however, that such activities do not interfere with his performance of his responsibilities and obligations pursuant to this Agreement.

5. Compensation.

(a) The Company shall pay Employee, and Employee hereby agrees to accept, as compensation for all services rendered hereunder and for Employee's covenant not to compete as provided for in Section 9 hereof, a base salary at the annual rate of Three Hundred and Fifty Thousand Dollars (subject to any increase from time to time, the "Base Salary"). The Base Salary shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company or which are requested to be withheld by Employee, and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated employees from time to time in effect.

(b) Employee shall be eligible to participate in the Company's Employee Incentive Bonus Plan, as amended from time to time (the " Bonus Plan"), on terms and conditions no less favorable than those provided to the other Company senior and executive officers so long as the same may be in effect. For the Year 2000, Employee shall have a target bonus level of 57% of his Base Salary under the Bonus Plan. The goals shall be consistent with the goals set for other senior and executive officers. The bonus shall be subject to the terms of the Bonus Plan, as amended from time to time, and shall be referred to herein as the "Annual Target Bonus".

(c) Employee will be granted options to purchase 120,000 shares of the Company's common stock at an exercise price equal to the closing market price on the NASDAQ on the date of grant as reported in the Wall Street Journal. Such options shall be granted pursuant to, and shall be governed by, the terms and conditions of the Company's 2000 Stock Award and Incentive Plan ("Stock Plan"). Subject to such terms and conditions of the Stock Plan, the stock options shall vest as follows:

December 31, 2000	20,000 shares
June 30, 2001	20,000 shares
December 31, 2001	20,000 shares
June 30, 2002	20,000 shares
December 31, 2002	20,000 shares
June 30, 2003	20,000 shares

(d) For the duration of your Position, the Company will reimburse you for a leased automobile (the "Automobile") of comparable type to a Lincoln LS, as determined by the comparability of Lease terms. Employee currently has a Lease for a 2000 Lincoln LS which terminates on or about April 14, 2002. So long as you remain an employee of the Company, the Company will pay you on a monthly basis an amount sufficient to cover the cost of the Lease and insurance and maintenance on the Automobile. Company will also pay you an amount sufficient to indemnify you for federal and state taxes you will have on the W-2 income generated by the Company's payment of these Automobile expenses so as to leave you with a tax liability equal to what you would have had if no such reimbursements were made and deductions permitted (the "Gross-Up"). The amount of the Gross-Up shall be determined in the professional judgment of InterDigital's CFO after consultation with each party's tax adviser. In addition, in the event that your employment with the Company terminates under Sections 10.1 (Termination on Disability), 10.2 (Termination on Death), or 10.4 (Termination Without "Cause"), the Company agrees, at its option, to pay you in one lump sum either an amount equal to the aggregate total of the remaining base monthly payments required to be paid under the Automobile Lease less the security deposit or the residual value required to buy out the Automobile Lease, or continue to make the Automobile Lease payments through the Automobile Lease's termination date, or buy-out the Automobile Lease as in effect through the Automobile Lease's termination date. As conditions to such agreement, if requested by the Company, you must assign your rights and interest in and to the Automobile Lease to the Company and any security interest to the Company and provide possession to the Company in physical condition under which all security deposits would be required to be refunded to the Company and no fees would be assessed with respect thereto.

(e) In the event any amount or benefit payable to the Employee under this Agreement or under any other plan, agreement or arrangement applicable to the Employee, is subject to an excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or imposed under any successor provision of the Code imposing a tax liability on "excess parachute payments" as that term is defined in Code Section 280G), Employee shall be entitled, in addition to any other amounts payable under the terms of this Agreement or under any other plan, agreement or arrangement applicable to the Employee, to a cash payment in an amount sufficient to indemnify the Employee (or such other person as may be liable for the payment of such excise tax) for the amount of any such excise tax, and leaving Employee with an amount, net after all federal, state and local taxes, equal to the amount Employee would have had if no portion of his benefit under the Plan constituted an "excess parachute payment. Notwithstanding the foregoing, the determination of the amount necessary to indemnify the Employee shall be made taking into account all other payments made to the Employee under any plans, agreements or arrangements aside from this Agreement that are intended to indemnify the Employee with respect to excise taxes on "excess parachute payments. Any disputes as to calculations to be made under this paragraph shall be resolved by the Company's independent auditors, whose determinations shall be final and binding. This provision shall survive the termination of this Agreement and Employee's employment.

6. Benefits and Expenses. Employee and his dependants shall be entitled to receive those employee benefits (including without limitation medical plan, dental plan, optional 401K participation and expense reimbursement) as shall be provided to similarly situated executive employees of the Company ("Benefits").

7. Confidentiality. Employee recognizes and acknowledges that the Proprietary Information (as hereinafter defined) is a valuable, special and unique asset of the Business of the Company. As a result, both during the Term and thereafter, Employee shall not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for his own benefit, or for any purpose other than the exclusive benefit of the Company, any confidential, proprietary, business and technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Proprietary Information") revealed, obtained or developed in the course of his employment with the Company. Such Proprietary Information shall include, but shall not be limited to, the intangible personal property described in Section 8(b) hereof, any information relating to methods of production and manufacture, research, computer codes or instructions (including source and object code listings, program logic algorithms, subroutines, modules or other subparts of computer programs and related documentation, including program notation), computer processing systems and techniques, concepts, layouts, flowcharts, specifications, know-how, any associated user or service manuals or other like textual materials (including any other data and materials used in performing the Employee's duties), all computer inputs and outputs (regardless of the media on which stored or located), hardware and software configurations, designs, architecture, interfaces, plans, sketches, blueprints, and any other materials prepared by the Employee in the course of, relating to or arising out of his employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers (including information and other material relating to the ASIC), costs, business studies, business procedures, finances, marketing data, methods, plans and efforts, the identities of licensees, strategic partners, customers, contractors and suppliers and prospective licensees, strategic partners, customers, contractors and suppliers, the terms of contracts and agreements with licensees, strategic partners, customers, contractors and suppliers, the Company's relationship with actual and prospective licensees, strategic partners, customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective licensees, strategic partners, customers, contractors and suppliers, personnel information, customer and vendor credit information, and any other materials that have not been made available to the general public, provided, that nothing herein contained shall restrict Employee's ability to make such disclosures during the course of his employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for his Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Employee from divulging or using for his own benefit or for any other purpose any Proprietary Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Employee's breach of this

Section 7. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information under the terms of this Agreement.

## 8. Property.

(a) All right, title and interest in and to Proprietary Information shall be and remain the sole and exclusive property of the Company. During the Term, Employee shall not remove from the Company's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing Proprietary Information, or other materials or property of any kind belonging to the Company unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for his Position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. Employee shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of his assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which he may have access or with which for any reason he may become familiar, except as disclosure shall be necessary in the performance of his duties; and upon the termination of his employment with the Company, he shall leave with or return to the Company all originals and copies of the foregoing then in his possession, whether prepared by Employee or by others.

(b)(i) Employee agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by Employee (1) at any time and at any place while the Employee is employed by Company and which, in the case of any or all of the foregoing, are related to and used in connection with the Business of the Company, (2) as a result of tasks assigned to Employee by the Company, or (3) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Company. The Employee shall promptly disclose to the Company all Intellectual Property, and the Employee shall have no claim for additional compensation for the Intellectual Property.

(ii) The Employee acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Employee may retain an interest in any Intellectual Property that is not copyrightable, the Employee hereby irrevocably assigns and transfers to the Company any and all right, title, or interest that the Employee may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Company shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(iii) Employee further agrees to reveal promptly all information relating to the same to an appropriate officer of the Company and to cooperate with the Company and execute such documents as may be necessary or appropriate (1) in the event that the Company desires to seek copyright, patent or trademark protection, or other analogous protection, thereafter relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (2) to defend any opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(iv) In the event the Company is unable after reasonable effort to secure Employee's signature on any of the documents referenced in Section 8(b)(iii) hereof, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by Employee.

9. Covenant Not to Compete. The Employee shall not, during the Term and thereafter for the Restricted Period (as defined below), do any of the following, directly or indirectly, without the prior written consent of the Company:

(a) engage or participate in any product business directly competitive with the Company's Business, or the business of any of the Company's subsidiaries or affiliates, as same are conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter;

(b) become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any person, firm, corporation, association or other entity engaged in any business that is directly competitive with the Business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter, or become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any portion of the business of any person, firm, corporation, association or other entity where such portion of such business is competitive with the business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon termination of Employee's employment hereunder with respect to any period thereafter. Notwithstanding the foregoing, Employee may hold not more than one percent (1%) of the outstanding securities of any class of any publicly-traded securities of a company that is engaged in activities referenced in Section 9(a) hereof;

(c) influence or attempt to influence any licensee, strategic partner, supplier, or customer of the Company or potential licensee, strategic partner, supplier or customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; or

(d) influence or attempt to influence any person to either (i) terminate or modify his employment, consulting, agency, distributorship or other arrangement with the Company, or (ii) employ or retain, or arrange to have any other person or entity employ or retain, any person who has been employed or retained by the Company as an employee, consultant, agent or distributor of the Company at any time during the twelve (12) month period immediately preceding the termination of Employee's employment hereunder.

An activity shall be deemed "directly competitive" when there is a reasonable likelihood based on Employee's actual possession (whether or not in tangible form) of technical trade secrets or confidential information that the activity prohibited would result in the use of technical trade secrets or other highly confidential information of the Company's or its business associates.

For purposes of this Section 9, the Restricted Period shall constitute a period ending one (1) year after Employee's termination date, regardless of the reason for termination.

10. Termination. Employee's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 10. Upon termination, Employee shall be entitled only to such compensation and benefits as described in this Section 10.

#### 10.1 Termination for Disability.

(a) In the event of a long-term disability of the Employee (as such term is defined in the Company's Long-Term Disability Plan) such that the Employee is not otherwise qualified to perform the essential functions of the job with or without reasonable accommodation ("Disability"), Employee's employment hereunder may be terminated by the Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 10.1(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other forms of compensation and bonus payable or provided in accordance with the terms of any then existing compensation, bonus or benefit plan or arrangement ("Other Compensation"), including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 11 below, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section .1(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage is not provided under other Company policies, plans or programs relating to disability both for a period of eighteen (18) months commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its employees from time to time in effect. Except as specifically set forth in this Section 10.1(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

(c) For purposes of this Section 10.1, the determination as to whether Employee has a Disability shall be made by a licensed physician selected by the Company (and reasonably acceptable to Employee) and shall be based upon a full physical examination and good faith opinion by such physician.

10.2 Termination by Death. In the event that Employee dies during the Term, Employee's employment hereunder shall be terminated thereby and the Company shall pay to Employee's executors, legal representatives or administrators an amount equal to the accrued and unpaid portion of his Base Salary, Benefits and Other Compensation up through the date on which he dies. Except as specifically set forth in this Section 10.2, the Company shall have no liability or obligation hereunder to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Employee's death, except that Employee's executors, legal representatives or administrators will be entitled to receive the payment prescribed under any death or disability benefits plan in which he is a participant as an employee of the Company, and to exercise any rights afforded under any compensation or benefit plan then in effect.

### 10.3 Termination for Cause.

(a) The Company may terminate Employee's employment hereunder at any time for "cause" upon written notice to Employee. For purposes of this Agreement, "cause" shall mean: (i) any material breach by Employee of any of his obligations under this Agreement, which breach is not cured within thirty (30) days after Employee's receipt of written notification from the Company of such breach, (ii) other conduct of Employee involving any type of willful misconduct with respect to the Company, including without limitation fraud, embezzlement, theft or proven dishonesty in the course of his employment or conviction of a felony.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 10.3(a), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. All Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 10.3, the Company shall have no liability or obligation hereunder, including without limitation for any severance whatsoever, by reason of such termination.

### 10.4 Termination Without Cause.

(a) The Company may terminate Employee's employment hereunder at any time, for any reason, without cause upon notice to Employee.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 10.4(a), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 11 below, Employee shall be entitled to receive (i) severance in an amount equal to Employee's Base Salary and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of eighteen (18) months commencing upon the date of such termination. Employee shall also be entitled to receive severance in an amount equal to fifty percent (50%) of Employee's Target Bonus for the year in which Employee was terminated, payable over a period of eighteen (18) months commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its executives from time to time in effect. Except as specifically set forth in this Section 10.4(b), all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 10.4, the Company shall have no liability or obligation hereunder by reason of such termination.

## 10.5 Termination by Employee.

(a) Employee may terminate Employee's employment hereunder at any time, for Good Reason or without Good Reason, effective upon the date designated by Employee in written notice of the termination of his employment hereunder pursuant to this Section 10.5(a); provided that, such date shall be at least thirty (30) days after the date of such notice. Company may elect to have Employee remain absent from the workplace and cease Company business during all or part of such thirty (30) day period. For purposes of this Agreement, Good Reason shall mean: (i) the failure by the Company to pay in a timely manner Base Salary or any other material form of compensation or material benefit to be paid or provided to Employee hereunder, or (ii) any material breach, not encompassed within clause (i) of this Section 10.5(a), of the obligations of the Company under this Agreement which breach is not cured within thirty (30) days after the Company's receipt of written notification from the Employee of such breach.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 10.5(a) hereof, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, solely if such termination is for Good Reason and provided Employee signs Company's standard form termination letter as provided for in Section 11 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's Base Salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of eighteen (18) months commencing upon the date of such termination. Employee shall also be entitled to receive severance in an amount equal to fifty percent (50%) of Employee's Target Bonus for the year in which Employee was terminated, payable over a period of commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its executives from time to time in effect. Except as specifically set forth in this Section 10.5(b), all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 10.5, the Company shall have no liability or obligation hereunder by reason of such termination.

## 10.6 Change of Control.

(a) If there is a Change of Control during the Term, and Employee's employment with the Company hereunder is terminated within one (1) year following such Change of Control by the Company (except for cause) or by Employee (whether or not for Good Reason), provided Employee signs Company's standard form termination letter as provided for in Section 11 below, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, (i) Employee shall be entitled to receive, on the date of such termination, an amount equal to two years' worth of Employee's Base Salary, and (ii) all stock options and restricted stock granted to Employee by Company which pursuant to the terms of the applicable plan vest upon a Change in Control shall vest. Except as specifically set forth in this Section 10.6, all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plans then in force and applicable to Employee, and the Company shall have no liability or obligation hereunder by reason of such termination.

(b) For purposes of this Section 9.6, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof or a sale of substantially all of the assets of the Company. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

## 10.7 Termination for Absenteeism

(a) Regular attendance at work or in conducting work is an essential element of Employee's job. Without limiting the Company's right to terminate Employee pursuant to Section 10.1 or 10.3 herein, in the event that Employee is absent for more than one hundred and fifty (150) days within any twelve (12) month period, Employee's employment hereunder may be terminated by Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 10.7(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and Other Compensation, including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 11 below, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 10.8(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage is not provided under other Company policies, plans or programs relating to disability, both for a period of eighteen (18) months commencing upon the date of such termination. Employee shall also be entitled to receive severance in an amount equal to fifty percent (50%) of Employee's Target Bonus for the year in which Employee was terminated, payable over a period of eighteen (18) months commencing upon the date of such termination. Except as specifically set forth in this Section 10.7(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

11. Termination Letter. As a condition precedent to the Company's payment of severance and continuation of medical and dental insurance coverage pursuant to Sections 10.1, 10.4, 10.5, 10.6 and 10.7 above, Employee must sign and deliver to Company Company's form of termination letter, without revocation, which includes a broad-based employment release (containing, without limitation, a release of claims for age discrimination), an obligation to return Company property and a reiteration of Employee's confidentiality obligations, within the time frame specified in the termination letter.

12. Other Agreements. Employee represents and warrants to the Company that:

(a) There are no restrictions, agreements or understandings whatsoever to which Employee is a party which would prevent or make unlawful Employee's execution of this Agreement or Employee's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Employee's employment hereunder, or would prevent, limit or impair in any way the performance by Employee of his obligations hereunder,

(b) Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party or by which Employee is bound, and

(c) Employee is free to execute this Agreement and to enter into the employ of the Company pursuant to the provisions set forth herein.

(d) Employee shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer that the Employee may work for during the term of this Agreement (which employment is not hereby authorized) or after the termination of the Employee's employment at the Company.

13. Survival of Provisions. The provisions of this Agreement set forth in Sections 7, 8, 9, 10 (solely with respect to the payment obligations of the Company to Employee, if any, set forth therein), 11 12, 13, 14, 19, 23 and 24 hereof shall survive the termination of Employee's employment hereunder. If for any reason Employee shall continue to be employed by the Company following the termination of Employee's employment hereunder, Employee shall have no right to receive any severance or other payments hereunder until Employee ceases to be employed by the Company, whereupon Employee's right to severance or other payments, if any, shall be governed by the provisions of Section 10 hereof with respect to the particular circumstances involved in the Employee's termination of employment.

14. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; provided, however, that neither Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other parties hereto.

15. Employee Benefits. This Agreement shall not be construed to be in lieu or to the exclusion of any other rights, benefits and privileges to which Employee may be entitled as an employee of the Company under any retirement, pension, profit-sharing, insurance, hospital or other plans or benefits which may now be in effect or which may hereafter be adopted.

16. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, by hand delivery, or by recognized overnight courier, addressed as follows:

**If to Employee:**

Howard E. Goldberg  
c/o InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406

**If to Company:**

InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406  
Attn: Harry Campagna, Chairman

with a copy to:

Pepper, Hamilton & Scheetz  
3000 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103  
Attn: Barry M. Abelson, Esquire

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

17. Entire Agreement; Amendments. This Agreement contain the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Employee with the Company excepting the non-disclosure agreement and the Statement of Ethics signed by Employee at the commencement of Employee's employment with the Company, various forms related to the commencement of Employee's employment with the Company and Employee's participation in employee benefit plans offered by the Company (including, without limitation, option and restricted stock agreements), and agreements to be bound by Company policies to the extent that these other agreements do not conflict with the terms of this Agreement.

18. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

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

20. Invalidity. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

21. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

22. Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and legal holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or day which is a holiday in the Commonwealth of Pennsylvania, then such final day shall be deemed to be the next day which is not a Saturday, Sunday or legal holiday.

23. Specific Enforcement; Extension of Period.

(a) Employee acknowledges that the restrictions contained in Sections 7, 8 and 9 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee also acknowledges that any breach by him of Sections 7, 8 or 9 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Employee shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Employee, the Company shall have the right to enforce the provisions of Sections 7, 8 and 9 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements. In the event that the provisions of Sections 7, 8 or 9 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

(b) In the event that Employee shall be in breach of any of the restrictions contained in Section 9 hereof, then the Restricted Period shall be extended for a period of time equal to the period of time that Employee is in breach of such restriction.

24. Consent to Suit. Any legal proceeding arising out of or relating to this Agreement shall be instituted in the District Court of the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in the Commonwealth of Pennsylvania, and the Employee hereby consents to the personal and exclusive jurisdiction of such court and hereby waives any objection that the Employee may have to the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

25. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

**ATTEST: INTERDIGITAL COMMUNICATIONS**

**CORPORATION**

By: /s/Jane Schultz  
-----  
Title: Asst Secr

By: /s/William Merritt  
-----  
Title: EVP

[CORPORATE SEAL]

/s/Howard E Goldberg  
-----  
Howard E. Goldberg

---

**EMPLOYMENT AGREEMENT**

**BETWEEN**

**BRIAN KIERNAN**

**AND**

**INTERDIGITAL COMMUNICATIONS CORPORATION**

NOVEMBER 19, 1996

---

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made this 19th day of November, 1996, by and between Brian Kiernan, a Pennsylvania resident (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company").

WHEREAS, the Company is engaged in the business of developing and marketing advanced digital wireless telecommunications systems using proprietary technologies for voice and data communications and the licensing of wireless digital telephone technology (the "Business").

WHEREAS, Employee serves in the position of Vice President of the Company (Employee's "Position").

WHEREAS, the Company has offered Employee a substantial increase in base salary on the condition that Employee enter into this Agreement with Company in order to set forth certain terms and conditions relating to Employee's continued employment with the Company.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. Salary Increase. The Company hereby grants Employee an increase to his base salary as set forth in Section 4 below and Employee hereby accepts such increase.

2. **Term and Duties.** Until such time as Employee's employment hereunder is terminated pursuant to the provisions of Section 9 hereto (the "Term"), Employee shall serve the Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his Position. Employee agrees to assume such duties and responsibilities as may be customarily incident to such position, and as may be reasonably assigned to Employee from time to time by the President or the Chief Executive Officer of the Company. Employee shall report to the President and the Chief Executive Officer of the Company.

3. **Other Business Activities.** During the Term, Employee will not, without the prior written consent of the Company, directly or indirectly engage in any other business activities or pursuits whatsoever, except activities in connection with any charitable or civic activities, personal investments and serving as an executor, trustee or in other similar fiduciary capacity; provided, however, that such activities do not interfere with his performance of his responsibilities and obligations pursuant to this Agreement.

4. **Compensation.** The Company shall pay Employee, and Employee hereby agrees to accept, as compensation for all services rendered hereunder and for Employee's covenant not to compete as provided for in Section 8 hereof, a base salary at the annual rate of One Hundred and Thirty Thousand Dollars (subject to any increase from time to time, the "Base Salary"). The Base Salary shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company or which are requested to be withheld by Employee, and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated employees from time to time in effect. In addition to the Base Salary, Employee shall be eligible to participate in whatever bonus plan, if any, the Company shall adopt for its executive officers, including without limitation, the Executive Bonus Plan the Company currently intends to develop and implement with the assistance of Ernst & Young. Notwithstanding the foregoing sentence, the Company shall be under no obligation to develop and/or implement any bonus plan, including without limitation, the aforesaid Executive Bonus Plan, or to continue any such plan, if adopted.

5. **Benefits and Expenses.** Employee shall be entitled to receive those employee benefits (including expense reimbursement) as shall be provided to similarly situated executive employees of the Company ("Benefits").

6. Confidentiality. Employee recognizes and acknowledges that the Proprietary Information (as hereinafter defined) is a valuable, special and unique asset of the Business of the Company. As a result, both during the Term and thereafter, Employee shall not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for his own benefit, or for any purpose other than the exclusive benefit of the Company, any confidential, proprietary, business and technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Proprietary Information") revealed, obtained or developed in the course of his employment with the Company. Such Proprietary Information shall include, but shall not be limited to, the intangible personal property described in Section 7(b) hereof, any information relating to methods of production and manufacture, research, computer codes or instructions (including source and object code listings, program logic algorithms, subroutines, modules or other subparts of computer programs and related documentation, including program notation), computer processing systems and techniques, concepts, layouts, flowcharts, specifications, know-how, any associated user or service manuals or other like textual materials (including any other data and materials used in performing the Employee's duties), all computer inputs and outputs (regardless of the media on which stored or located), hardware and software configurations, designs, architecture, interfaces, plans, sketches, blueprints, and any other materials prepared by the Employee in the course of, relating to or arising out of his employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers (including information and other material relating to the ASIC), costs, business studies, business procedures, finances, marketing data, methods, plans and efforts, the identities of licensees, strategic partners, customers, contractors and suppliers and prospective licensees, strategic partners, customers, contractors and suppliers, the terms of contracts and agreements with licensees, strategic partners, customers, contractors and suppliers, the Company's relationship with actual and prospective licensees, strategic partners, customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective licensees, strategic partners, customers, contractors and suppliers, personnel information, customer and vendor credit information, and any other materials that have not been made available to the general public, provided, that nothing herein contained shall restrict Employee's ability to make such disclosures during the course of his employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for his Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Employee from divulging or using for his own benefit or for any other purpose any Proprietary Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Employee's breach of this

Section 6. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information under the terms of this Agreement.

## 7. Property.

(a) All right, title and interest in and to Proprietary Information shall be and remain the sole and exclusive property of the Company. During the Term, Employee shall not remove from the Company's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing Proprietary Information, or other materials or property of any kind belonging to the Company unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for his Position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. Employee shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of his assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which he may have access or with which for any reason he may become familiar, except as disclosure shall be necessary in the performance of his duties; and upon the termination of his employment with the Company, he shall leave with or return to the Company all originals and copies of the foregoing then in his possession, whether prepared by Employee or by others.

(b) (i) Employee agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by Employee (1) at any time and at any place while the Employee is employed by Company and which, in the case of any or all of the foregoing, are related to and used in connection with the Business of the Company, (2) as a result of tasks assigned to Employee by the Company, or (3) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Company. The Employee shall promptly disclose to the Company all Intellectual Property, and the Employee shall have no claim for additional compensation for the Intellectual Property.

(ii) The Employee acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Employee may retain an interest in any Intellectual Property that is not copyrightable, the Employee hereby irrevocably assigns and transfers to the Company any and all right, title, or interest that the Employee may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Company shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(iii) Employee further agrees to reveal promptly all information relating to the same to an appropriate officer of the Company and to cooperate with the Company and execute such documents as may be necessary or appropriate (1) in the event that the Company desires to seek copyright, patent or trademark protection, or other analogous protection, thereafter relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (2) to defend any opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(iv) In the event the Company is unable after reasonable effort to secure Employee's signature on any of the documents referenced in Section 7 (b)(iii) hereof, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by Employee.

8. Covenant Not to Compete. The Employee shall not, during the Term and thereafter for the Restricted Period (as defined below), do any of the following, directly or indirectly, without the prior written consent of the Company:

(a) engage or participate in any business activity competitive with the Company's Business, or the business of any of the Company's subsidiaries or affiliates, as same are conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter;

(b) become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any person, firm, corporation, association or other entity engaged in any business that is competitive with the Business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter, or become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any portion of the business of any person, firm, corporation, association or other entity where such portion of such business is competitive with the business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon termination of Employee's employment hereunder with respect to any period thereafter. Notwithstanding the foregoing, Employee may hold not more than one percent (1%) of the outstanding securities of any class of any publicly-traded securities of a company that is engaged in activities referenced in Section 8(a) hereof;

(c) influence or attempt to influence any licensee, strategic partner, supplier, or customer of the Company or potential licensee, strategic partner, supplier or customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; or

(d) influence or attempt to influence any person to either (i) terminate or modify his employment, consulting, agency, distributorship or other arrangement with the Company, or (ii) employ or retain, or arrange to have any other person or entity employ or retain, any person who has been employed or retained by the Company as an employee, consultant, agent or distributor of the Company at any time during the twelve (12) month period immediately preceding the termination of Employee's employment hereunder.

For purposes of this Section 8, the Restricted Period shall constitute (as applicable) (i) the period, if any, that Employee shall receive severance as set forth in Section 9 hereof, (ii) in the event Employee's employment hereunder is terminated for cause pursuant to Section 9 hereof, a period of one (1) year following such termination, or (iii) in the event that Employee terminates this Agreement without Good Reason, so long as the Company voluntarily pays severance to Employee (which the Company shall be under no obligation to do), for the period that Employee shall receive such severance, but in no event for a period longer than one (1) year.

9. Termination. Employee's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 9. Upon termination, Employee shall be entitled only to such compensation and benefits as described in this Section 9.

#### 9.1. Termination for Disability.

(a) In the event of a long-term disability of the Employee (as such term is defined in the Company's Long-Term Disability Plan) such that the Employee is not otherwise qualified to perform the essential functions of the job with or without reasonable accommodation ("Disability"), Employee's employment hereunder may be terminated by the Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.1(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other forms of compensation and bonus payable or provided in accordance with the terms of any then existing compensation, bonus or benefit plan or arrangement ("Other Compensation"), including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, for a period of one year following such termination, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.1(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage is not provided under other Company policies, plans or programs relating to Disability. Except as specifically set forth in this Section 9.1(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

(c) For purposes of this Section 9.1, the determination as to whether Employee has a long-term disability (as such term is defined in the Company's Long-Term Disability Plan) shall be made by a licensed physician selected by the Company (and reasonably acceptable to Employee) and shall be based upon a full physical examination and good faith opinion by such physician.

9.2. Termination by Death. In the event that Employee dies during the Term, Employee's employment hereunder shall be terminated thereby and the Company shall pay to Employee's executors, legal representatives or administrators an amount equal to the accrued and unpaid portion of his Base Salary, Benefits and Other Compensation up through the date on which he dies. Except as specifically set forth in this Section 9.2, the Company shall have no liability or obligation hereunder to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Employee's death, except that Employee's executors, legal representatives or administrators will be entitled to receive the payment prescribed under any death or disability benefits plan in which he is a participant as an employee of the Company, and to exercise any rights afforded under any compensation or benefit plan then in effect.

### 9.3. Termination for Cause.

(a) The Company may terminate Employee's employment hereunder at any time for "cause" upon written notice to Employee. For purposes of this Agreement, "cause" shall mean: (i) any material breach by Employee of any of his obligations under this Agreement, which breach is not cured within thirty (30) days after Employee's receipt of written notification from the Company of such breach, (ii) other conduct of Employee involving any type of willful misconduct with respect to the Company, including without limitation fraud, embezzlement, theft or proven dishonesty in the course of his employment or conviction of a felony.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.3(a), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. All Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.3, the Company shall have no liability or obligation hereunder, including without limitation for any severance whatsoever, by reason of such termination.

### 9.4. Termination Without Cause.

(a) The Company may terminate Employee's employment hereunder at any time, for any reason, without cause, effective upon the date designated by the Company upon thirty (30) days prior written notice to Employee. Company may elect to have Employee remain absent from the workplace and cease Company business during all or part of such thirty (30) day period.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.4(a) (including by the Company's delivery of written notice not to renew the Term in accordance with the provisions of Section 1 hereof in the event such termination is not for cause), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, Employee shall be entitled to receive (i) severance in an amount equal to Employee's Base Salary and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of one year commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its executives from time to time in effect. All Base Salary, Benefits and Bonuses shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.4, the Company shall have no liability or obligation hereunder by reason of such termination.

#### 9.5. Termination by Employee.

(a) Employee may terminate Employee's employment hereunder at any time, for Good Reason or without Good Reason, effective upon the date designated by Employee in written notice of the termination of his employment hereunder pursuant to this Section 9.5(a); provided that, such date shall be at least thirty (30) days after the date of such notice. For purposes of this Agreement, Good Reason shall mean: (i) the failure by the Company to pay in a timely manner Base Salary or any other material form of compensation or material benefit to be paid or provided to Employee hereunder, or (ii) any material breach, not encompassed within clause (i) of this Section 9.5(a), of the obligations of the Company under this Agreement which breach is not cured within thirty (30) days after the Company's receipt of written notification from the Employee of such breach.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.5(a) hereof, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, solely if such termination is for Good Reason, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's Base Salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of one year commencing upon the date of such termination. Such severance shall be payable as set forth in Section 9.4(b) hereof. Except as specifically set forth in this Section 9.5(b), all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.5, the Company shall have no liability or obligation hereunder by reason of such termination.

#### 9.6. Change of Control.

(a) If there is a Change of Control during the Term, and Employee's employment with the Company hereunder is terminated within one (1) year following such Change of Control by the Company (except for cause) or by Employee (whether or not for Good Reason), Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) Base Salary, Benefits and Other Compensation. In addition, (i) Employee shall be entitled to receive, on the date of such termination, an amount equal to two years' worth of Employee's Base Salary, and (ii) all stock options granted to Employee by Company which pursuant to the terms of the applicable stock option plan vest upon a Change in Control (e.g., Section 17(b) of the 1995 Stock Option Plan for Employees and Outside Directors) shall vest. Except as specifically set forth in this Section 9.6, all Base Salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plans then in force and applicable to Employee, and the Company shall have no liability or obligation hereunder by reason of such termination.

(b) For purposes of this Section 9.6, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

#### 9.7. Termination for Absenteeism

(a) Regular attendance at work or in conducting work is an essential element of Employee's job. Without limiting the Company's right to terminate Employee pursuant to Section 9.1 or 9.3 herein, in the event that Employee is absent for more than one hundred and fifty (150) days within any twelve (12) month period, Employee's employment hereunder may be terminated by Company.

(b) In the event of a termination of Employee's employment hereunder pursuant to Section 9.8(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other forms of compensation and bonus payable or provided in accordance with the terms of any then existing compensation, bonus or benefit plan or arrangement ("Other Compensation"), including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, for a period of one year following such termination, Employee shall be entitled to receive (i) regular installments of Base Salary at the rate in effect at the time of such termination, such amount being reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.8(a), and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, to the extent such coverage is not provided under other Company policies, plans or programs relating to Disability. Except as specifically set forth in this Section 9.8(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

10. Other Agreements. Employee represents and warrants to the Company that:

(a) There are no restrictions, agreements or understandings whatsoever to which Employee is a party which would prevent or make unlawful Employee's execution of this Agreement or Employee's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Employee's employment hereunder, or would prevent, limit or impair in any way the performance by Employee of his obligations hereunder,

(b) Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party or by which Employee is bound, and

(c) Employee is free to execute this Agreement and to enter into the employ of the Company pursuant to the provisions set forth herein.

(d) Employee shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer that the Employee may work for during the term of this Agreement (which employment is not hereby authorized) or after the termination of the Employee's employment at the Company.

11. Survival of Provisions. The provisions of this Agreement set forth in Sections 6, 7, 8, 9 (solely with respect to the payment obligations of the Company to Employee, if any, set forth therein), 10 and 21 hereof shall survive the termination of Employee's employment hereunder. If for any reason Employee shall continue to be employed by the Company following the termination of Employee's employment hereunder, Employee shall have no right to receive any severance or other payments hereunder until Employee ceases to be employed by the Company, whereupon Employee's right to severance or other payments, if any, shall be governed by the provisions of Section 9 hereof with respect to the particular circumstances involved in the Employee's termination of employment.

12. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; provided, however, that neither Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other parties hereto.

13. Employee Benefits. This Agreement shall not be construed to be in lieu or to the exclusion of any other rights, benefits and privileges to which Employee may be entitled as an employee of the Company under any retirement, pension, profit-sharing, insurance, hospital or other plans or benefits which may now be in effect or which may hereafter be adopted.

14. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, by hand delivery, or by recognized overnight courier, addressed as follows:

**If to Employee:**

Brian Kiernan  
c/o InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406

**If to Company:**

InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406  
Attn: Harry Campagna, Chairman

with a copy to:

Pepper, Hamilton & Scheetz  
3000 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103  
Barry M. Abelson, Esquire

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

15. Entire Agreement; Amendments. This Agreement contain the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Employee with the Company.

16. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

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

18. Invalidity. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

19. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

20. Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and legal holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or day which is a holiday in the Commonwealth of Pennsylvania, then such final day shall be deemed to be the next day which is not a Saturday, Sunday or legal holiday.

21. Specific Enforcement; Extension of Period.

(a) Employee acknowledges that the restrictions contained in Sections 6, 7, and 8 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee also acknowledges that any breach by him of Sections 6, 7, or 8 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Employee shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Employee, the Company shall have the right to enforce the provisions of Sections 6, 7, and 8 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements. In the event that the provisions of Sections 6, 7, or 8 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

(b) In the event that Employee shall be in breach of any of the restrictions contained in Section 8 hereof, then the Restricted Period shall be extended for a period of time equal to the period of time that Employee is in breach of such restriction.

22. Consent to Suit. Any legal proceeding arising out of or relating to this Agreement shall be instituted in the District Court of the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in the Commonwealth of Pennsylvania, and the Employee hereby consents to the personal and exclusive jurisdiction of such court and hereby waives any objection that the Employee may have to the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

23. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

**ATTEST: INTERDIGITAL COMMUNICATIONS**

**CORPORATION**

By: */s/Jane Schultz*  
-----  
Title: *Asst Sect*

[CORPORATE SEAL]

By: */s/William A. Doyle*  
-----  
Title: *President*

*/s/ Brian G. Kiernan*  
-----  
*Brian Kiernan*

## AMENDMENT

This Amendment is made between InterDigital Communications Corporation ("InterDigital") and Brian Kiernan ("Employee"), with reference to the following recitals:

A. InterDigital and Employee are parties to a certain Employment Agreement ("Agreement") dated November 19, 1996.

B. InterDigital and Employee desire to amend certain terms of the Agreement, as set forth herein.

NOW, THEREFORE, in consideration of the above recitals, the mutual promises contained herein and intending to be legally bound thereby, the parties agree as follows:

1. Tax Gross-Up. The following provision is hereby added to the end of Section 5 of the Agreement:

"In the event any amount or benefit payable to the Employee under this Agreement or under any other plan, agreement or arrangement applicable to the Employee, is subject to an excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or imposed under any successor provision of the Code imposing a tax liability on "excess parachute payments" as that term is defined in Code Section 280G), Employee shall be entitled, in addition to any other amounts payable under the terms of this Agreement or under any other plan, agreement or arrangement applicable to the Employee, to a cash payment in an amount sufficient to indemnify the Employee (or such other person as may be liable for the payment of such excise tax) for the amount of any such excise tax, and leaving Grantee with an amount, net after all federal, state and local taxes, equal to the amount Grantee would have had if no portion of his benefit under the Plan constituted an "excess parachute payment." Notwithstanding the foregoing, the determination of the amount necessary to indemnify the Employee shall be made taking into account all other payments made to the Employee under any plans, agreements or arrangements aside from this Agreement that are intended to indemnify the Employee with respect to excise taxes on "excess parachute payments. Any disputes as to calculations to be made under this paragraph shall be resolved by the Company's independent auditors, whose determinations shall be final and binding. This provision shall survive the termination of this Agreement and Employee's employment"

2. Business. The definition of "Business" is hereby amended to be "the design and development of technology content and system solutions for advanced digital wireless communications applications and the licensing of wireless digital telephone technology( as more particularly described in the Company's Form 10-K)". The definition of Business shall change and evolve over time as the Company's business changes and evolves, and such definition shall automatically adjust each year with the filing of the Company's then current Form 10-K to be consistent with the business of the Company described therein.

3. Change in Control Definition. Section 9.6(b) of the Agreement is hereby amended to read as follows:

"For purposes of this Section 9.6, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof or a sale of substantially all of the assets of the Company. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association."

4. Termination Letter. The Agreement shall be amended to provide for the requirement that Employee sign the Company's standard form termination letter as a condition to receiving severance and benefits continuation in the event of a termination for absenteeism and in the event of a Change in Control and that , to be effective, the termination letters must not be revoked. Accordingly, the phrase "and provided Employee signs Company's standard form termination letter as provided for in Section 9.8 below" is hereby added to the second sentence of Sections 9.1 (b), 9.4(b), 9.5(b) and 9.7(b) after the words "In addition," and to the second sentence of Section 9.6(a) after the words "In addition, (i)". Further, a new Section 9.8 is hereby added to read as follows:

"As a condition precedent to the Company's payment of severance and continuation of medical and dental insurance coverage pursuant to Sections 9.1, 9.4, 9.5, 9.6 and 9.7 herein, Employee must sign and deliver to Company Company's termination letter (without revocation to the extent such right is provided) which includes a broad-based employment release, an obligation to return Company property and a reiteration of Employee's confidentiality obligations, within the time frame specified in the termination letter."

5. Covenant Not to Compete. The covenants contained in Sections 8(a) and 8(b) shall be deemed only to apply to activities that are "directly competitive" with the Company's Business. An activity shall be deemed "directly competitive" when there is a reasonable likelihood that the activity prohibited would result in the use of technical trade secrets or other highly confidential information of the Company's or its business associates.

6. Entire Agreement. Section 15 of the Agreement is hereby amended to add the following at the end of the first sentence: "excepting the non-disclosure agreement and the Statement of Ethics signed by Employee at the commencement of Employee's employment with the Company, various forms related to the commencement of Employee's employment with the Company and Employee's participation in employee benefit plans offered by the Company (including, without limitation, option and restricted stock agreements), and agreements to be bound by Company policies to the extent that these other agreements do not conflict with the terms of this Agreement.

7. Force and Effect. Nothing contained herein or in the Agreement shall be construed to alter Employee's status as an employee-at-will. Except as amended and modified herein, the Agreement shall continue in full force and effect.

INTENDING TO BE LEGALLY BOUND, the parties have executed this Amendment as of the 6th day of April, 2000.

**INTERDIGITAL COMMUNICATIONS CORPORATION**

*By: /s/William Merritt*

*/s/Brian G. Kiernan*

-----  
*BRIAN KIERNAN*

---

**EMPLOYMENT AGREEMENT**

**BETWEEN**

**WILLIAM C. MILLER**

**AND**

**INTERDIGITAL COMMUNICATIONS CORPORATION**

JULY 24, 2000

---

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of this 24th day of July, 2000, by and between William C. Miller, (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company").

WHEREAS, the Company is engaged in the business of development and marketing digital wireless telecommunications technologies and components technologies for advanced wireless applications, including voice and high data rate applications, and the licensing of wireless digital telephone technology and patents, as such business may be redefined from time to time and described as such in the Company's then current Annual Report on Form 10-K (the "Business").

WHEREAS, the Company has offered Employee employment as Senior Vice President, Programs and Engineering, and Employee is willing to accept such offer, as set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. Employment and Term. The Company hereby employs Employee and Employee hereby accepts employment with the Company, as Senior Vice President, Programs and Engineering of the Company (such position, Employee's "Position") for a period commencing on July 24, 2000 and continuing until employment hereunder is terminated pursuant to the provisions of Section 9 hereof (the "Term").

2. Duties. During the term of his employment, Employee shall serve the Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his Position. Employee agrees to assume such duties and responsibilities as may be customarily incident to such position, and as may be assigned to Employee from time to time by the Chief Executive Officer of the Company. Employee shall report to the Chief Executive Officer of the Company.

3. Other Business Activities. During the Term, Employee will not, without the prior written consent of the Company, directly or indirectly engage in any other business activities or pursuits whatsoever, except activities in connection with any charitable or civic activities, personal investments and serving as an executor, trustee or in other similar fiduciary capacity; provided, however, that such activities do not interfere with his performance of his responsibilities and obligations pursuant to this Agreement.

#### 4. Compensation.

A) Base Salary. The Company shall pay Employee, and Employee hereby agrees to accept, as compensation for all services rendered hereunder and for Employee's covenant not to compete as provided for in Section 8 hereof, a base salary at the annual rate of One Hundred and Sixty Thousand Dollars (subject to any increase from time to time in accordance with Company compensation policies, the "Base Salary"). The Base Salary shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company or which are requested to be withheld by Employee, and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated employees from time to time in effect.

B) Annual Incentive Bonus. Employee shall be eligible to participate in the Company's Employee Incentive Bonus Plan, as amended from time to time (the " Bonus Plan"), on the terms and conditions no less favorable than those provided to the other Company senior and executive officers. For the Year 2000, Employee shall have a target bonus level of 40%, based on the achievement of business and personal goals to be set by the Board of Directors, and shall be payable pro-rata based on the time period Employee is a regular full time employee during the 2000 calendar year. The bonus shall be subject to the terms of the Bonus Plan, as amended from time to time.

C) Stock Options. Effective on the first date of Employee's employment with the Company, Employee will be granted non-qualified options to purchase 35,000 shares of the Company's common stock at an exercise price equal to the closing market price on the NASDAQ of the Company's common stock on the date of grant as reported in the Wall Street Journal ("FMV"). Such options shall be granted pursuant to, and shall be governed by, the terms and conditions of the Company's 2000 Stock Award and Incentive Plan and the terms and conditions in effect thereunder (together, the "Incentive Plan") under which such options are granted. Subject to such terms and conditions of the Incentive Plan, the stock options shall vest as follows:

December 31, 2000	5,833 shares
June 30, 2001	5,833 shares
December 31, 2001	5,833 shares
June 30, 2002	5,833 shares
December 31, 2002	5,834 shares
June 30, 2003	5,834 shares

## 5. Benefits and Expenses.

A) Company Plan Participation. Employee and his dependants shall be entitled to receive those employee benefits (including without limitation medical plan, dental plan, optional 401K participation and expense reimbursement) as shall be provided to similarly situated executive employees of the Company ("Benefits").

B) Vacation. Employee will be entitled to three weeks vacation with the ability to carry over any unused vacation earned in a given year to the following year.

C) Tax Gross-Up. In the event any amount or benefit payable to the Employee under this Agreement or under any other plan, agreement or arrangement applicable to the Employee, is subject to an excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or imposed under any successor provision of the Code imposing a tax liability on "excess parachute payments" as that term is defined in Code Section 280G), Employee shall be entitled, in addition to any other amounts payable under the terms of this Agreement or under any other plan, agreement or arrangement applicable to the Employee, to a cash payment in an amount sufficient to indemnify the Employee (or such other person as may be liable for the payment of such excise tax) for the amount of any such excise tax, and leaving Grantee with an amount, net after all federal, state and local taxes, equal to the amount Grantee would have had if no portion of his benefit under the Plan constituted an "excess parachute payment. Notwithstanding the foregoing, the determination of the amount necessary to indemnify the Employee shall be made taking into account all other payments made to the Employee under any plans, agreements or arrangements aside from this Agreement that are intended to indemnify the Employee with respect to excise taxes on "excess parachute payments. Any disputes as to calculations to be made under this paragraph shall be resolved by the Company's independent auditors, whose determinations shall be final and binding.

6. Confidentiality. Employee recognizes and acknowledges that the Proprietary Information (as hereinafter defined) is a valuable, special and unique asset of the Business of the Company. As a result, both during the Term and thereafter, Employee shall not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for his own benefit, or for any purpose other than the exclusive benefit of the Company, any confidential, proprietary, business and technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Proprietary Information") revealed, obtained or developed in the course of his employment with the Company. Such Proprietary Information shall include, but shall not be limited to, the intangible personal property described in Section 7(b) hereof, any information relating to methods of production and manufacture, research, computer codes or instructions (including source and object code listings, program logic algorithms, subroutines, modules or other subparts of computer programs and related documentation, including program notation), computer processing systems and techniques, concepts, layouts, flowcharts, specifications, know-how, any associated user or service manuals or other like textual materials (including any other data and materials used in performing the Employee's duties), all computer inputs and outputs (regardless of the media on which stored or located), hardware and software configurations, designs, architecture, interfaces, plans, sketches, blueprints, and any other materials prepared by the Employee in the course of, relating to or arising out of his employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers, costs, business studies, business procedures, finances, marketing data, methods, plans and efforts, the identities of licensees, strategic partners, customers, contractors and suppliers and prospective licensees, strategic partners, customers, contractors and suppliers, the terms of contracts and agreements with licensees, strategic partners, customers, contractors and suppliers, the Company's relationship with actual and prospective licensees, strategic partners, customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective licensees, strategic partners, customers, contractors and suppliers, personnel information, customer and vendor credit information, and any other materials that have not been made available to the general public, provided, that nothing herein contained shall restrict Employee's ability to make such disclosures during the course of his employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for his Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Employee from divulging or using for his own benefit or for any other purpose any Proprietary Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Employee's breach of this Section 6. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information under the terms of this Agreement.

7. Property.

A) Ownership. All right, title and interest in and to Proprietary Information shall be and remain the sole and exclusive property of the Company (or its partners, customers, vendors, etc., as the case may be). During the Term, Employee shall not remove from the Company's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing Proprietary Information, or other materials or property of any kind belonging to the Company unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for his Position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. Employee shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of his assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which he may have access or with which for any reason he may become familiar, except as disclosure shall be necessary in the performance of his duties; and upon the termination of his employment with the Company, he shall leave with or return to the Company all originals and copies of the foregoing then in his possession, whether prepared by Employee or by others.

B) Assignment

(i) Employee agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by Employee

(1) at any time and at any place while the Employee is employed by Company and which, in the case of any or all of the foregoing, are related to and used in connection with the Business of the Company, (2) as a result of tasks assigned to Employee by the Company, or (3) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Company. The Employee shall promptly disclose to the Company all Intellectual Property, and the Employee shall have no claim for additional compensation for the Intellectual Property.

(ii) The Employee acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Employee may retain an interest in any Intellectual Property that is not copyrightable, the Employee hereby irrevocably assigns and transfers to the Company any and all right, title, or interest that the Employee may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Company shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(iii) Employee further agrees to reveal promptly all information relating to the same to an appropriate officer of the Company and to cooperate with the Company and execute such documents as may be necessary or appropriate (1) in the event that the Company desires to seek copyright, patent or trademark protection, or other analogous protection, thereafter relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (2) to defend any opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(iv) In the event the Company is unable after reasonable effort to secure Employee's signature on any of the documents referenced in Section 7.1(iii) hereof, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by Employee.

8. Covenant Not to Compete. The Employee shall not, during the Term and thereafter for the Restricted Period (as defined below), do any of the following, directly or indirectly, without the prior written consent of the Company:

A) engage or participate in any business activity competitive with the Company's Business, or the business of any of the Company's subsidiaries or affiliates, as same are conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter;

B) become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any person, firm, corporation, association or other entity engaged in any business that is competitive with the Business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter, or become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any portion of the business of any person, firm, corporation, association or other entity where such portion of such business is competitive with the business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon termination of Employee's employment hereunder with respect to any period thereafter. Notwithstanding the foregoing, Employee may hold not more than one percent (1%) of the outstanding securities of any class of any publicly-traded securities of a company that is engaged in activities referenced in Section 7(a) hereof;

C) influence or attempt to influence any licensee, strategic partner, supplier, or customer of the Company or potential licensee, strategic partner, supplier or customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; or

D) influence or attempt to influence any person to either (i) terminate or modify his employment, consulting, agency, distributorship or other arrangement with the Company, or (ii) employ or retain, or arrange to have any other person or entity employ or retain, any person who has been employed or retained by the Company as an employee, consultant, agent or distributor of the Company at any time during the twelve (12) month period immediately preceding the termination of Employee's employment hereunder.

For purposes of this Agreement, the Restricted Period shall constitute (as applicable) (i) the period, if any, that Employee shall receive severance as set forth in Section 9 hereof, (ii) in the event Employee's employment hereunder is terminated for cause pursuant to Section 9.2 hereof, a period of one (1) year following such termination, or (iii) in the event that Employee terminates this Agreement without Good Reason, so long as the Company voluntarily pays severance to Employee (which the Company shall be under no obligation to do), for the period that Employee shall receive such severance, but in no event for a period longer than one (1) year. In the case of (iii) above, Employee's termination notice shall specify the name of any employer that Employee intends to accept employment with and the nature of the proposed position. Company shall render its decision whether or not to enforce the Restricted Period and notify Employee thereof within thirty days of Employee's notice of termination to Company.

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

Section 9. Upon termination, Employee shall be entitled only to such compensation and benefits as described in this Section 9.

9.1 Termination by Employee. Employee may terminate Employee's employment hereunder at any time, for Good Reason or without Good Reason, effective upon the date designated by Employee in written notice of the termination of his employment hereunder pursuant to this Section 9.1. For purposes of this Agreement, Good Reason shall mean the failure by the Company to pay in a timely manner base salary or any other material form of compensation or material Benefit to be paid or provided to Employee which failure is not cured within ten (10) business days after notice to Company. In the event of a termination of Employee's employment hereunder pursuant to this Section 9.1, this Agreement shall terminate effective upon receipt by Company of Employee's notice of termination. In such event, Employee's rights to compensation and benefits hereunder shall terminate as of the date of termination, except that Employee shall be entitled to the accrued and unpaid base salary, employee benefits (including expense reimbursement) as provided herein ("Benefits") and other forms of compensation and bonus payable herein ("Other Compensation") up through the date of termination. In addition, solely if such termination is for Good Reason and provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of twelve (12) months commencing upon the date of such termination. Except as specifically set forth in this Section 9.1, all base salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.1, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

9.2 Termination for Cause. If Company terminates Employee's employment for Cause, then this Agreement shall terminate immediately and Employee's rights to compensation and benefits hereunder shall terminate as of the date of termination, except that Employee shall be entitled to the accrued and unpaid portion of his base salary, Benefits and Other Compensation up through the date of termination. For purposes of this Agreement, the term "Cause" shall mean (i) any material breach of Employee's employment obligations, which breach remains uncured seven (7) days after written notice of such breach from the Company, or (ii) Employee commits an act or omission which results in or is intended to result in gain or personal enrichment of Employee at the expense of Company; or (iii) an act by Employee involving any type of willful misconduct with respect to the Company, including without limitation fraud, embezzlement, theft or proven dishonesty in the course of his employment; or (iv) during the term of Employee's employment, Employee's conviction of a felony. Except as specifically set forth in this Section 9.2, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

9.3 Termination on Death. If Employee dies, then this Agreement shall terminate immediately and Employee's rights to compensation and benefits hereunder shall terminate as of the date of death, except that Employee's executors, legal representatives or administrators shall be entitled to the accrued and unpaid portion of his base salary, Benefits and Other Compensation up through the date of death. Except as specifically set forth in this Section 9.3, the Company shall have no liability or obligation hereunder to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Employee's death, except that Employee's executors, legal representatives, administrators, or beneficiaries will be entitled to receive the payment prescribed under any life, death or disability benefits plan in which he is a participant as an employee of the Company, and to exercise any rights afforded under any compensation or benefit plan then in effect.

9.4 Termination on Disability. In the event of a long-term disability of the Employee (as such term is defined in the Company's Long-Term Disability Plan) such that the Employee is not otherwise qualified to perform the essential functions of the job with or without reasonable accommodation ("Disability"), Employee's employment hereunder may be terminated by the Company. In such event, this Agreement shall terminate on the date of termination and Employee will be entitled to receive all accrued and unpaid base salary and Benefits and Other Compensation, including payments prescribed under any disability insurance plan or arrangement in which Employee is a participant. Except as specifically set forth in this Section 9.4, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of Employee's disability or such termination.

9.5 Termination Without "Cause". The Company may terminate Employee's employment hereunder at any time, for any reason, without cause, effective upon the date designated by the Company. In the event Company terminates Employee's employment without Cause or Disability, as set forth above, this Agreement shall terminate on the date of termination and Employee shall be entitled to receive all accrued but unpaid base salary, Benefits and Other Compensation up to the date of termination. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 7 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of twelve (12) months commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its employees from time to time in effect. Except as specifically set forth in this Section 9.5, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

#### 9.6 Termination for Absenteeism

(A) Regular attendance at work or in conducting work is an essential element of Employee's job. Without limiting the Company's right to terminate Employee pursuant to Section 9.2 or 9.4 herein, in the event that Employee is absent for more than one hundred and fifty (150) days within any twelve (12) month period, Employee's employment hereunder may be terminated by Company.

(B) In the event of a termination of Employee's employment hereunder pursuant to Section 9.6(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) base salary and Benefits and Other Compensation, including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement (to the extent such coverage is not provided under other Company policies, plans or programs relating to Disability), both for the period of twelve (12) months commencing upon the date of such termination. Such severance amounts shall be reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.6(a). Except as specifically set forth in this Section 9.6(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

## 9.7 Change of Control.

(A) If there is a Change of Control during the Term, and Employee's employment with the Company hereunder is terminated within one (1) year following such Change of Control by the Company (except for cause) or by Employee (whether or not for Good Reason) and provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) base salary, Benefits and Other Compensation. In addition, (i) Employee shall be entitled to receive, on the date of such termination, an amount equal to (a) two (2) years' worth of Employee's base salary, and (b) 100% of the target annual bonus; and (ii) all stock options granted to Employee by Company which pursuant to the terms of the applicable Option Plan vest upon a Change in Control shall vest, and (iii) all restrictions on restricted stock and RSUs, to the extent the Company in its sole discretion subsequently grants such securities, which pursuant to the terms of the applicable restricted stock plan lift (including as to vesting) shall be lifted. Except as specifically set forth in this Section 9.7, all base salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plans then in force and applicable to Employee, and the Company shall have no liability or obligation hereunder by reason of such termination.

(B) For purposes of this Section 9.7, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof or a sale of substantially all of the assets of the Company. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

10. Termination Letter. As a condition precedent to the Company's payment of severance and continuation of medical and dental insurance coverage pursuant to Sections 9.1, 9.5, 9.6 and 9.7 above, Employee must sign and deliver to Company termination letter, without revocation, which includes a broad-based employment release (containing, without limitation, a release of claims for age discrimination), an obligation to return Company property and a reiteration of Employee's confidentiality obligations, within the time frame specified in the termination letter.

11. Company Understanding. The Company does not want to benefit from any proprietary or other information, in any form, that Employee is under a duty not to use or divulge, whether it be from Employee's current employer or any other person or entity. Accordingly and as a condition of employment hereunder, Employee is instructed not to violate the terms of any such restriction or otherwise breach said duty. In furtherance thereof, and without limiting other action, Employee represents and warrants to the Company that:

- A There are no restrictions, agreements or understandings whatsoever to which Employee is a party which would prevent or make unlawful Employee's execution of this Agreement or Employee's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Employee's employment hereunder, or would prevent, limit or impair in any way the performance by Employee of his obligations hereunder,
- B Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party or by which Employee is bound, and
- C Employee is free to execute this Agreement and to enter into the employ of the Company pursuant to the provisions set forth herein.

12. Survival of Provisions. Notwithstanding anything in this Agreement to the contrary, all representations, warranties, obligations of performance, statements, responsibilities, indemnities, terms or conditions impliedly or expressly involving performance subsequent to the expiration or termination of this Agreement, or which cannot be determined to have been fully performed until after such time, or which by a fair reading of their nature are intended to survive shall be deemed to survive. If for any reason Employee shall continue to be employed by the Company following the termination of Employee's employment under this Agreement, Employee shall have no right to receive any severance or other payments hereunder until Employee ceases to be employed by the Company, whereupon Employee's right to severance or other payments, if any, shall be governed by the provisions of Section 9 hereof with respect to the particular circumstances involved in the Employee's termination of employment.

13. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; provided, however, that neither Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other parties hereto.

14. Employee Benefits. This Agreement shall not be construed to be in lieu or to the exclusion of any other rights, benefits and privileges to which Employee may be entitled as an employee of the Company under any retirement, pension, profit-sharing, insurance, hospital or other plans or benefits which may now be in effect or which may hereafter be adopted.

15. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, by hand delivery, or by recognized overnight courier, addressed as follows:

**If to Employee:**

William C. Miller  
c/o InterDigital Communications Corporation  
2 Huntington Quadrangle  
Melville, N.Y. 11747

**If to Company:**

InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406  
Attn: Mark Gercenstein, CEO

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

16. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Employee with the Company excepting the non-disclosure agreement and the Statement of Ethics signed by Employee at the commencement of Employee's employment with the Company, various forms related to the commencement of Employee's employment with the Company and Employee's participation in employee benefit plans offered by the Company (including, without limitation, option and restricted stock agreements), and agreements to be bound by Company policies to the extent that these other agreements do not conflict with the terms of this Agreement.. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

17. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

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

19. Invalidation. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

20. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

21. Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and legal holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or day which is a holiday in the Commonwealth of Pennsylvania, then such final day shall be deemed to be the next day which is not a Saturday, Sunday or legal holiday.

22. Specific Enforcement; Extension of Period.

A) Employee acknowledges that the restrictions contained in Sections 6, 7, and 8 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee also acknowledges that any breach by him of Sections 6, 7, and 8 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Employee shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Employee, the Company shall have the right to enforce the provisions of Sections 6, 7, and 8 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements. In the event that the provisions of Sections 6, 7, and 8 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

B) In the event that Employee shall be in breach of any of the restrictions contained in Section 8 hereof, then the Restricted Period shall be extended for a period of time equal to the period of time that Employee is in breach of such restriction.

23. Consent to Suit. Any legal proceeding arising out of or relating to this Agreement shall be instituted in the District Court of the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in the Commonwealth of Pennsylvania, and the Employee hereby consents to the personal and exclusive jurisdiction of such court and hereby waives any objection that the Employee may have to the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

**ATTEST: INTERDIGITAL COMMUNICATIONS**

**CORPORATION**

By: */s/ Jane Schultz*  
-----  
Title: *Asst Secr*

By: */s/ M. Gercenstein*  
-----  
Title: *C.E.O.*

*/s/William C Miller*  
-----  
*WILLIAM C. MILLER*

**VIA FACSIMILE AND OVERNIGHT DELIVERY**

December 6, 2000

Mark Gercenstein  
9909 Windy Hollow Road  
Great Falls, VA 22066

Dear Mark:

This letter will serve as confirmation of the termination of your employment as an officer and your position as a director from InterDigital Communications Corporation and its subsidiaries (the "Company") on November 20, 2000 and that the Company will provide the following benefits provided that you indicate your agreement by signing and accepting them under the following terms and conditions:

1. Severance Benefits. November 20, 2000 was the last day of your employment. If you execute and return this Agreement without revocation in accordance with the instructions set forth below, you will receive the benefits provided for in the event of a "Termination Without Cause" as described in Section 10.5 of your Employment Agreement, dated April 17, 2000, with the Company. The cash payments will accrue to you on a semi-monthly basis in accordance with the Company's standard pay periods, and will be paid to you as accrued following execution and delivery of this Agreement and the expiration of the revocation period without revocation taking place in accordance with the instructions set forth below. However, notwithstanding the provision for an eighteen month pay-out contained in your Employment Agreement, the special bonus of \$50,000 (50% of \$100,000) provided for under Section 5C thereof will be payable to you in one lump sum the later of December 31, 2000 or the regular pay period following the expiration of the revocation period described in paragraph 13(c) herein. Accrued salary and unused vacation days will be paid to you on the later of the next regular pay period following your last day of employment or the regular pay period following the expiration of the said revocation period.

2. Car, Apartment and Other Property.

(a) You will cooperate with the Company in transferring or terminating the Lease Agreements for your apartment located at 3000 Valley Forge Circle, Apt.345, King of Prussia, PA and your 2000 Lincoln LS automobile, including by executing documentation reasonably requested by the Company to accomplish said purposes. In this regard, you will vacate the apartment on or before December 31, 2000, leaving all furnishings purchased by or for which reimbursement was made by the Company in the apartment. If you execute and return this Agreement without revocation in accordance

with the instructions set forth below, the Company will pay you an amount sufficient to indemnify you for federal and state taxes (but not penalties or interest) you will have on the W-2 income generated by the Company's payment of your apartment and automobile expenses during 2000 so as to leave you with a tax liability equal to what you would have had if no such reimbursements were made and deductions permitted (the "Gross-Up"). The amount of the Gross-Up shall be determined in the professional judgement of InterDigital's CFO after consultation with each party's tax adviser.

(b) You will return the Palm Pilot and Nokia cellular telephone provided to you by the Company within the next seven days in the same condition provided to you, reasonable wear and tear excepted. The Palm Pilot shall be returned with all Company business data and contacts intact.

3. Outplacement. You will receive outplacement assistance through Manchester Partners International for a period of up to six months (to the extent you have not found alternate employment within such period) from the date of your employment termination. These services will be coordinated through me.

4. Stock Options and RSUs. All vested options previously granted to you by the Board will terminate in accordance with the terms of the applicable Stock Option Plan under which they were granted. All unvested options have been cancelled. All vested RSU previously granted to you by the Board will vest in accordance with the terms of the 1999 Restricted Stock Plan, as amended. All unvested RSUs have been cancelled. A schedule setting forth your holdings and other pertinent information has been forwarded to you.

5. 401(k). If you are a 401(k) Savings Plan participant, your payroll deductions have ceased effective your last day of employment.

6. Flexible Reimbursement Account. Assuming you execute and return this Agreement without revocation in accordance with the instructions set forth below, the premiums for continuation of your current medical and dental benefits will continue to be withheld from your salary continuation.

7. Unemployment Compensation. You may be eligible to file for unemployment benefits immediately. Your salary continuance and vacation day pay should not reduce your unemployment compensation. There is a one week waiting period for eligibility. You should contact your state unemployment office and sign up as soon as possible.

8. Confidential Information. You agree that you will not, at any time during or after employment by the Company, disclose to any person or corporation, or use, directly or indirectly, for you own benefit or the benefit of any person or entity, any of the confidential and proprietary information of the Company (the "Confidential Information"). You further agree that such

Confidential Information includes but is not limited to, information regarding the Company's technology, products and internal affairs that is not otherwise publicly available. You agree to immediately return copies of any such Confidential Information that may be in your possession. By signing below, you reaffirm your obligations under your Employment Agreement and the Non-Disclosure and Assignment of Ideas agreement signed by you at the commencement of your employment with the Company.

9. Public Announcements. In response to any inquiries by employees of the Company or third parties concerning any of the terms or circumstances of your termination, you agree (i) to state only that your employment with and position as a director of the Company have terminated or to state information publicly disclosed by the Company, whether in press releases, public filings or otherwise, or (ii) if information publicly disclosed by the Company, whether in press releases, public filings or otherwise, concerning this Agreement is inaccurate in any material respect, you may respond to the inquiry with accurate corrective information so long as you have previously notified the Company of the material inaccuracy and requested the Company to issue a corrective disclosure and the Company has failed to issue such a corrective disclosure within five days of your notification and request.

10. Nondisparagement. Neither you nor the Company will make to any person outside the employment of that party any tortiously defamatory or disparaging statement with regard to the other party or the other party's business.

11. General Release of Claims. In consideration of the payments and benefits described in paragraphs 1, 2 and 3 above, you, for yourself, your heirs, executors, administrators and assigns, remise, release and forever discharge the Company and its subsidiaries and their respective officers, directors, shareholders, employees, affiliates, successors and assigns, and each of them, of and from any claim or cause of action known or unknown, suspect or unsuspected, and specifically including but not limited to claims of employment discrimination, wrongful termination, breach of contract or the like under the Older Workers Benefit Protection Act of 1990, the New York Human Rights Act, the Pennsylvania Human Rights Act, Title VII of the Civil Rights Act, the New York and Pennsylvania State Constitutions, and any other federal, state or local laws or ordinances, and common law claims under tort, contract or any other theories now or hereafter recognized, which you have, many have or have had against the Company and its subsidiaries and their respective officers, directors, shareholders, employees, affiliates, subsidiaries, successors and assigns from the beginning of time through your last day of employment.

12. Termination of Employment. The purpose of our agreement is to affirm and effect a complete termination of our relationship on mutually acceptable terms and this letter constitutes our complete agreement with respect to the subject matter. You acknowledge and agree that, effective as of November 20, 2000, you have not and shall not render any further services to the Company in the capacity of employee, officer or director of the Company, and that, as of November 20, 2000, any and all positions that you have heretofore held with the Company, its

subsidiaries and affiliates have been terminated. You further acknowledge and agree that, effective as November 20, 2000, you were not and shall no longer be authorized to represent, to incur any expenses or liabilities or to take any other action on behalf of the Company. In addition, you acknowledge and agree that the Company shall not have any obligation, contractual or otherwise, to rehire, reemploy or recall you in the future and/or to pay or to make available to you any additional compensation or benefits after November 20, 2000 except as required by law or as specifically provided herein. This Agreement may be amended only by a writing signed by you and the C.E.O. of the Company.

13. Employee Acknowledgment. In executing this termination agreement and the general release contained below, you acknowledge the following:

a) I, Mark Gercenstein, have read all of the terms of this Agreement, and I have had an opportunity to discuss it with individuals of my own choice who are not associated with the Company. I have been advised by the Company to consult with an attorney of my own choosing.

b) I have been given the opportunity to take a period of at least twenty one (21) days until December 28, 2000 within which to consider this agreement. If I choose to sign this agreement before that date, I do so knowingly and voluntarily.

c) I understand that I have the right to change my mind and cancel this agreement within seven (7) days following the date that I sign it. This agreement will not be effective until the end of this period.

d) I understand the terms of this Agreement, including the fact that I have permanently and irrevocably severed my employment relationship and directorship with the Company and that this Agreement releases forever the Company from any legal action rising from my employment and director relationships and the termination of my employment and director relationships with the Company. I sign this Agreement of my own free will in exchange for the consideration to be given to me, as listed above, which I acknowledge as adequate and satisfactory. Neither the Company, nor its agents, representatives or employees, have made any representations to me concerning the terms of effects for this Agreement, other than those contained in this Agreement. I also acknowledge that the parties have complied with the requirements of the Older Workers Benefit Protection Act of 1990.

14. Company Acknowledgment. In the event of an acquisition of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof or a sale of substantially all of the assets of the Company, and provided that the acquirer does not assume the Company's outstanding obligations to you contained herein, the Company shall pay the same to you (including a provision for the purchase of medical and dental benefits) in one-lump sum prior to said acquisition.

This offer shall be void unless received by the Company fully executed by you and witnessed on or before January 4, 2001. Please indicate your agreement to the above terms by a copy of this letter in the space provided below and returning the same to me. As you will note, your signature must be witnessed.

**INTERDIGITAL COMMUNICATIONS CORPORATION**

By: */s/Jane Schultz*

-----  
*Jane Schultz*  
*Associate General Counsel*

**Accepted and Agreed to:**

*/s/Mark Gercenstein*

-----  
*Mark Gercenstein*

*12/11/00*

-----  
*Date*

*/s/Jane Mellars*

-----  
*Witness*

cc. Gary Isaacs

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of this 2nd day of January, 2001, by and between Alain Briancon (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company").

WHEREAS, the Company is engaged in the business of the design and development of advanced wireless technologies and products that drive voice and data communications and the licensing of wireless digital technology and patents, as such business may be redefined from time to time and described as such in the Company's then current Annual Report on Form 10-K (the "Business").

WHEREAS, the Company has offered Employee employment as Executive Vice President and Chief Technology Officer, and Employee is willing to accept such offer, as set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. Employment and Term. The Company hereby employs Employee and Employee hereby accepts employment with the Company, as Executive Vice President and Chief Technology Officer of the Company (such position, Employee's "Position") for a period commencing on January 2, 2001 and continuing until employment hereunder is terminated pursuant to the provisions of Section 9 hereof (the "Term").
2. Duties. During the term of his employment, Employee shall serve the Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his Position. Employee agrees to assume such duties and responsibilities as may be customarily incident to such position, and as may be assigned to Employee from time to time by the Chief Executive Officer of the Company. Employee shall report to the Chief Executive Officer of the Company.

3. Other Business Activities. During the Term, Employee will not, without the prior written consent of the Company, directly or indirectly engage in any other business activities or pursuits whatsoever, except activities in connection with any charitable or civic activities, personal investments and serving as an executor, trustee or in other similar fiduciary capacity; provided, however, that such activities do not interfere with his performance of his responsibilities and obligations pursuant to this Agreement.

#### 4. Compensation.

A. Base Salary. The Company shall pay Employee, and Employee hereby agrees to accept, as compensation for all services rendered hereunder and for Employee's covenant not to compete as provided for in Section 8 hereof, a base salary at the annual rate of Two Hundred and Forty Eight Thousand Dollars (subject to any increase from time to time in accordance with Company compensation policies, the "Base Salary"). The Base Salary shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company or which are requested to be withheld by Employee, and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated employees from time to time in effect.

B. Signing Bonus. Employee shall be paid a signing bonus of Forty Thousand Dollars (\$40,000) provided that Employee shall continue in the employ of the Company through February 2, 2001. Nothing in this provision shall be construed to alter Employee's status as an employee at will.

C. Annual Incentive Bonus. Employee shall be eligible to participate in the Company's Employee Incentive Bonus Plan, as amended from time to time (the " Bonus Plan"), on the terms and conditions no less favorable than those provided to the other Company senior and executive officers. For the Year 2001, Employee shall have a target bonus level of 45%, based on the achievement of business and personal goals to be set by the Board of Directors. The bonus shall be subject to the terms of the Bonus Plan, as amended from time to time.

D. Stock Options. Effective on the first date of Employee's employment with the Company, Employee will be granted non-qualified options to purchase 50,000 shares of the Company's common stock at an exercise price equal to the closing market price on the NASDAQ of the Company's common stock on the date of grant as reported in the Wall Street Journal ("FMV"). Such options shall be granted pursuant to, and shall be governed by, the terms and conditions of the Company's 2000 Stock Award and Incentive Plan and the terms and conditions in effect thereunder (together, the "Incentive Plan") under which such options are granted. Subject to such terms and conditions of the Incentive Plan, the stock options shall vest as follows:

June 30, 2001	8,333 shares
December 31, 2001	8,333 shares
June 30, 2002	8,333 shares
December 31, 2002	8,333 shares
June 30, 2003	8,334 shares
December 31, 2003	8,334 shares

## 5. Benefits and Expenses.

A. **Company Plan Participation.** Employee and his dependants shall be entitled to receive those employee benefits (including without limitation medical plan, dental plan, optional 401K participation and expense reimbursement) as shall be provided to similarly situated executive employees of the Company ("Benefits").

B. **Vacation.** Employee will be entitled to 23 days PTO (Paid Time Off) with the ability to carry over any unused PTO earned in a given year to the following year.

C. **Tax Gross-Up.** In the event any amount or benefit payable to the Employee under this Agreement or under any other plan, agreement or arrangement applicable to the Employee, is subject to an excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or imposed under any successor provision of the Code imposing a tax liability on "excess parachute payments" as that term is defined in Code Section 280G), Employee shall be entitled, in addition to any other amounts payable under the terms of this Agreement or under any other plan, agreement or arrangement applicable to the Employee, to a cash payment in an amount sufficient to indemnify the Employee (or such other person as may be liable for the payment of such excise tax) for the amount of any such excise tax, and leaving Grantee with an amount, net after all federal, state and local taxes, equal to the amount Grantee would have had if no portion of his benefit under the Plan constituted an "excess parachute payment. Notwithstanding the foregoing, the determination of the amount necessary to indemnify the Employee shall be made taking into account all other payments made to the Employee under any plans, agreements or arrangements aside from this Agreement that are intended to indemnify the Employee with respect to excise taxes on "excess parachute payments." Any disputes as to calculations to be made under this paragraph shall be resolved by the Company's independent auditors, whose determinations shall be final and binding.

6. Confidentiality. Employee recognizes and acknowledges that the Proprietary Information (as hereinafter defined) is a valuable, special and unique asset of the Business of the Company. As a result, both during the Term and thereafter, Employee shall not, without the prior written consent of the Company, for any reason either directly or indirectly divulge to any third-party or use for his own benefit, or for any purpose other than the exclusive benefit of the Company, any confidential, proprietary, business and technical information or trade secrets of the Company or of any subsidiary or affiliate of the Company ("Proprietary Information") revealed, obtained or developed in the course of his employment with the Company. Such Proprietary Information shall include, but shall not be limited to, the intangible personal property described in Section 7(b) hereof, any information relating to methods of production and manufacture, research, computer codes or instructions (including source and object code listings, program logic algorithms, subroutines, modules or other subparts of computer programs and related documentation, including program notation), computer processing systems and techniques, concepts, layouts, flowcharts, specifications, know-how, any associated user or service manuals or other like textual materials (including any other data and materials used in performing the Employee's duties), all computer inputs and outputs (regardless of the media on which stored or located), hardware and software configurations, designs, architecture, interfaces, plans, sketches, blueprints, and any other materials prepared by the Employee in the course of, relating to or arising out of his employment by the Company, or prepared by any other Company employee, representative, or contractor for the Company, or its customers, costs, business studies, business procedures, finances, marketing data, methods, plans and efforts, the identities of licensees, strategic partners, customers, contractors and suppliers and prospective licensees, strategic partners, customers, contractors and suppliers, the terms of contracts and agreements with licensees, strategic partners, customers, contractors and suppliers, the Company's relationship with actual and prospective licensees, strategic partners, customers, contractors and suppliers and the needs and requirements of, and the Company's course of dealing with, any such actual or prospective licensees, strategic partners, customers, contractors and suppliers, personnel information, customer and vendor credit information, and any other materials that have not been made available to the general public, provided, that nothing herein contained shall restrict Employee's ability to make such disclosures during the course of his employment as may be necessary or appropriate to the effective and efficient discharge of the duties required by or appropriate for his Position or as such disclosures may be required by law; and further provided, that nothing herein contained shall restrict Employee from divulging or using for his own benefit or for any other purpose any Proprietary Information that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of Employee's breach of this Section 6. Failure by the Company to mark any of the Proprietary Information as confidential or proprietary shall not affect its status as Proprietary Information under the terms of this Agreement.

## 7. Property.

A. Ownership. All right, title and interest in and to Proprietary Information shall be and remain the sole and exclusive property of the Company (or its partners, customers, vendors, etc., as the case may be). During the Term, Employee shall not remove from the Company's offices or premises any documents, records, notebooks, files, correspondence, reports, memoranda or similar materials of or containing Proprietary Information, or other materials or property of any kind belonging to the Company unless necessary or appropriate in accordance with the duties and responsibilities required by or appropriate for his Position and, in the event that such materials or property are removed, all of the foregoing shall be returned to their proper files or places of safekeeping as promptly as possible after the removal shall serve its specific purpose. Employee shall not make, retain, remove and/or distribute any copies of any of the foregoing for any reason whatsoever except as may be necessary in the discharge of his assigned duties and shall not divulge to any third person the nature of and/or contents of any of the foregoing or of any other oral or written information to which he may have access or with which for any reason he may become familiar, except as disclosure shall be necessary in the performance of his duties; and upon the termination of his employment with the Company, he shall leave with or return to the Company all originals and copies of the foregoing then in his possession, whether prepared by Employee or by others.

### B. Assignment

(i) Employee agrees that all right, title and interest in and to any innovations, designs, systems, analyses, ideas for marketing programs, and all copyrights, patents, trademarks and trade names, or similar intangible personal property which have been or are developed or created in whole or in part by Employee (1) at any time and at any place while the Employee is employed by Company and which, in the case of any or all of the foregoing, are related to and used in connection with the Business of the Company, (2) as a result of tasks assigned to Employee by the Company, or (3) from the use of premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company (collectively, the "Intellectual Property"), shall be and remain forever the sole and exclusive property of the Company. The Employee shall promptly disclose to the Company all Intellectual Property, and the Employee shall have no claim for additional compensation for the Intellectual Property.

(ii) The Employee acknowledges that all the Intellectual Property that is copyrightable shall be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Property may not be considered a work made for hire under the applicable provisions of the United States Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Employee may retain an interest in any Intellectual Property that is not copyrightable, the Employee hereby irrevocably assigns and transfers to the Company any and all right, title, or interest that the Employee may have in the Intellectual Property under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. The Company shall be entitled to obtain and hold in its own name all copyrights, patents, trade secrets, and trademarks with respect thereto.

(iii) Employee further agrees to reveal promptly all information relating to the same to an appropriate officer of the Company and to cooperate with the Company and execute such documents as may be necessary or appropriate (1) in the event that the Company desires to seek copyright, patent or trademark protection, or other analogous protection, thereafter relating to the Intellectual Property, and when such protection is obtained, to renew and restore the same, or (2) to defend any opposition proceedings in respect of obtaining and maintaining such copyright, patent or trademark protection, or other analogous protection.

(iv) In the event the Company is unable after reasonable effort to secure Employee's signature on any of the documents referenced in Section 7.1(iii) hereof, whether because of Employee's physical or mental incapacity or for any other reason whatsoever, Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution and issuance of any such copyright, patent or trademark protection, or other analogous protection, with the same legal force and effect as if executed by Employee.

8. Covenant Not to Compete. The Employee shall not, during the Term and thereafter for the Restricted Period (as defined below), do any of the following, directly or indirectly, without the prior written consent of the Company:

A. engage or participate in any business activity competitive with the Company's Business, or the business of any of the Company's subsidiaries or affiliates, as same are conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter;

B. become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any person, firm, corporation, association or other entity engaged in any business that is competitive with the Business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon the termination of Employee's employment hereunder with respect to any period thereafter, or become interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant or otherwise) any portion of the business of any person, firm, corporation, association or other entity where such portion of such business is competitive with the business of the Company or of any subsidiary or affiliate of the Company as conducted during the Term with respect to any period during the Term, or upon termination of Employee's employment hereunder with respect to any period thereafter. Notwithstanding the foregoing, Employee may hold not more than one percent (1%) of the outstanding securities of any class of any publicly-traded securities of a company that is engaged in activities referenced in Section 7(a) hereof;

C. influence or attempt to influence any licensee, strategic partner, supplier, or customer of the Company or potential licensee, strategic partner, supplier or customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; or

D. influence or attempt to influence any person to either (i) terminate or modify his employment, consulting, agency, distributorship or other arrangement with the Company, or (ii) employ or retain, or arrange to have any other person or entity employ or retain, any person who has been employed or retained by the Company as an employee, consultant, agent or distributor of the Company at any time during the twelve (12) month period immediately preceding the termination of Employee's employment hereunder.

For purposes of this Agreement, the Restricted Period shall constitute (as applicable) (i) the period, if any, that Employee shall receive severance as set forth in Section 9 hereof, (ii) in the event Employee's employment hereunder is terminated for cause pursuant to Section 9.2 hereof, a period of one (1) year following such termination, or (iii) in the event that Employee terminates this Agreement without Good Reason, so long as the Company voluntarily pays severance to Employee (which the Company shall be under no obligation to do), for the period that Employee shall receive such severance, but in no event for a period longer than one (1) year. In the case of (iii) above, Employee's termination notice shall specify the name of any employer that Employee intends to accept employment with and the nature of the proposed position. Company shall render its decision whether or not to enforce the Restricted Period and notify Employee thereof within thirty days of Employee's notice of termination to Company.

9. Termination. Employee's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 9. Upon termination, Employee shall be entitled only to such compensation and benefits as described in this Section 9.

A. Termination by Employee. Employee may terminate Employee's employment hereunder at any time, for Good Reason or without Good Reason, effective upon the date designated by Employee in written notice of the termination of his employment hereunder pursuant to this Section 9.1. For purposes of this Agreement, Good Reason shall mean the failure by the Company to pay in a timely manner base salary or any other material form of compensation or material Benefit to be paid or provided to Employee which failure is not cured within ten (10) business days after notice to Company. In the event of a termination of Employee's employment hereunder pursuant to this Section 9.1, this Agreement shall terminate effective upon receipt by Company of Employee's notice of termination. In such event, Employee's rights to compensation and benefits hereunder shall terminate as of the date of termination, except that Employee shall be entitled to the accrued and unpaid base salary, employee benefits (including expense reimbursement) as provided herein ("Benefits") and other forms of compensation and bonus payable herein ("Other Compensation") up through the date of termination. In addition, solely if such termination is for Good Reason and provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of twelve (12) months commencing upon the date of such termination. Except as specifically set forth in this Section 9.1, all base salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plan then in force and applicable to Employee. Except as specifically set forth in this Section 9.1, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

B. Termination for Cause. If Company terminates Employee's employment for Cause, then this Agreement shall terminate immediately and Employee's rights to compensation and benefits hereunder shall terminate as of the date of termination, except that Employee shall be entitled to the accrued and unpaid portion of his base salary, Benefits and Other Compensation up through the date of termination. For purposes of this Agreement, the term "Cause" shall mean (i) any material breach of Employee's employment obligations, which breach remains uncured seven (7) days after written notice of such breach from the Company, or (ii) Employee commits an act or omission which results in or is intended to result in gain or personal enrichment of Employee at the expense of Company; or (iii) an act by Employee involving any type of willful misconduct with respect to the Company, including without limitation fraud, embezzlement, theft or proven dishonesty in the course of his employment; or (iv) during the term of Employee's employment, Employee's conviction of a felony. Except as specifically set forth in this Section 9.2, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

C. Termination on Death. If Employee dies, then this Agreement shall terminate immediately and Employee's rights to compensation and benefits hereunder shall terminate as of the date of death, except that Employee's executors, legal representatives or administrators shall be entitled to the accrued and unpaid portion of his base salary, Benefits and Other Compensation up through the date of death. Except as specifically set forth in this Section 9.3, the Company shall have no liability or obligation hereunder to Employee's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Employee's death, except that Employee's executors, legal representatives, administrators, or beneficiaries will be entitled to receive the payment prescribed under any life, death or disability benefits plan in which he is a participant as an employee of the Company, and to exercise any rights afforded under any compensation or benefit plan then in effect.

D. Termination on Disability. In the event of a long-term disability of the Employee (as such term is defined in the Company's Long-Term Disability Plan) such that the Employee is not otherwise qualified to perform the essential functions of the job with or without reasonable accommodation ("Disability"), Employee's employment hereunder may be terminated by the Company. In such event, this Agreement shall terminate on the date of termination and Employee will be entitled to receive all accrued and unpaid base salary and Benefits and Other Compensation, including payments prescribed under any disability insurance plan or arrangement in which Employee is a participant. Except as specifically set forth in this Section 9.4, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of Employee's disability or such termination.

E. Termination Without "Cause". The Company may terminate Employee's employment hereunder at any time, for any reason, without cause, effective upon the date designated by the Company. In the event Company terminates Employee's employment without Cause or Disability, as set forth above, this Agreement shall terminate on the date of termination and Employee shall be entitled to receive all accrued but unpaid base salary, Benefits and Other Compensation up to the date of termination. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 7 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement, both for the period of twelve (12) months commencing upon the date of such termination. Such severance shall be inclusive of all applicable income, social security and other taxes and charges which are required by law to be withheld by the Company and shall be withheld and paid in accordance with the Company's normal payroll practice for its employees from time to time in effect. Except as specifically set forth in this Section 9.5, the Company shall have no liability or obligation to Employee or any other person claiming under or through him by reason of such termination.

## F. Termination for Absenteeism

(i) Regular attendance at work or in conducting work is an essential element of Employee's job. Without limiting the Company's right to terminate Employee pursuant to Section 9.2 or 9.4 herein, in the event that Employee is absent for more than one hundred and fifty (150) days within any twelve (12) month period, Employee's employment hereunder may be terminated by Company.

(ii) In the event of a termination of Employee's employment hereunder pursuant to Section 9.6(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) base salary and Benefits and Other Compensation, including payments prescribed under any disability or life insurance plan or arrangement in which Employee is a participant or to which Employee is a party as an employee of the Company. In addition, provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive (i) severance in an amount equal to the Employee's base salary, and (ii) medical and dental coverage on terms and conditions comparable to those most recently provided to the Employee pursuant to this Agreement (to the extent such coverage is not provided under other Company policies, plans or programs relating to Disability), both for the period of twelve (12) months commencing upon the date of such termination. Such severance amounts shall be reduced by the amount of payments received by the Employee with respect to this period pursuant to any Social Security entitlement or any long term disability or any other employee benefit plan, policy or program maintained to provide benefits in the event of disability in which the Employee was entitled to participate at the time of termination under Section 9.6(a). Except as specifically set forth in this Section 9.6(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

## G. Change of Control.

(i) If there is a Change of Control during the Term, and Employee's employment with the Company hereunder is terminated within one (1) year following such Change of Control by the Company (except for cause) or by Employee (whether or not for Good Reason) and provided Employee signs Company's standard form termination letter as provided for in Section 10 below, Employee shall be entitled to receive all accrued but unpaid (as of the effective date of such termination) base salary, Benefits and Other Compensation. In addition, (i) Employee shall be entitled to receive, on the date of such termination, an amount equal to (a) two (2) years' worth of Employee's base salary, and (b) 100% of the target annual bonus; and (ii) all stock options granted to Employee by Company which pursuant to the terms of the applicable Option Plan vest upon a Change in Control shall vest, and (iii) all restrictions on restricted stock and RSUs, to the extent the Company in its sole discretion subsequently grants such securities, which pursuant to the terms of the applicable restricted stock plan lift (including as to vesting) shall be lifted. Except as specifically set forth in this Section 9.7, all base salary, Benefits and Other Compensation shall cease at the time of such termination, subject to the terms of any benefit or compensation plans then in force and applicable to Employee, and the Company shall have no liability or obligation hereunder by reason of such termination.

(ii) For purposes of this Section 9.7, a "Change of Control" means the acquisition (including by merger or consolidation, or by the issuance by the Company of its securities) by one or more persons in one transaction or a series of related transactions, of more than fifty percent (50%) of the voting power represented by the outstanding stock of the Company on the date hereof or a sale of substantially all of the assets of the Company. For these purposes, "Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

10. Termination Letter. As a condition precedent to the Company's payment of severance and continuation of medical and dental insurance coverage pursuant to Sections 9.1, 9.5, 9.6 and 9.7 above, Employee must sign and deliver to Company termination letter, without revocation, which includes a broad-based employment release (containing, without limitation, a release of claims for age discrimination), an obligation to return Company property and a reiteration of Employee's confidentiality obligations, within the time frame specified in the termination letter.

11. Company Understanding. The Company does not want to benefit from any proprietary or other information, in any form, that Employee is under a duty not to use or divulge, whether it be from Employee's current employer or any other person or entity. Accordingly and as a condition of employment hereunder, Employee is instructed not to violate the terms of any such restriction or otherwise breach said duty. In furtherance thereof, and without limiting other action, Employee represents and warrants to the Company that:

A. There are no restrictions, agreements or understandings whatsoever to which Employee is a party which would prevent or make unlawful Employee's execution of this Agreement or Employee's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Employee's employment hereunder, or would prevent, limit or impair in any way the performance by Employee of his obligations hereunder,

B. Employee's execution of this Agreement and Employee's employment hereunder shall not constitute a breach of any contract, agreement or understanding, oral or written, to which Employee is a party or by which Employee is bound, and

C. Employee is free to execute this Agreement and to enter into the employ of the Company pursuant to the provisions set forth herein.

12. Survival of Provisions. Notwithstanding anything in this Agreement to the contrary, all representations, warranties, obligations of performance, statements, responsibilities, indemnities, terms or conditions impliedly or expressly involving performance subsequent to the expiration or termination of this Agreement, or which cannot be determined to have been fully performed until after such time, or which by a fair reading of their nature are intended to survive shall be deemed to survive. If for any reason Employee shall continue to be employed by the Company following the termination of Employee's employment under this Agreement, Employee shall have no right to receive any severance or other payments hereunder until Employee ceases to be employed by the Company, whereupon Employee's right to severance or other payments, if any, shall be governed by the provisions of Section 9 hereof with respect to the particular circumstances involved in the Employee's termination of employment.

13. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and Employee and their respective successors, executors, administrators, heirs and/or permitted assigns; provided, however, that neither Employee nor the Company may make any assignments of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other parties hereto.

14. Employee Benefits. This Agreement shall not be construed to be in lieu or to the exclusion of any other rights, benefits and privileges to which Employee may be entitled as an employee of the Company under any retirement, pension, profit-sharing, insurance, hospital or other plans or benefits which may now be in effect or which may hereafter be adopted.

15. Notice. Any notice or communication required or permitted under this Agreement shall be made in writing and sent by certified or registered mail, return receipt requested, by hand delivery, or by recognized overnight courier, addressed as follows:

**If to Employee:**

Alain Briancon  
c/o InterDigital Communications Corporation  
2 Huntington Quadrangle  
Melville, N.Y. 11747

**If to Company:**

InterDigital Communications Corporation  
781 Third Avenue  
King of Prussia, Pennsylvania 19406  
Attn: Howard E. Goldberg, CEO

or to such other address as either party may from time to time duly specify by notice given to the other party in the manner specified above.

16. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature between the parties hereto relating to the employment of Employee with the Company excepting the non-disclosure agreement and the Statement of Ethics signed by Employee at the commencement of Employee's employment with the Company, various forms related to the commencement of Employee's employment with the Company and Employee's participation in employee benefit plans offered by the Company (including, without limitation, option and restricted stock agreements), and agreements to be bound by Company policies to the extent that these other agreements do not conflict with the terms of this Agreement.. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

17. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

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

19. Invalidation. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect the validity of any other provision of this Agreement, and such provision(s) shall be deemed modified to the extent necessary to make it enforceable.

20. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

21. Number of Days. In computing the number of days for purposes of this Agreement, all days shall be counted, including Saturdays, Sundays and legal holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or day which is a holiday in the Commonwealth of Pennsylvania, then such final day shall be deemed to be the next day which is not a Saturday, Sunday or legal holiday.

22. Specific Enforcement; Extension of Period.

A. Employee acknowledges that the restrictions contained in Sections 6, 7, and 8 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee also acknowledges that any breach by him of Sections 6, 7, and 8 hereof will cause continuing and irreparable injury to the Company for which monetary damages would not be an adequate remedy. The Employee shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Employee, the Company shall have the right to enforce the provisions of Sections 6, 7, and 8 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies of law or in equity otherwise available to the Company. If an action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief, reasonable attorneys' fees, costs and disbursements. In the event that the provisions of Sections 6, 7, and 8 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

B. In the event that Employee shall be in breach of any of the restrictions contained in Section 8 hereof, then the Restricted Period shall be extended for a period of time equal to the period of time that Employee is in breach of such restriction.

23. Consent to Suit. Any legal proceeding arising out of or relating to this Agreement shall be instituted in the District Court of the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in the Commonwealth of Pennsylvania, and the Employee hereby consents to the personal and exclusive jurisdiction of such court and hereby waives any objection that the Employee may have to the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

**ATTEST: INTERDIGITAL COMMUNICATIONS**

**CORPORATION**

*By: /s/Jane Schultz*

*By: /s/Howard E Goldberg*

-----  
*Title: Asst. Secr.*

-----  
*Title: President & CEO*

**Alain Briancon**  
**ALAIN BRIANCON**

## AGREEMENT OF LEASE

made as of this 25th day of November, 1996 by and between WE'RE ASSOCIATES COMPANY having its principal office at 100 Jericho Quadrangle, Jericho, New York 11753, hereinafter referred to as "Landlord" and INTERDIGITAL COMMUNICATIONS CORPORATION with offices located at 781 Third Avenue, King of Prussia, PA 19406-2755 hereinafter referred to as "Tenant".

WITNESSETH: Landlord and Tenant hereby covenant and agree as follows:

### SPACE

1. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord the space substantially as shown on the rental plan initialed by the parties and made part hereof as Exhibit 1 (Space A and Space B) and Exhibit 2 in the building known as Two Huntington Quadrangle, Melville, New York 11747, Fourth Floor, and Partial Third Floor (the "Building") hereinafter referred to as the "demised premises".

### TERM

2. A. The term of this lease with regard to Space A shall commence on December 15, 1996 hereinafter referred to as the "Term Commencement Date", and shall terminate on February 28, 2002 hereinafter referred to as the "Expiration Date".

B. The term of this lease with regard to Space B shall commence on January 1, 1997 hereinafter referred to as the "Term Commencement Date", and shall terminate on February 28, 2002 hereinafter referred to as the "Expiration Date".

C. The term of this lease with regard to Space C shall commence on March 1, 1997 hereinafter referred to as the "Term Commencement Date", and shall terminate on February 28, 2002 hereinafter referred to as the "Expiration Date".

If on the foregoing date specified for the Term Commencement Date the demised premises shall not be "substantially completed" in accordance with Schedule A annexed hereto, then the Term Commencement Date shall be postponed until the date on which the demised premises shall be "substantially completed" and the term of this lease (hereinafter referred to as the "Demised Term") shall be extended so that the Expiration Date shall be Five (5) years after the last day of the month in which the Term Commencement Date for Space C occurs. "Substantially completed" as used herein is defined to mean when the only items to be completed are those which do not interfere with the Tenant's occupancy and substantially full enjoyment of the demised premises. Should the Term Commencement Date be a date other than the first day of the month, the Tenant shall pay a pro rata portion of the rent from such date to the first day of the following month.

### RENT

3. The annual rental rate is as stated in the schedule below and subject to Article 11 and Schedule "C" of the lease, which Tenant agrees to pay in equal monthly installments each in advance on the first day of each calendar month during the Demised Term at the office of Landlord, except that Tenant shall pay the first monthly installment on execution hereof. Tenant shall pay the rent as above and as hereinafter provided, without any set off or deduction whatsoever.

Space A	\$ 403,962
Space B	403,962
Space C	403,962
	-----
TOTAL	\$1,211,886

### USE

4. The Tenant shall use and occupy the demised premises only for its executive and administrative offices and as an electronics lab and research and development facility and other uses consistent with Tenant's current operations, and for no other purpose.

## **LANDLORD'S ALTERATION FOR TENANT**

5. Landlord, at its expense, not to exceed \$739,365.00 ("Landlord's Contribution"), will perform the work and make the installations as set forth in Schedule A annexed hereto, which is sometimes herein referred to as the "Landlord's Initial Construction". In calculating the cost of Landlord's Initial Construction such cost shall include ten (10%) percent of the actual, out of pocket cost incurred by Landlord for such construction to cover Landlord's overhead in connection with such construction, plus five (5%) percent of the aggregate of such actual cost and overhead as Landlord's profit. To the extent the cost of Landlord's Initial Construction shall exceed Landlord's Contribution, Tenant shall pay such excess, as hereinafter provided. To the extent the cost of Landlord's Initial Construction shall be less than Landlord's Contribution, Landlord shall apply the amount by which such cost shall be less than Landlord's Contribution against the base annual rent first coming due hereunder, until such amount shall be exhausted. Prior to the commencement of the Landlord's Initial Construction, Landlord shall provide Tenant with Landlord's written determination of the cost (the "Fixed Cost") of Landlord's Initial Construction, which determination shall be made in good faith in Landlord's reasonable judgment. If the Fixed Cost shall exceed Landlord's Contribution, simultaneously upon Tenant's receipt of Landlord's determination, Tenant shall pay to Landlord an amount equal to seventy-five (75%) percent of the difference between the Fixed Cost and the amount of Landlord's Contribution. Within five (5) days after substantial completion of Landlord's Initial Construction, Tenant shall pay to Landlord an amount equal to the balance of the difference between the Fixed Cost and the amount of Landlord's Contribution. All such amounts shall be payable by Tenant, and collectible, as additional rent. If the actual cost of Landlord's Initial Construction shall exceed the Fixed Cost, then except to the extent such excess shall be due to delays caused by Tenant, or by changes to Landlord's Initial Construction made after the date of approval of the plans for Landlord's Initial Construction hereof, then Landlord shall pay such excess. In addition to the work described in Schedule A, Landlord shall also perform certain base Building work as described in Schedule A-A (the "Base Building Work"). Such work shall be performed at Landlord's sole cost and expense (without regard to and in addition to Landlord's Contribution). To the extent that any portion of the Base Building Work shall affect any portion of the demised premises, such portion shall be substantially completed on or before the Term Commencement Date as to that portion of the demised premises. Those portions of the base Building Work not affecting the demised premises shall be substantially completed within a reasonable time after the execution hereof. All of Landlord's Initial Construction and the Base Building Work shall be performed in compliance with all applicable laws (including, without limitation, the Americans With Disabilities Act of 1990, as amended [the "ADA"]). If any portions of the common areas of the Building shall not be in compliance with applicable laws, and to the extent such non-compliance materially adversely affect Tenant's use and enjoyment of the demised premises for the purposes contemplated, Landlord shall cause such non-compliance to be remedied promptly and with due diligence after Landlord shall become aware of such condition. Tenant shall not alter, demolish or remove Landlord's Initial Construction, or any part thereof, unless Tenant shall, prior to the commencement thereof, obtain Landlord's written consent thereto, and pay to Landlord a sum, fixed by Landlord, for the restoration thereof. Anything contained herein to the contrary notwithstanding, Tenant shall have the option, to be exercised at any time prior to the final approval of the plans and specifications for Landlord's Initial Construction, as provided in Schedule A hereof, to increase the amount of Landlord's Contribution by as much as \$268,860, such that the Landlord's Contribution may be increased to as much as \$1,008,225; provided, however, that in no event may Tenant increase the amount of Landlord's Contribution to in excess of the Fixed Cost. If Tenant shall elect to increase the amount of Landlord's Contribution as aforesaid, Tenant shall send written notice of such election to Landlord at any time prior to the final approval of the plans and specifications for Landlord's Initial Construction, as provided in Schedule A hereof and in such event, (i) the base annual rent payable pursuant to Article 3 hereof shall be increased by an amount equal to 24.33% of the amount by which the Landlord's Contribution shall be increased, and (ii) the amount of the security deposit to be held by Landlord pursuant to Article 48 hereof shall be increased by an amount equal to 60.00% of the amount by which the Landlord's Contribution shall be increased.

## **WORKING HOURS**

6. (A) Landlord, during the hours of 8:00 A.M. to 6:00 P.M. on weekdays and on Saturdays from 9:00 A.M. to 1:00 P.M. (Working Hours), excluding legal holidays, shall furnish the demised premises with heat and air-conditioning ("HVAC") in the respective seasons, and shall at all times furnish elevator service to the demised premises and provide the demised premises with electricity for lighting and usual office equipment as per Schedule "C". At any hours other than the aforementioned, HVAC services will be provided at Tenant's expense in accordance with subparagraph (B) of this Article.

(B) HVAC service during non-Working Hours shall be available to Tenant in two categories as follows: (i) regularly scheduled HVAC service during non-Working Hours ("Regular Overtime HVAC") shall be in accordance with a schedule, consisting of any number of consecutive non-Working Hours on a daily basis, as specified by Tenant, which schedule shall remain in effect until Tenant shall, at its option, notify Landlord of a change in such schedule; provided, however, that 1) Tenant shall be entitled to request such change not more frequently than once during any calendar month, 2) Tenant's notification of such change shall be given to Landlord not later than the twentieth (20th) day of any calendar month, and 3) each such change shall be effective as of the first day of the calendar month immediately following the date such notice shall be given and shall remain in effect until Tenant shall again change such schedule as hereinbefore provided; and (ii) demand HVAC service during non-Working Hours ("Demand Overtime HVAC") shall be provided on a demand basis, upon Tenant's request therefor, which request may be made verbally and shall, in any event, be communicated to Landlord Monday through Friday (excluding legal holidays), between the hours of 9:00 am and 5:00 pm, not less than three (3) hours prior to the time such Demand Overtime HVAC service shall be desired. As of the Term Commencement Date, and during the first year of the Demised Term, the cost of Regular Overtime HVAC Service shall be charged at the rate of \$35.00 per hour, and the cost of Demand Overtime HVAC service shall be charged at the rate of \$50.00 per hour. The hourly charge for Regular Overtime HVAC service and for Demand Overtime HVAC service shall each be subject to increase if and to the extent the cost incurred by Landlord for electricity and other fuel required in providing such overtime service shall increase from and after the date hereof. Regular Overtime HVAC Service charges and Demand Overtime HVAC service charges shall be payable by Tenant as additional rent within fifteen (15) days after Landlord shall render a statement therefor.

## **LANDLORD'S REPAIRS AND MAINTENANCE**

7. Landlord, at its expense, will make all repairs to and provide the maintenance for the demised premises (excluding painting, decorating and carpeting) and for all public areas and facilities as set forth in Schedule B, except such repairs (whether structural or otherwise) and maintenance as may be necessitated by the negligence, improper care or improper use of such premises and facilities by Tenant, its agents, employees, licensees or invitees, which will be made by Tenant at Tenant's expense as provided in Article 12 hereof.

## **WATER AND ELECTRIC SUPPLY**

8. A. Landlord, at its expense, shall furnish hot and cold water in public areas for lavatory purposes and chilled water for drinking purposes.

B. Landlord shall furnish an electrical panel for the demised premises, together with a submeter therefor. Tenant shall pay Landlord for electrical service in accordance with Schedule C.

**PARKING FIELD**

9. Tenant shall have the right to use Two Hundred Sixty Eight (268) parking spaces, for the parking of automobiles of the Tenant, its employees and invitees, in the parking area reserved for tenants of the Building (hereinafter sometimes referred to as "Building Parking Area") subject to the Rules and Regulations now or hereafter adopted by Landlord. Tenant shall not use nor permit any of its officers, agents or employees to use any parking area other than the Building Parking Area, nor use in excess of Tenant's allotted number of spaces therein.

**DIRECTORY**

10. Landlord will furnish in the lobby of the Building a directory which will contain listing(s) requested by the Tenant not to exceed Thirty Five (35) listings.

**TAXES**

11. A. If the Taxes which would be assessable to the Landlord in any escalation year (without taking into consideration any reductions or abatements granted to the Landlord by the taxing authorities by reason of vacancies or other hardships or provisions of law) shall be increased above the Tax Base, then the Tenant shall pay to the Landlord as additional rent for such escalation year a sum equal to 19.009% of such increases in Taxes (based on the ratio of the total demised premises area of 67,215 square feet to the Building Area of 353,590 square feet). Tax Base shall be total taxes due for the tax year 1996/1997. Landlord represents that the Building is assessed as a fully completed Building and that no abatements are currently in effect. To the extent Landlord shall receive a refund or reduction of Taxes with respect to any escalation year as to which Tenant shall have paid its share of Tax escalation pursuant to the provisions of this Article, Tenant shall be entitled to a credit against the rent next coming due in the amount of 19.009% of such refund, after deducting therefrom the costs and expenses incurred in connection with obtaining such refund or reduction.

**RENT ADJUSTMENT**

B. Each year on the Anniversary Date of the Term Commencement Date of the Lease the annual rental rate shall increase by Three and One Half (3.5%) per cent above the annual rental rate for the prior Lease Year (excluding escalations pursuant to Paragraph 11A or Schedule C) this increase shall include all prior escalations pursuant to this Paragraph 11B.

[Example: the annual rental rate for the second lease year of the Lease shall be \$1,248,242.58 ( $\$1,211,886 + 3.5\%$  of  $\$1,211,886$  for base rent)]. Landlord and Tenant acknowledge and agree that the rent adjustment provided for in this paragraph 11(B) is intended to constitute a formula for an agreed rental adjustment, in lieu of an actual operating expense escalation provision, and that such adjustment may or may not constitute an actual reimbursement to Landlord for costs and expenses paid by Landlord with respect to the Building. Tenant shall have no obligation to contribute any further amounts on account of Landlord's operating expenses except as expressly provided elsewhere in this lease.

## DEFINITIONS

C. As used in and for the purposes of this Article 11, the

following definitions shall apply:--

(i) The term "Taxes" shall be deemed to include all real estate taxes and assessments, special or otherwise and sewer rents, upon or with respect to the Building and the land allocated to it including all parking areas (hereinafter called the "Real Property"). If, due to any change in the method of taxation, any franchise, income, profit, sales, rental use and occupancy, or other tax shall be substituted for, or levied against Landlord or any owner of the Building or the Real Property in lieu of, any real estate taxes, assessments or sewer rents upon or with respect to the Real Property, such tax shall be included in the term Taxes for the purposes of this Article.

(ii) (intentionally deleted)

(iii)(intentionally deleted)

(iv) The term "escalation year" shall mean each calendar year which shall include any part of the Demised Term.

### PROCEDURE FOR INVOICING AND PAYMENT OF ADDITIONAL RENT

D. (i) Landlord shall render to Tenant a statement containing a computation of additional rent due under this Article on account of Taxes ("Landlord's Statement") at any time and from time to time as such becomes due. On the first day of each month following rendition of each Landlord's Statement, Tenant shall pay to Landlord, on account of the additional rent on account of Taxes, a sum equal to one-twelfth (1/12th) of the annualized additional rent shown to be due on such Landlord's Statement.

(ii) Following each Landlord's Statement, Tenant shall be debited with any additional rent shown on such Landlord's Statement to be payable, and credited with the aggregate amount paid by Tenant in accordance with the provisions of subsection 11D(i) above on account of the potential additional rent.

(iii)The obligations of Landlord and Tenant under the provisions of this Article 11 with respect to any additional rent for any Escalation Year shall survive the expiration or any sooner termination of the Demised Term. (iv) In the event that Tenant challenges the amount of Additional Rent payable pursuant to this Article 11, then, as a condition precedent to the submission of a dispute as to such amount to judicial review, and pending the determination of any dispute, Tenant shall promptly pay the Additional Rent as demanded by Landlord. After such determination, any adjustment in the disputed amount shall be made within thirty (30) days.

(v) In the event that Tenant challenges the amount of Additional Rent payable pursuant to this Article 11 or Schedule C of the Lease, any audit involved in such challenge must be conducted by an independent person or entity, the primary business of whom or which is not the conducting of lease audits.

## **TENANT'S REPAIRS**

12. Tenant shall take good care of the demised premises and, subject to the provisions of Article 7 hereof, shall make as and when needed as a result of misuse or neglect by Tenant or Tenant's servants, employees, agents, or licensees, or as a result of the moving of Tenant's fixtures, furniture or equipment, all repairs in and about the demised premises necessary to preserve them in good order and condition, which repairs shall be in quality and class equal to the original work. Any repairs which Tenant may be required to carry out pursuant to the terms hereof may, at Landlord's option, be made by Landlord at the expense of Tenant, and the expenses thereof incurred by Landlord shall be collectible as additional rent after the rendition of a bill or statement therefor.

## **FLOOR LOADING**

13. The emplacement of any equipment which will impose an evenly distributed floor load in excess of 50 pounds per square foot shall be done only after written permission is received from the Landlord. Such permission will be granted only after adequate proof is furnished by a professional engineer that such floor loading will not endanger the structure.

## **FIXTURES AND INSTALLATIONS**

14. All appurtenances, fixtures, improvements, additions and other property attached to or built into the demised premises, whether by Landlord or Tenant or others, and whether at Landlord's expense, or Tenant's expense, or the joint expense of Landlord and Tenant, shall become and remain the property of Landlord, and shall remain upon and be surrendered with the demised premises unless Landlord, by notice to Tenant no later than twenty days prior to the date fixed as the termination of this lease, elects to have them removed by Tenant, in which event, the same shall be removed from the premises by Tenant forthwith, at Tenant's expense. Nothing in this Article shall be construed to prevent Tenant's removal of trade fixtures, but upon removal of any such trade fixtures from the premises or upon removal of other installations as may be required by Landlord, Tenant shall immediately and at its expense, repair and restore the premises to the condition existing prior to installation and repair any damage to the demised premises or the Building due to such removal. Anything contained herein to the contrary notwithstanding, Tenant shall have no obligation to restore or repair, upon the expiration or other termination of this lease, any damage or deterioration arising from the ordinary wear and tear of the demised premises, nor shall Tenant be required to repair or patch any walls within the demised premises that have been damaged by the customary hanging of ordinary office decorations and artwork throughout the Demised Term. All property permitted or required to be removed by Tenant at the end of the term remaining in the premises after Tenant's removal shall be deemed abandoned and may, at the election of Landlord, either be retained as Landlord's property or may be removed from the premises at Tenant's expense. All the outside walls of the demised premises including corridor walls and the outside entrance doors to the demised premises, any balconies, terraces or roofs adjacent to the demised premises, and any space in the demised premises used for shafts, stacks, pipes, conduits, ducts or other building facilities, and the use thereof, as well as access thereto in and through the demised premises for the purpose of operation, maintenance, decoration and repair, are expressly reserved to Landlord, and Landlord does not convey any rights to Tenant therein. Notwithstanding the foregoing, Tenant shall enjoy full right of access to the demised premises through the public entrances, public corridors and public areas within the Building. Landlord shall grant Tenant reasonable access to and through any existing conduits located throughout the Building, to the extent available and having the available capacity to accommodate Tenant's requirements without interfering with any then existing use of such conduits, or to install additional conduits as may be necessary, for Tenant to install any telecommunications and electrical equipment and lines required, contemplated or desired by Tenant. All of the work contemplated by this paragraph shall be performed in a good and workmanlike manner, in a commercially reasonable fashion so long as it shall not detract from the physical appearance of the Building and the grounds associated therewith. Notwithstanding the foregoing none of such work, cabling or lines may take place or be located within any other tenant's premises in the Building, except that Tenant shall be permitted to perform core drilling through ceilings of other tenant's premises, and to run cabling and/or lines through such spaces so long as such work, and the presence of such cabling and/or lines, shall not interfere with the use and occupancy of any other tenant's premises or the operation or maintenance of any other equipment or improvements located within such ceiling areas.

## **ALTERATIONS**

15. A. After completion of the demised premises, Tenant shall make no alterations, decorations, installations, additions or improvements in or to the demised premises without Landlord's prior written consent (which consent shall not be unreasonably withheld), and then only by contractors or mechanics approved by Landlord (which approval shall not be unreasonably withheld) and at such times and in such manner as Landlord may from time to time designate. Landlord shall have the right to make inspections of any such work being carried out by Tenant or on Tenant's behalf at any reasonable time during the progress of such work. Anything contained in this Article 15 to the contrary notwithstanding, Tenant shall not be required to obtain Landlord's approval for and shall be permitted to perform any alterations reasonably and in good faith estimated to cost less than \$10,000.00, and which do not affect the structural parts, common areas or exterior of the Building, or any of the Building systems ("Permitted Alterations"). Any such Permitted Alterations shall, however be performed in compliance with the remaining provisions of this Article 15.

B. All installations or work done by Tenant shall be done in a good and workmanlike manner and shall at all times comply with:

(1) Laws, rules, orders and regulations of governmental authorities having jurisdiction thereof.

(2) Rules and regulations of Landlord.

(3) Plans and specifications prepared by and at the expense of Tenant theretofore submitted to Landlord for its prior written approval; no installations or work shall be undertaken, started or begun by Tenant, its agents, servants or employees, until Landlord has approved such plans and specifications; and no amendments or additions to such plans and specifications shall be made without the prior written consent of Landlord, and, as to alterations affecting the Building's mechanical or electrical systems, or which shall require a building permit, shall be subject to Landlord's supervisory fee charge equal to 5% of the cost of the work.

Tenant agrees that it will not, either directly or indirectly, use any contractors and/or labor and/or materials if the use of such contractors and/or labor and/or materials would or will create any difficulty with other contractors and/or labor engaged by Tenant or Landlord or others in the construction, maintenance and/or operation of the Building or any part thereof. Landlord represents that as of the date hereof, the Building is an "open" building, i.e., both unionized and non-unionized labor are employed to perform alterations therein. Tenant shall, before making any alterations, additions, installations or improvements, at its expense, obtain all permits, approvals and certificates required by any governmental or quasi-governmental bodies and (upon completion) certificates of final approval thereof and shall deliver promptly duplicates of all such permits, approvals and certificates to Landlord and Tenant agrees to carry and will cause Tenant's contractors and sub-contractors to carry such workmen's compensation, general liability, personal and property damage insurance as Landlord may require. At Landlord's request, Tenant agrees to obtain and deliver to Landlord, written and unconditional waivers of mechanic's liens upon the real property in which the demised premises are located, for all property in which the demised premises are located, for all work, labor and services performed and materials furnished in connection with such work after payment therefor, signed by all contractors, sub-contractors, materialmen and laborers involved in such work. Notwithstanding the foregoing, if any mechanic's lien is filed against the demised premises, or the Building, for work claimed to have been done for, or materials furnished to, Tenant, whether or not done pursuant to this Article the same shall be discharged by Tenant within ten days thereafter, at Tenant's expense, by filing the bond required by law.

C. Anything contained herein to the contrary notwithstanding, Tenant shall make no alterations, decorations, installations, additions or improvements in or to the demised premises which shall in any way affect utility services or plumbing and electrical lines. Moreover, Landlord shall not be deemed to have acted unreasonably for withholding consent to any alterations, decorations, installations, additions or improvements which: (i) involve or might affect any structural or exterior element of the Building outside the demised premises or the Building, or (ii) will require unusual expense to readapt the demised premises to normal office use on the expiration of the Demised Term or increase the cost of construction or of insurance or taxes on the Building or of the services called for hereunder unless Tenant first gives assurances acceptable to Landlord for payment of such increased cost and that such readaption will be made prior to the Expiration Date without expense to Landlord.

#### **REQUIREMENTS OF LAW**

16. (A) Tenant, at Tenant's sole cost and expense, shall comply with all laws, orders and regulations of Federal, State, County and Municipal authorities, and with all directions, pursuant to law, of all public officers, which shall impose any duty upon Landlord or Tenant with respect to the demised premises or the use or occupation thereof, except that Tenant shall not be required to make any structural alterations, or alterations to the common areas of the Building, in order so to comply unless such alterations shall be necessitated or occasioned, in whole or in part, by the acts, omissions or negligence of Tenant or any person claiming through or under Tenant or any of their servants, employees, contractors, agents, visitors or licensees, or by the use or occupancy or manner of use or occupancy of the demised premises by Tenant, or any such person nor shall Tenant be required to make any alterations in order to cause Landlord's Initial Construction to comply with applicable laws.

## **FIRE INSURANCE**

(B) Tenant shall not do anything, or permit anything to be done, in or about the demised premises which shall (i) invalidate or be in conflict with the provisions of any fire or other insurance policies covering the Building or any property located therein, or (ii) result in a refusal by fire insurance companies of good standing to insure the Building or any such property in amounts reasonably satisfactory to Landlord, or (iii) subject Landlord to any liability or responsibility for injury to any person or property by reason of any business operation being conducted in the demised premises, or (iv) cause any increase in the fire insurance rates applicable to the Building or property located therein at the beginning of the Demised Term or at any time thereafter. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the New York Board of Fire Underwriters and the New York Fire Insurance Rating Organization or any similar body.

(C) Tenant shall pay all costs, expenses, fines, penalties or damages, which may be imposed upon Landlord by reason of Tenant's failure to comply with the provisions of this Article 16 and if by reason of such failure the fire insurance rate shall at the beginning of this lease or at any time thereafter, be higher than it otherwise would be, then Tenant shall reimburse Landlord, as additional rent hereunder, for that portion of all fire insurance premiums thereafter paid by Landlord which shall have been charged because of such failure by Tenant, and shall make such reimbursement upon the first day of the month following such outlay by Landlord. In any action or proceeding wherein Landlord and Tenant are parties, a schedule or "make up" of rates applicable to the Building or property located therein issued by the New York Fire Insurance Rating Organization, or other similar body fixing such fire insurance rates, shall be conclusive evidence of the facts therein stated and of the several items and charges in the fire insurance rates then applicable to the Building or property located therein.

## **TENANT'S INSURANCE**

(D) Tenant will keep in force, at Tenant's expense at all times during the Demised Term and during such other times as Tenant occupies the demised premises or any part thereof:

(i) commercial general liability insurance or comprehensive general liability insurance with broad form endorsement with respect to the demised premises and the operation of Tenant and any Persons under Tenant's Control in, on or about the demised premises in which the limits of coverage shall be not less than Three Million Dollars (\$3,000,000) combined single limit per occurrence;

(ii) statutory workers' compensation coverage and employers' liability as required by state law;

(iii) business interruption insurance for a period of not less than one year and such other insurance as Tenant deems necessary to protect its property and its business against all perils commonly insured against by prudent tenants;

(iv) such other insurance with respect to the demised premises and in such amounts as Landlord may from time to time reasonably require against such other insurable hazards or risks which at the time are commonly insured against in the case of property similar to the demised premises and used as provided herein.

The foregoing limits shall be increased from time to time in the event that Landlord, in its reasonable judgment, shall determine that the amounts of insurance are inadequate to pay any claims that may be brought under the foregoing policies. All policies required by this lease shall be written on an occurrence basis. Such policies are to be written by a company having a general policy holder's rating of not less than A and a rating in financial size of not less than XI, as rated in the most current "Best's" insurance reports, and authorized and licensed to issue such policies in the State of New York. Any such insurance required of Tenant hereunder may be furnished by Tenant under any blanket policy carried by it, providing the policy properly allocates the required limits to the demised premises, or under a separate policy thereof. Each policy evidencing insurance as required by to carried by Tenant pursuant to this Article shall contain the following provisions and/or clauses: (i) a cross-liability clause; (ii) a provision that such policy and the coverage carried by Landlord shall be excess insurance; (iii) a provision including Landlord, Landlord's managing agent and other parties (including mortgagees) designated by Landlord as additional insureds (except with respect to workers' compensation insurance); (iv) a waiver by the insurer of any right of subrogation against Landlord, its agents, employees and representatives which arises or might arise by reason of any payment under such policy or by reasons of any act or omission of Landlord, its agents, employees, or representatives;

(v) a severability clause; and (vi) a provision that the insurer will not cancel, materially change, reduce aggregates or coverage or fail to renew the coverage provided by such policy without first giving Landlord and all additional insureds thirty (30) days' prior notice.

A copy of each paid-up policy or certificate of insurance accompanied by original endorsements signed by the insurance company evidencing the policies required hereunder, along with evidence of payment and appropriately authenticated by the insurer or its authorized agent certifying that such policy has been issued providing the coverage required by this Article, and containing provisions specified herein, shall be delivered to Landlord not less than fifteen (15) days prior to the earlier of (x) the Term Commencement Date, or (y) the date Tenant shall first take possession of the demised premises for any purpose, and, upon renewals, not less than thirty (30) days prior to the expiration of such coverage.

If Tenant fails to deliver to Landlord on time any required evidence of insurance coverage, or fails to carry any insurance required hereunder, or by law or governmental regulations, then Landlord may (but is not obligated to) purchase the required coverage on behalf of Tenant, as provided above, in which event Tenant shall pay to Landlord on demand the cost of such insurance coverage plus ten percent (10%) of the amount of such cost as a service charge to Landlord. No such purchase by Landlord shall be deemed a waiver of Tenant's default and Landlord may pursue its full rights and remedies on account of such default. As used herein, the term "Persons under Tenant's Control" shall mean and include Tenant, all of Tenant's respective principals, officers, agents, contractors, servants, employees, licensees and invitees.

**END OF TERM**

17. A. Upon the expiration or other termination of the term of this lease, Tenant shall quit and surrender to Landlord the demised premises, broom clean, in good order and condition, ordinary wear excepted, and Tenant shall remove all of its property, and shall repair all damage to the demised premises or the Building occasioned by such removal. Any property not removed from the premises shall be deemed abandoned by Tenant and may be disposed of in any manner deemed appropriate by the Landlord. Tenant expressly waives, for itself and for any person claiming through or under Tenant, any rights which Tenant or any such person may have under the provisions of Section 2201 of the New York Civil Practice Law and Rules and of any successor law of like import then in force, in connection with any holdover summary proceedings which Landlord may institute to enforce the foregoing provisions of this Article. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of the term of this lease. If the last day of the term of this lease or any renewal hereof falls on Sunday or a legal holiday, this lease shall expire on the business day immediately preceding.

(B) Tenant acknowledges that possession of the demised premises must be surrendered to Landlord at the expiration or sooner termination of the term of this lease. Tenant hereby agrees to indemnify and save Landlord harmless against any and all costs, damages, claims, loss or liability resulting from delay by Tenant in so surrendering the demised premises, including, without limitation, any claims made by any succeeding tenant, founded on such delay. The parties recognize and agree that the damage to landlord resulting from any failure by Tenant timely to surrender possession of the demised premises as aforesaid will be extremely substantial, will exceed the amount of monthly rent theretofore payable hereunder, and will be impossible of accurate measurement. Tenant therefore agrees that if possession of the demised premises is not surrendered to landlord on or before the date of the expiration or other termination of the term of this lease, time being of the essence with respect thereto, then, in addition to any other remedies and/or damages otherwise available to Landlord hereunder or at law, Tenant agrees to pay Landlord, for each month and for each portion of any month during which Tenant holds over in the demised premises after expiration or other termination of the term of this lease, a sum equal to two times the rent and additional rent (inclusive of escalations) that was payable per month under this lease during the last month of the term thereof. Nothing contained herein shall be construed to constitute Landlord's consent to Tenant remaining in possession of the demised premises after the expiration or other termination of the term of this lease. Landlord shall be entitled to pursue any action necessary to recover immediate possession of the demised premises notwithstanding Tenant's payment of the aforementioned sum. The aforesaid provisions of this paragraph shall survive the expiration or sooner termination of the term of this lease.

**QUIET ENJOYMENT**

18. Landlord covenants and agrees with Tenant that upon Tenant paying the rent and additional rent and observing and performing all the terms, covenants and conditions on Tenant's part to be observed and performed, Tenant may peaceably and quietly enjoy the demised premises during the term of this lease without hindrance or molestation by anyone claiming by or through Landlord, subject, nevertheless, to the terms, covenants and conditions of this lease including, but not limited to, Article 23.

**SIGNS**

19. No signs may be put on or in any window nor on the exterior of the Building. Any signs or lettering in the public corridors or on the doors must be submitted to Landlord for approval before installation, which approval shall not be unreasonably withheld.

**RULES AND REGULATIONS**

20. Tenant and Tenant's agents, employees, visitors, and licensees shall faithfully comply with the Rules and Regulations set forth on Schedule D annexed hereto and made part hereof, and with such further reasonable Rules and Regulations as Landlord at any time may make and communicate in writing to Tenant which, in the Landlord's judgment, shall be necessary for the reputation, safety, care or appearance of the Building and land allocated to it or the preservation of good order therein, or the operation or maintenance of the Building, its equipment and such land, or the more useful occupancy or the comfort of the tenants or others in the Building. Landlord shall not be liable to Tenant for the violation of any of said Rules and Regulations, or the breach of any covenant or condition of any lease by any other tenant in the Building. Rules and Regulations shall be uniformly applied where possible.

**ASSIGNMENT AND SUBLETTING**

21. (A) Tenant, for itself, its successors, undertenants and assigns, (all of the foregoing hereinafter referred to as the "Tenant") expressly covenants that it shall not assign, mortgage or encumber this agreement, nor underlet the demised premises or any part thereof, or license or permit the demised premises or any part thereof to be used by others, without the prior written consent of the Landlord in each instance and upon due compliance with the provisions of this Article 21.

(B) Intentionally Omitted.

(C) Prior to requesting the approval of Landlord to an assignment or subletting as hereinafter provided, Tenant shall, by notice as provided in Article 35, advise the Landlord of all the terms, covenants and conditions of the Tenant's proposed sublease or assignment and shall offer to the Landlord the option:

(i) to terminate the lease as of the last day of any calendar month of the term hereof, which day shall be prior to the effective date of such proposed sublease or assignment, and after Landlord's Acceptance Period (as such phrase is hereinafter defined), and to vacate and surrender the demised premises to Landlord; or

(ii) to execute a sublease for the said space with the Landlord on the same terms and conditions as are contained in the proposed sublease or assignment.

Landlord shall have fifteen (15) business days after the receipt of such offer to accept in writing either or neither of such offers (Landlord's Acceptance Period). Anything contained in this Article 21(C) to the contrary notwithstanding, if Landlord shall accept either of Tenant's aforesaid offers, Tenant may revoke such offers by sending written notice to Landlord withdrawing Tenant's request to assign the lease or sublet the demised premises that was associated with such offers, which notice must be given by Tenant, if at all, within ten (10) days after Tenant's receipt of Landlord's acceptance of either of such offers, whereupon such offer shall be deemed revoked and Tenant shall not be entitled to assign the lease or sublet the demised premises without again complying with the provisions of this Article.

(D) Upon Tenant's due compliance with the aforesaid provisions of this Article 21, and if Landlord shall not accept either of Tenant's aforesaid offers, Landlord agrees not to unreasonably withhold its consent to an assignment or subletting, provided that the Tenant is not then in default under this lease and that the proposed assignee or undertenant is financially responsible, of good reputation and engaged in a business compatible with the business generally carried on in the Building and that the proposed assignment or sublease would not be inconsistent with any agreement previously made with any other tenant, and further provided that such assignee or undertenant shall execute and deliver to Landlord an assumption agreement wherein it agrees to perform all the obligations of the Tenant under this lease in form appropriate for recording, and provided, in the case of a sublease, that the annual rental rate under such sublease is not less than the prevailing rate per square foot at Two Huntington Quadrangle, Melville, New York.

(E) No assignment of this lease or underletting of the demised premises shall release or discharge the Tenant hereunder from any of its obligations to be performed under this lease. The consent by Landlord to an assignment or underletting shall not in any way be construed to relieve Tenant from obtaining the express consent in writing of Landlord to any further assignment or underletting.

(F) If Tenant is a corporation, Tenant may assign this lease to any successor by merger or consolidation, provided that a copy of said assignment, in recordable form, is delivered to the Landlord containing a full assumption by the assignee of all the Tenant's obligations hereunder.

## **LANDLORD'S ACCESS TO PREMISES**

22. (A) Landlord or Landlord's agents shall have the right to enter and/or pass through the demised premises at all mutually agreeable times, upon reasonable prior verbal notice (except in an emergency, and then at all times and without notice), to examine the same, to show them to mortgagees, ground lessors, prospective purchasers or lessees or mortgagees of the Building, and to make such repairs, improvements or additions as Landlord may deem necessary or desirable and Landlord shall be allowed to take all material into and upon and/or through said demised premises that may be required therefor. During the year prior to the expiration of the term of this lease, or any renewal term, Landlord may exhibit the demised premises to prospective tenants or purchasers at all reasonable hours and without unreasonably interfering with Tenant's business. If Tenant shall not be personally present to open and permit an entry into said premises, at any time, when for any reason an entry therein shall be necessary due to an emergency, Landlord or Landlord's agents may enter the same by a master key, without rendering Landlord or such agent liable therefor (if during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property). If during the last month of the Demised Term Tenant shall have removed all or substantially all of Tenant's property therefrom, Landlord may immediately enter, alter, renovate or redecorate the demised premises without limitation or abatement of rent, or incurring liability to Tenant for any compensation and such act shall have no effect on this lease or Tenant's obligations hereunder. Tenant acknowledges that Landlord shall have no obligation to perform any of its repair and maintenance obligations hereunder except during Landlord's regular working hours, except in the event of an emergency. If Tenant desires Landlord to perform any such repair and maintenance obligations at any hours other than Landlord's regular working hours, Landlord shall use its reasonable efforts to accommodate Tenant's request, provided, however, that Tenant shall pay to Landlord, as additional rent, any overtime charges incurred by Landlord as a result thereof, except in the event of an emergency. Landlord acknowledges that Tenant shall provide Landlord with a master key for the demised premises, and all of the areas therein, with the exception of areas deemed by Tenant to be "security sensitive" areas. Landlord shall have no liability for its failure to perform any repairs to such "security sensitive" areas by reason of Landlord's inability to gain access thereto, nor to any other portions of the demised premises to which access is denied. Tenant acknowledges that in the event of an emergency, Landlord may enter such areas by any reasonable means necessary without being liable to Tenant by reason of such access or by reason of any damage caused in obtaining such access.

(B) Landlord shall also have the right at any time to use, maintain and replace pipes and conduits in and through the demised premises and to erect new pipes and conduits therein, to change the arrangement and/or location of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets or other public parts of the Building, provided, however, that Landlord shall make no change in the arrangement and/or location of entrances or passageways or other public parts of the Building which will adversely affect in any material manner Tenant's use and enjoyment of the demised premises. Landlord shall also have the right, at any time, but upon reasonable prior notice, to name the Building, to display appropriate signs and/or lettering on any or all entrances to the Building, and to change the name, number or designation by which the Building is commonly known, except that Landlord agrees that it shall not, at any time during the Demised Term, name the Building after any entity engaged in the same business as Tenant is engaged as of the date hereof. Furthermore, Landlord shall use its reasonable efforts to utilize existing core areas before changing or erecting any new conduits or pipes within the demised premises.

(C) Neither this lease nor any use by Tenant shall give Tenant any right or easement to the use of any door or passage or concourse connecting with any other building or to any public conveniences, and the use of such doors and passages and concourse and of such conveniences may be regulated and/or discontinued at any time and from time to time by Landlord without notice to Tenant, except that Tenant shall at all times be entitled to use the concourse leading to the Building loading area (subject to temporary interruptions for required repairs or alterations).

(D) The exercise by Landlord or its agents of any right reserved to Landlord in this Article shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this lease, or impose any liability upon Landlord, or its agents, or upon any lessor under any ground or underlying lease, by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business, or otherwise. Landlord shall use its reasonable efforts to minimize any inconvenience to tenant in exercising its rights under this Article 22.

### **SUBORDINATION**

23. (A) This lease is subject and subordinate in all respects to all ground leases and/or underlying leases and to all mortgages which may now or hereafter be placed on or affect such leases and/or the real property of which the demised premises form a part, or any part or parts of such real property, and/or Landlord's interest or estate therein, and to each advance made and/or hereafter to be made under any such mortgages, and to all renewals, modifications, consolidations, replacements and extensions thereof and all substitution therefor. This Section A shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall execute and deliver promptly any certificate that Landlord and/or any mortgagee and/or the lessor under any ground or underlying lease and/or their respective successors in interest may request.

(B) Without limitation of any of the provisions of this lease, in the event that any mortgagee or its assigns shall succeed to the interest of Landlord or of any successor-Landlord and/or shall have become lessee under a new ground or underlying lease, then, at the option of such mortgagee, this lease shall nevertheless continue in full force and effect and Tenant shall and does hereby agree to attorn to such mortgagee or its assigns and to recognize such mortgagee or its respective assigns as its Landlord.

(C) Tenant shall, at any time and from time to time upon not less than five days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that this lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), and the dates to which the rent, additional rent and other charges have been paid in advance, if any, and stating whether or not to the best knowledge of the signer of such certificate Landlord is in default in performance of any covenant, agreement, term, provision or condition contained in this lease and, if so, specifying each such default of which the signer may have knowledge, it being intended that any such statement delivered pursuant hereto may be relied upon by any prospective purchaser or lessee of said real property or any interest or estate therein, any mortgagee or prospective mortgagee thereof or any prospective assignee of any mortgage thereof. If, in connection with obtaining financing or refinancing for the Building and the land allocated to it, a banking, insurance or other recognized institutional lender shall request reasonable modifications in this lease as a condition to such financing, Tenant will not unreasonably withhold, delay or defer its consent thereto, provided that such modifications do not increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created. Landlord shall use its reasonable efforts to obtain an agreement (a "Non-Disturbance Agreement") from the holder of any mortgage now or (within thirty (30) days after request by Tenant therefor) hereafter encumbering the Real Property, in the usual form of such holder, in favor of Tenant, providing in substance that so long as Tenant is not in default under the terms of this lease, the right of possession of Tenant to the demised premises shall not be affected or disturbed by such holder in the exercise of any of its rights under the mortgage or any note secured thereby, and any sale of the Real Property pursuant to the exercise of any rights and remedies under the mortgage or otherwise shall be made subject to Tenant's right of possession under this lease. As to the mortgage presently held by The Mutual Life Insurance Company of New York ("MONY"), in the event Landlord shall be unable to obtain a Non-Disturbance Agreement from MONY in favor of Tenant, in the form annexed hereto as Exhibit 3 hereof, on or before the "Consent Deadline" (as defined in Article 50 hereof), then Tenant may cancel this lease by sending written notice to Landlord on or before the earlier to occur of: (i) ten (10) days after the Consent Deadline; or (ii) the date on which Landlord shall obtain the Non-Disturbance Agreement from MONY in favor of Tenant. If Tenant shall cancel this lease as herein provided, Landlord shall refund any monies theretofore paid by Tenant to Landlord hereunder, this lease shall be deemed canceled and neither party shall have any further liability or obligation to the other hereunder. As to any mortgages hereafter affecting the Real Property, the subordination provisions of this Article 23 shall be subject to and conditioned upon Landlord obtaining a Non-Disturbance Agreement in the usual form of the holder of such mortgage, in favor of Tenant, within thirty

(30) days after Tenant's request therefor, which request shall be made within ten (10) business days after Landlord notifies Tenant of any contemplated future mortgage. If Tenant shall fail to request such Non-Disturbance Agreement within such ten (10) business day period, then the subordination provisions of this Article 23 shall be self-operative, and no further writing or agreement shall be required to confirm the subordination of this lease to such mortgage. If, on the other hand, Landlord shall be unable to obtain a Non-Disturbance Agreement from such holder in favor of Tenant, within such thirty (30) day period, then such mortgage shall be subordinate to this lease. Landlord shall not be required to incur any expense (other than a reasonable processing fee) or pay any consideration in order to obtain any Non-Disturbance Agreement in favor of Tenant. Except as expressly provided herein, Landlord shall incur no liability, nor shall this lease or the obligations of Tenant hereunder be affected in any manner, in the event Landlord shall be unable to obtain a Non-Disturbance Agreement from the holder of any mortgage in favor of Tenant. Furthermore, Landlord shall not be required to incur an expense (other than a reasonable processing fee) or pay any consideration in order to obtain any Non-Disturbance Agreement in favor of Tenant.

**PROPERTY LOSS, DAMAGE, REIMBURSEMENT**

24. (A) Landlord or its agents shall not be liable for any damage to property of Tenant or of others entrusted to employees of the Building, nor for the loss of or damage to any property of Tenant by theft or otherwise. Landlord or its agents shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical disturbance, water, rain or snow or leaks from any part of the Building or from the pipes, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature, unless caused by or due to the negligence of Landlord, its agents, servants or employees; nor shall Landlord or its agents be liable for any such damage caused by other tenants or persons in the Building or caused by operations in construction of any private, public or quasi public work; nor shall Landlord be liable for any latent defect in the demised premises or in the Building. If at any time any windows of the demised premises are temporarily closed or darkened incident to or for the purpose of repairs, replacements, maintenance and/or cleaning in, on, to or about the Building or any part or parts thereof, Landlord shall not be liable for any damage Tenant may sustain thereby and Tenant shall not be entitled to any compensation therefor nor abatement of rent nor shall the same release Tenant from its obligations hereunder nor constitute an eviction. Tenant shall reimburse and compensate Landlord as additional rent for all expenditures made by, or damages or fines sustained or incurred by Landlord due to non-performance or non-compliance with or breach or failure to observe any term, covenant or condition of this lease upon Tenant's part to be kept, observed, performed or complied with. Tenant shall give immediate notice to Landlord in case of fire or accidents in the demised premises or in the Building or of defects therein or in any fixtures or equipment.

**TENANT'S INDEMNITY**

(B) Tenant shall indemnify and save harmless Landlord against and from any and all claims by and on behalf of any person or persons, firm or firms, corporation or corporations arising from the conduct or management of or from any work or thing whatsoever done (other than by Landlord or its contractors or the agents or employees of either) in and on the demised premises during the term of this lease and during the period of time, if any, prior to the Term Commencement Date that Tenant may have been given access to the demised premises for the purpose of making installations, and will further indemnify and save harmless Landlord against and from any and all claims arising from any condition of the demised premises due to or arising from any act or omission or negligence of Tenant or any of its agents, contractors, servants, employees, licensees or invitees, and against and from all costs, expenses and liabilities incurred in connection with any such claim or claims or action or proceeding brought thereon; and in case any action or proceeding be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, agrees that Tenant, at Tenant's expense, will resist or defend such action or proceeding and will employ counsel therefor reasonably satisfactory to Landlord. Tenant's liability under this lease extends to the acts and omissions of any subtenant, and any agent, contractor, employee, invitee or licensee of any subtenant.

## **DESTRUCTION-FIRE OR OTHER CASUALTY**

25. If the demised premises shall be damaged by fire or other casualty and if Tenant shall give prompt notice to Landlord of such damage, Landlord, at Landlord's expense, shall repair such damage. However, Landlord shall have no obligation to repair any damage to, or to replace, Tenant's personal property or any other property or effects of Tenant. If the entire demised premises shall be rendered untenable by reason of any such damage, the rent shall abate for the period from the date of such damage to the date when such damage shall have been repaired, and if only a part of the demised premises shall be so rendered untenable, the rent shall abate for such period in the proportion which the area of the part of the demised premises so rendered untenable bears to the total area of the demised premises. However, if prior to the date when all of such damage shall have been repaired any part of the demised premises so damaged shall be rendered tenable and shall be used or occupied by Tenant or any person or persons claiming through or under Tenant, then the amount by which the rent shall abate shall be equitably apportioned for the period from the date of any such use or occupancy to the date when all such damage shall have been repaired. Tenant hereby expressly waives the provisions of Section 227 of the New York Real Property Law, and of any successor law of like import then in force, and Tenant agrees that the provisions of this Article shall govern and control in lieu thereof. Notwithstanding the foregoing provisions of this Section, if, prior to or during the Demised Term, (i) the demised premises shall be totally damaged or rendered wholly untenable by fire or other casualty, and if Landlord shall decide not to restore the demised premises, or (ii) the Building shall be so damaged by fire or other casualty that, in Landlord's opinion, substantial alteration, demolition, or reconstruction of the Building shall be required (whether or not the demised premises shall be damaged or rendered untenable), then, in any of such events, Landlord at Landlord's option, may give to Tenant, within sixty (60) days after such fire or other casualty, a thirty (30) days' notice of termination of this lease. Landlord shall notify Tenant (the "Casualty Notice") in writing within sixty (60) days of the occurrence of such damage as to whether the damage is susceptible of complete repair within one hundred eighty (180) days after the occurrence. If the Casualty Notice will indicate that such repair and restoration will require in excess of one hundred eighty (180) days, then such notification shall state the estimated period required to repair or restore such damage (the "Estimated Repair/Restoration Period"). If such damage to the demised premises or any portion thereof shall render all or substantially all of the demised premises untenable for the normal operation of Tenant's business, and either (i) the Estimated Repair/Restoration Period is in excess of one hundred eighty (180) days after the occurrence of such casualty, or (ii) Landlord fails to provide the Casualty Notice within five (5) business days after Landlord's receipt of notice from Tenant that Landlord has failed to provide the Casualty Notice within sixty (60) days of the occurrence of such damage, then in either event Tenant may, by written notice to Landlord given within seventy-five (75) days after the date of such casualty, terminate this lease as of the date of occurrence of such damage. If the Casualty Notice shall indicate that the Estimated Repair/Restoration Period shall be not more than one hundred eighty (180) days, or if the Casualty Notice shall indicate that the Estimated Repair/Restoration Period shall be more than one hundred eighty (180) days and Tenant does not elect to terminate this lease as hereinabove provided (subject in either case to delays caused by any of the reasons set forth in Article 36(A) hereof) and if Landlord fails to repair or restore such damage within such period, then Tenant shall have a further option to terminate this lease, by giving written notice to Landlord within ten (10) days after the expiration of the Estimated Repair/Restoration Period. If either party elects to terminate this lease as herein provided, the Demised Term shall expire upon the thirtieth (30th) day after such notice is given, and Tenant shall vacate the demised premises and surrender the same to Landlord, as if such date were the Expiration Date, the rent shall be apportioned as of such date, and any prepaid portion of rent for any period after such date shall be refunded by Landlord to Tenant. In the event that any damage or destruction by fire or other casualty shall render all or substantially all of the demised premises untenable for the normal operation of Tenant's business, and if neither party shall elect to terminate this lease as hereinabove provided, and if Landlord shall then have available any space in Buildings owned by Landlord and located within the Town of Melville that shall be suitable for the temporary relocation of Tenant's business operations that are located within the demised premises pending the repair and restoration of the demised premises, Landlord shall so notify Tenant of such fact and Tenant shall have the option, exercisable upon written notice from Tenant to Landlord given within five (5) business days after Tenant's receipt of Landlord's notice, to elect to occupy such other space until the restoration and repair of the demised premises. Such occupancy shall be upon all of the terms, covenants and conditions contained in this lease (including, without limitation, provisions regarding base annual rent and additional rent), except that appropriate adjustments shall be made on a square foot basis in the event the rentable area of such temporary space shall be smaller or greater than the rentable area of the demised premises, and except further that Landlord shall not be required to perform any alterations in order to prepare such temporary space for Tenant's occupancy. Tenant shall vacate, quit and surrender the temporary space, in accordance with the provisions of Article 17 hereof, within twenty (20) days after receipt of notice from Landlord that restoration and repair of the demised premises has been substantially completed.

## **SUBROGATION**

26. Each of the parties hereto and their successors or assigns hereby waives any and all rights of action for negligence against the other party hereto which may hereafter arise for damage to the premises or to property therein resulting from any fire or other casualty of the kind covered by standard fire insurance policies with extended coverage, regardless of whether or not, or in what amounts, such insurance is now or hereafter carried by the parties hereto, or either of them. The foregoing release and waiver shall be in force only if both releasors' insurance policies contain a clause providing that such a release or waiver shall not invalidate the insurance and also provided that such a policy can be obtained without additional premiums. Both parties agree to use their best efforts to obtain and maintain a waiver of subrogation from their respective carriers if they are insured.

## **EMINENT DOMAIN**

27. (A) In the event that the whole of the demised premises shall be lawfully condemned or taken in any manner for any public or quasi-public use, this lease and the term and estate hereby granted shall forthwith cease and terminate as of the date of vesting of title. In the event that only one part of the demised premises shall be so condemned or taken, then, effective as of the date of vesting of title, the rent hereunder shall be abated in an amount thereof apportioned according to the area of the demised premises so condemned or taken. In the event that only a part of the Building shall be so condemned or taken, then (a) Landlord (whether or not the demised premises be affected) may, at its option, terminate this lease and the term and estate hereby granted as of the date of such vesting of title by notifying Tenant in writing of such termination within 60 days following the date on which Landlord shall have received notice of vesting of title, and (b) if such condemnation or taking shall be of a substantial part of the demised premises or of a substantial part of the means of access thereto, Tenant shall have the right, by delivery of notice in writing to Landlord within 60 days following the date on which Tenant shall have received notice of vesting of title, to terminate this lease and the term and estate hereby granted as of the date of vesting of title or (c) if neither Landlord nor Tenant elects to terminate this lease, as aforesaid, this lease shall be and remain unaffected by such condemnation or taking, except that the rent shall be abated to the extent, if any, hereinabove provided in this Article 27. In the event that only a part of the demised premises shall be so condemned or taken and this lease and the term and estate hereby granted are not terminated as hereinbefore provided, Landlord will, at its expense, restore the remaining portion of the demised premises as nearly as practicable to the same condition as it was in prior to such condemnation or taking.

(B) In the event of a termination in any of the cases hereinabove provided, this lease and the term and estate granted shall expire as of the date of such termination with the same effect as if that were the date hereinbefore set for the expiration of the term of this lease, and the rent hereunder shall be apportioned as of such date.

(C) In the event of any condemnation or taking hereinabove mentioned of all or a part of the Building, Landlord shall be entitled to receive the entire award in the condemnation proceeding, including any award made for the value of the estate vested by this lease in Tenant, and Tenant hereby expressly assigns to Landlord any and all right, title and interest of Tenant now or hereafter arising in or to any such award or any part thereof, and Tenant shall be entitled to receive no part of such award, except that the Tenant may file a claim for any taking of removable fixtures owned by Tenant and for moving expenses incurred by Tenant. Nothing contained herein shall prohibit Tenant from pursuing any other remedies against the taking authority in a separate proceeding so long as the amount of Landlord's award shall not be diminished thereby.

It is expressly understood and agreed that the provisions of this Article 27 shall not be applicable to any condemnation or taking for governmental occupancy for a limited period.

### **CERTIFICATE OF OCCUPANCY**

28. Tenant will not at any time use or occupy the demised premises in violation of the certificate of occupancy (temporary or permanent) issued for the Building or portion thereof of which the demised premises form a part. If at any time during the Demised Term, there shall be any violations of law posted or filed against the Building, and if such violations shall not have been caused by Tenant, or by Persons Within Tenant's Control, and if such violations shall materially adversely affect Tenant's use and enjoyment of the demised premises for the purposes contemplated in Article 4 hereof, Landlord shall, at Landlord's sole cost and expense, cure such violations with due diligence. If Landlord shall fail to commence to cure such violations within forty-five (45) days after Landlord becomes aware of same, or shall thereafter fail to diligently prosecute such cure to completion, Tenant's sole remedy shall be to cancel this lease by sending written notice to Landlord.

### **DEFAULT**

29. A. Upon the occurrence at any time prior to or during the Demised Term, of any one or more of the following events (referred to as "Events of Default"):

(i) if Tenant shall default in the payment when due of any installment of rent or in the payment when due of any additional rent, and such default shall continue for a period of ten (10) days after notice by Landlord to Tenant of such default; or

(ii) if Tenant shall default in the observance or performance of any term, covenant or condition of this lease on Tenant's part to be observed or performed (other than the covenants for the payment of rent and additional rent) and Tenant shall fail to remedy such default within twenty (20) days after notice by Landlord to Tenant of such default, or if such default is of such a nature that it cannot be completely remedied within said period of twenty (20) days and Tenant shall not commence within said period of twenty (20) days, or shall not thereafter diligently prosecute to completion, all steps necessary to remedy such default; or

(iii) if Tenant or Tenant's guarantor hereunder (if any) shall file a voluntary petition in bankruptcy or insolvency, or shall be adjudicated a bankrupt or become insolvent, or shall file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy act or any other present or future applicable federal, state or other statute or law, or shall make an assignment for the benefit of creditors or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or of all or any part of Tenant's property; or

(iv) if, within thirty (30) days after the commencement of any proceeding against Tenant, whether by the filing of a petition or otherwise, seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy act or other present or future applicable federal, state or other statute or law, such proceeding shall not have been dismissed, or if, within thirty (30) days after the appointment of any trustee, receiver or liquidator of Tenant, or of all or any part of Tenant's property, without the consent or acquiescence of Tenant, such appointment shall not have been vacated or otherwise discharged, or if any execution or attachment shall be issued against Tenant or any of Tenant's property pursuant to which the demised premises shall be taken or occupied or attempted to be taken or occupied; or

(v) if Tenant shall default in the observance or performance of any term, covenant or condition on Tenant's part to be observed or performed under any other lease with Landlord of space in the Building and such default shall continue beyond any grace period set forth in such other lease for the remedying of such default; or

(vi) if the demised premises shall become vacant, deserted or abandoned; or

(vii) if Tenant's interest in this lease shall devolve upon or pass to any person, whether by operation of law or otherwise, except as expressly permitted under Article 21;

then, upon the occurrence, at any time prior to or during the Demised Term, of any one or more of such Events of Default, Landlord, at any time thereafter, at Landlord's option, may give to Tenant a five (5) days' notice of termination of this lease and, in the event such notice is given, this lease and the Demised Term shall come to an end and expire (whether or not said term shall have commenced) upon the expiration of said five (5) days with the same effect as if the date of expiration of said five (5) days were the Expiration Date, but Tenant shall remain liable for damages as provided in Article 31.

B. If, at any time, (i) Tenant shall be comprised of two (2) or more persons, or (ii) Tenant's obligations under this lease shall have been guaranteed by any person other than Tenant, or (iii) Tenant's interest in this lease shall have been assigned, the word "Tenant", as used in subsection (iii) and (iv) of Section 29A, shall be deemed to mean any one or more of the persons primarily or secondarily liable for Tenant's obligations under this lease. Any moneys received by Landlord from or on behalf of Tenant during the pendency of any proceeding of the types referred to in said subsections (iii) and (iv) shall be deemed paid as compensation for the use and occupation of the demised premises and the acceptance of any such compensation by Landlord shall not be deemed an acceptance of rent or a waiver on the part of Landlord of any rights under Section 29A.

## **REMEDIES**

30. A. If Tenant shall default in the payment when due of any installment of rent or in the payment when due of any additional rent and such default shall continue for a period of ten (10) days after notice by Landlord to Tenant of such default, or if this lease and the Demised Term shall expire and come to an end as provided in Article 29:

(i) Landlord and its agents and servants may immediately, or at any time after such default or after the date upon which this lease and the Demised Term shall expire and come to an end, re-enter the demised premises or any part thereof, without notice, either by summary proceedings or by any other applicable action or proceeding, (without being liable to indictment, prosecution or damages therefor), and may repossess the demised premises and dispossess Tenant and any other persons from the demised premises and remove any and all of their property and effects from the demised premises; and

(ii) Landlord, at Landlord's option, may relet the whole or any part or parts of the demised premises from time to time, either in the name of Landlord or otherwise, to such tenant or tenants, for such term or terms ending before, on or after the Expiration Date, at such rental or rentals and upon such other conditions, which may include concessions and free rent periods, as Landlord, in its sole discretion, may determine. Landlord shall have no obligation to relet the demised premises or any part thereof and shall in no event be liable for refusal or failure to relet the demised premises or any part thereof, or, in the event of any such reletting, for refusal or failure to collect any rent due upon any such reletting, and no such refusal or failure shall operate to relieve Tenant of any liability under this lease or otherwise to affect any such liability. Landlord, at Landlord's option, may make such repairs, replacements, alterations, additions, improvements, decorations and other physical changes in and to the demised premises as Landlord, in its sole discretion, considers advisable or necessary in connection with any such reletting or proposed reletting, without relieving Tenant of any liability under this lease or otherwise affecting any such liability.

B. Tenant, on its own behalf and on behalf of all persons claiming through or under Tenant, including all creditors, does hereby waive any and all rights which Tenant and all such persons might otherwise have under any present or future law to redeem the demised premises, or to re-enter or repossess the demised premises, or to restore the operation of this lease, after

(i) Tenant shall have been dispossessed by a judgment or by warrant of any court or judge, or (ii) any other re-entry by Landlord permitted hereunder by lawful process, or (iii) any expiration or termination of this lease and the Demised Term. In the event of a breach or threatened breach by Tenant, or any persons claiming through or under Tenant, of any term, covenant or condition of this lease on Tenant's part to be observed or performed, Landlord shall have the right to enjoin such breach and the right to invoke any other remedy allowed by law or in equity as if re-entry, summary proceedings and other special remedies were not provided in this lease for such breach. The rights to invoke the remedies hereinbefore set forth are cumulative and shall not preclude Landlord from invoking any other remedy allowed at law or in equity.

### **DAMAGES**

31. A. If this lease and the Demised Term shall expire and come to an end as provided in Article 29 or by or under any summary proceeding or any other action or proceeding, or if Landlord shall re-enter the demised premises as provided in Article 30 or by or under any summary proceeding or any other action or proceeding, then, in any of said events:

(i) Tenant shall pay to Landlord all rent, additional rent and other charges payable under this lease by Tenant to Landlord to the date upon which this lease and the Demised Term shall have expired and come to an end or to the date of re-entry upon the demised premises by Landlord, as the case may be; and

(ii) Tenant shall also be liable for and shall pay to Landlord, as damages, any deficiency (referred to as "Deficiency") between the rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the Demised Term and the net amount, if any, of rents collected under any reletting effected pursuant to the provisions of Section 30A for any part of such period (first deducting from the rents collected under any such reletting all of Landlord's expenses in connection with the termination of this lease or Landlord's re-entry upon the demised premises and such reletting including, but not limited to, all repossession costs, brokerage commissions, legal expenses, attorney's fees, alteration costs and other expenses of preparing the demised premises for such reletting). Any such Deficiency shall be paid in monthly installments by Tenant on the days specified in this lease for payment of installments of rent. Landlord shall be entitled to recover from Tenant each monthly Deficiency as the same shall arise, and no suit to collect the amount of the Deficiency for any month shall prejudice Landlord's right to collect the Deficiency for any subsequent month by a similar proceeding; and

(iii) At any time after the Demised Term shall have expired and come to an end or Landlord shall have re-entered upon the demised premises, as the case may be, whether or not Landlord shall have collected any monthly Deficiencies as aforesaid, Landlord shall be entitled to recover from Tenant, and Tenant shall pay to Landlord, on demand, as and for liquidated and agreed final damages, a sum equal to the amount by which the rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the Demised Term exceeds the then fair and reasonable rental value of the demised premises for the same period, both discounted to present worth at the rate of four (4%) per cent per annum. If, before presentation of proof of such liquidated damages to any court, commission or tribunal, the demised premises, or any part thereof, shall have been relet by Landlord for the period which otherwise would have constituted the unexpired portion of the Demised Term, or any part thereof, the amount of rent reserved upon such reletting shall be deemed, prima facie, to be the fair and reasonable rental value for the part or the whole of the demised premises so relet during the term of the reletting.

B. If the demised premises, or any part thereof, shall be relet together with other space in the Building, the rents collected or reserved under any such reletting and the expenses of any such reletting shall be equitably apportioned for the purposes of this Article 31. Tenant shall in no event be entitled to any rents collected or payable under any reletting, whether or not such rents shall exceed the rent reserved in this lease. Solely for the purposes of this Article, the term rent as used in Section 31A shall mean the rent in effect immediately prior to the date upon which this lease and the Demised Term shall have expired and come to an end, or the date of re-entry upon the demised premises by Landlord, as the case may be, plus any additional rent payable pursuant to the provisions of Article 11 for the escalation year (as defined in Article 11) immediately preceding such event. Nothing contained in Articles 29 and 30 or this Article shall be deemed to limit or preclude the recovery by Landlord from Tenant of the maximum amount allowed to be obtained as damages by any statute or rule of law, or of any sums or damages to which Landlord may be entitled in addition to the damages set forth in Section 31A.

## **FEES AND EXPENSES**

32. If Tenant shall default in the performance of any covenant on Tenant's part to be performed in this lease contained, Landlord may immediately, or at any time thereafter, without notice, perform the same for the account of Tenant. If Landlord at any time is compelled to pay or elects to pay any sum of money, or do any act which will require the payment of any sum of money, by reason of the failure of Tenant to comply with any provision hereof, or, if Landlord is compelled to or does incur any expense including reasonable attorneys' fees, instituting, prosecuting and/or defending any action or proceeding instituted by reason of any default of Tenant hereunder, the sum or sums so paid by Landlord with all interest, costs and damages, shall be deemed to be additional rent hereunder and shall be due from Tenant to Landlord on the first day of the month following the incurring of such respective expenses, or at Landlord's option on the first day of any subsequent month. In the event that Landlord shall institute any such action or proceeding by reason of a default by Tenant hereunder, and Tenant shall thereafter cure such default before judgment is entered in such action or proceeding, the sum of \$500 shall immediately become due and payable from Tenant to Landlord as and for liquidated damages on account of Landlord's attorneys' fees and other costs and expenses in connection therewith (said sum not to be deemed to be, or construed as, a limitation on Landlord's right to obtain reasonable attorneys' fees in a greater amount where such default is not so cured). Any sum of money (other than rent) accruing from Tenant to Landlord pursuant to any provision of this lease, including but not limited to the provisions of Schedule A, whether prior to or after the Term Commencement Date, may, at Landlord's option, be deemed additional rent, and Landlord shall have the same remedies for Tenant's failure to pay any item of additional rent when due as for Tenant's failure to pay any installment of rent when due. Tenant's obligations under this Article shall survive the expiration or sooner termination of the Demised Term.

## **NO WAIVER**

33. A. No act or thing done by Landlord or Landlord's agents during the term hereby demised shall be deemed an acceptance of a surrender of said demised premises, and no agreement to accept such surrender shall be valid unless in writing signed by Landlord. No employee of Landlord or of Landlord's agents shall have any power to accept the keys of said demised premises prior to the termination of this lease. The delivery of keys to any employee of Landlord or of Landlord's agents shall not operate as a termination of this lease or a surrender of the demised premises. In the event of Tenant at any time desiring to have Landlord underlet the demised premises for Tenant's account, Landlord or Landlord's agents are authorized to receive said keys for such purposes without releasing Tenant from any of the obligations under this lease, and Tenant hereby relieves Landlord of any liability for loss of or damage to any of Tenant's effects in connection with such underletting. The failure of Landlord to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this lease, or any of the Rules and Regulations annexed hereto and made a part hereof, or hereafter adopted by Landlord, shall not prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. The receipt by Landlord of rent with knowledge of the breach of any covenant of this lease shall not be deemed a waiver of such breach. The failure of Landlord to enforce any of the Rules and Regulations annexed hereto and made a part hereof, or hereafter adopted, against Tenant and/or any other tenant in the Building shall not be deemed a waiver of any such Rules and Regulations. No provision of this lease shall be deemed to have been waived by Landlord, unless such waiver be in writing signed by Landlord. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rent herein stipulated shall be deemed to be other than on account of the earliest stipulated rent then owing nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy in this lease provided.

B. Landlord's failure to render a Landlord's Statement with respect to any escalation year per Article 11 shall not prejudice Landlord's right to render a Landlord's Statement with respect to any subsequent escalation year. The obligations of Landlord and Tenant under the provisions of Article 11 with respect to any additional rent for any escalation year shall survive the expiration or any sooner termination of the Demised Term.

#### **WAIVER OF TRIAL BY JURY**

34. To the extent such waiver is permitted by law, Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by Landlord or Tenant against the other on any matter whatsoever arising out of or in any way connected with this lease, the relationship of landlord and tenant, the use or occupancy of the demised premises by Tenant or any person claiming through or under Tenant, any claim of injury or damage, and any emergency or other statutory remedy, but not in any action brought by a third party against Landlord and/or Tenant, unless such waiver shall be enforceable against, or consented to by, such third party. The provisions of the foregoing sentence shall survive the expiration or any sooner termination of the Demised Term. If Landlord commences any summary proceeding for nonpayment of rent or otherwise to recover possession of the demised premises, Tenant agrees not to interpose any counterclaim of any nature or description in any such proceeding.

#### **BILLS AND NOTICES**

35. Except as otherwise expressly provided in this lease, any bills, statements, notices, demands, requests or other communications given or required to be given under this lease shall be effective only if rendered or given in writing, sent by registered or certified mail (return receipt requested optional), overnight mail, messenger service or facsimile during the hours of 9:00 A.M. to 5:00 P.M. addressed (A) to Tenant (i) at Tenant's address set forth in this lease, Attention: Corporate Counsel, if mailed prior to Tenant's taking possession of the demised premises, or (ii) at Tenant's address set forth in this lease, attention: Corporate Counsel, with a copy also sent to the Building, attention: Facility Manager, if mailed subsequent to Tenant's taking possession of the demised premises, or (iii) at any place where Tenant or any agent or employee of Tenant may be found if mailed subsequent to Tenant's vacating, deserting, abandoning or surrendering the demised premises, or (B) to Landlord at Landlord's address set forth in this lease, or (C) addressed to such other address as either Landlord or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Article. Any such bill, statement, notice, demand, request or other communication shall be deemed to have been rendered or given on the date when it shall have been mailed as provided in this Article.

#### **INABILITY TO PERFORM**

36. A. If, by reason of strikes or other labor disputes, fires or other casualty (or reasonable delays in adjustment of insurance), accidents, orders or regulations of any Federal, State, County or Municipal authority, or any other cause beyond Landlord's reasonable control, whether or not such other cause shall be similar in nature to those hereinbefore enumerated, Landlord is unable to furnish or is delayed in furnishing any utility or service required to be furnished by Landlord under the provisions of this lease or any collateral instrument, or is unable to perform or make or is delayed in performing or making any installations, decorations, repairs, alterations, additions or improvements, whether or not required to be performed or made under this lease or under any collateral instrument, or is unable to fulfill or is delayed in fulfilling any of Landlord's other obligations under this lease or any collateral instrument, no such inability or delay shall constitute an actual or constructive eviction, in whole or in part, or impose any liability upon Landlord or its agents by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business, or otherwise, nor shall any such delay or inability to perform on the part of Landlord in any way affect this lease and the obligation of Tenant to pay rent hereunder and to perform all of the other covenants and agreements to be performed by Tenant hereunder.

**INTERRUPTION OF SERVICE**

B. Landlord reserves the right to stop the services of the air conditioning, elevator, escalator, plumbing, electrical or other mechanical systems or facilities in the Building when necessary by reason of accident or emergency, or for repairs, alterations, replacements or improvements which in the judgment of Landlord are desirable or necessary, until such repairs, alterations, replacements or improvements shall have been completed. The exercise of such rights by Landlord shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this lease, or impose any liability upon Landlord or its agents by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business, or otherwise.

**CONDITIONS OF LANDLORD'S LIABILITY**

37. A. Tenant shall not be entitled to claim a constructive eviction from the demised premises unless Tenant shall have first notified Landlord of the condition or conditions giving rise thereto, and if the complaints be justified, unless Landlord shall have failed to remedy such conditions within a reasonable time after receipt of such notice. Except as provided in Article 25 hereof, there shall be no allowance to Tenant for a diminution of rental value and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord, Tenant or others making any repairs, alterations, additions or improvements in or to any portion of the Building or the demised premises, or in or to fixtures, appurtenances, or equipment thereof, and no liability upon Landlord for failure of Landlord or others to make any repairs, alterations, additions or improvements in or to any portion of the Building or of the demised premises, or in or to the fixtures, appurtenances or equipment thereof.

B. Except as otherwise expressly provided in this lease, if Landlord shall be unable to give possession of the demised premises on any date specified for the commencement of the term by reason of the fact that the demised premises have not been sufficiently completed to make same ready for occupancy, or for any other reason, Landlord shall not be subject to any liability for the failure to give possession on said date, nor shall such failure in any way affect the validity of this lease or the obligations of Tenant hereunder. The provisions of this Article are intended to constitute "an express provision to the contrary" within the meaning of Section 223-a of the New York Real Property Law.

**TENANT'S TAKING POSSESSION**

38. A. Tenant by entering into occupancy of the premises shall be conclusively deemed to have agreed that Landlord up to the time of such occupancy has performed all of its obligations hereunder and that the premises were in satisfactory condition as of the date of such occupancy, unless within ten (10) days after such date Tenant shall give written notice to Landlord specifying the respects in which the same were not in such condition.

B. If Tenant shall use or occupy all or any part of the demised premises for the conduct of business prior to the Term Commencement Date, such use or occupancy shall be deemed to be under all of the terms, covenants and conditions of this lease, including the covenant to pay rent for the period from the commencement of said use or occupancy to the Term Commencement Date.

### **ENTIRE AGREEMENT**

39. This lease contains the entire agreement between the parties and all prior negotiations and agreements are merged herein. Neither Landlord nor Landlord's agent or representative has made any representation, or statement, or promise, upon which Tenant has relied regarding any matter or thing relating to the Building, the land allocated to it, (including the parking area) or the demised premises, or any other matter whatsoever, except as is expressly set forth in this lease, including, but without limiting the generality of the foregoing, any statement, representation or promise as to the fitness of the demised premises for any particular use, the services to be rendered to the demised premises or the prospective amount of any item of additional rent. No oral or written statement, representation or promise whatsoever with respect to the foregoing or any other matter made by Landlord, its agents or any broker, whether contained in an affidavit, information circular, or otherwise shall be binding upon the Landlord unless expressly set forth in this lease. No rights, easements or licenses are or shall be acquired by Tenant by implication or otherwise unless expressly set forth in this lease. This lease may not be changed, modified or discharged, in whole or in part, orally, and no executory agreement shall be effective to change, modify or discharge, in whole or in part, this lease or any obligations under this lease, unless such agreement is set forth in a written instrument executed by the party against whom enforcement of the change, modification or discharge is sought. All references in this lease to the consent or approval of Landlord shall be deemed to mean the written consent of Landlord, or the written approval of Landlord, as the case may be, and no consent or approval of Landlord shall be effective for any purpose unless such consent or approval is set forth in a written instrument executed by Landlord.

### **DEFINITIONS**

40. The term "Landlord" as used in this lease means only the owner, or the mortgagee in possession, for the time being of the land and Building (or the owner of a lease of the Building or of the land and Building) of which the demised premises form a part, so that in the event of any sale or other transfer of said land and Building or of said lease, or in the event of a lease of the Building, or of the land and Building, the said Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, and it shall be deemed and construed as a covenant running with the land without further agreement between the parties or their successors in interest, or between the parties and the purchaser or other transferee at any such sale, or the said lessee of the Building, or of the land and Building, provided that the purchaser, transferee or the lessee of the Building assumes and agrees to carry out any and all covenants and obligations of Landlord hereunder. The words "re-enter", "re-entry" and "re-entered" as used in this lease are not restricted to their technical legal meanings. The term "business days" as used in this lease shall exclude Saturdays, (except such portion thereof as is covered by specific hours in Article 6 hereof), Sundays and all days observed by the State and Federal Government as legal holidays.

The terms "person" and "persons" as used in this lease shall be deemed to include natural persons, firms, corporations, associations and any other private or public entities, whether any of the foregoing are acting on their own behalf or in a representative capacity.

**PARTNERSHIP TENANT**

41. If Tenant is a partnership (or is comprised of two (2) or more persons, individually and as co-partners of a partnership) or if Tenant's interest in this lease shall be assigned to a partnership (or to two (2) or more persons, individually and as co-partners of a partnership ) pursuant to Article

21 (any such partnership and such persons being referred to in this Section as "Partnership Tenant"), the following provisions of this Section shall apply to such Partnership Tenant: (a) the liability of each of the parties comprising Partnership Tenant shall be joint and several, and (b) each of the parties comprising Partnership Tenant hereby consents in advance to, and agrees to be bound by, any modifications of this lease which may hereafter be made and by any notices, demands, requests or other communications which may hereafter be given, by Partnership Tenant or by any of the parties comprising Partnership Tenant, and (c) any bills, statements, notices, demands, requests or other communications given or rendered to Partnership Tenant or to any of the parties comprising Partnership Tenant shall be deemed given or rendered to Partnership Tenant and to all such parties and shall be binding upon Partnership Tenant and all such parties, and (d) if Partnership Tenant shall admit new partners, all of such new partners shall, by their admission to Partnership Tenant, be deemed to have assumed performance of all of the terms, covenants and conditions of this lease on Tenant's part to be observed and performed, and (e) Partnership Tenant shall give prompt notice to Landlord of the admission of any such new partners, and upon demand of Landlord, shall cause each such new partner to execute and deliver to Landlord an agreement in form satisfactory to Landlord, wherein each such new partner shall assume performance of all of the terms, covenants and conditions of this lease on Tenant's part to be observed and performed (but neither Landlord's failure to request any such agreement nor the failure of any such new partner to execute or deliver any such agreement to Landlord shall vitiate the provisions of subdivision (d) of this Section).

**SUCCESSORS, ASSIGNS, ETC.**

42. The covenants, conditions and agreements contained in this lease shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, distributees, executors, administrators, successors, and, except as otherwise provided in this lease, their respective assigns.

**APPLICATION OF INSURANCE PROCEEDS, WAIVER OF SUBROGATION**

43. In any case in which Tenant shall be obligated under any provisions of this lease to pay to Landlord any loss, cost, damage, liability or expense suffered or incurred by Landlord, Landlord shall allow to Tenant as an offset against the amount thereof the net proceeds of any insurance collected by Landlord for or on account of such loss, cost, damage liability or expense, provided that the allowance of such offset does not invalidate or prejudice the policy or policies under which such proceeds were payable. In any case in which Landlord shall be obligated under any provisions of this lease to pay to Tenant any loss, cost, damage, liability or expense suffered or incurred by Tenant, Tenant shall allow to Landlord as an offset against the amount thereof the net proceeds of any insurance collected by Tenant for or on account of such loss, cost damage, liability or expense, provided that the allowance of such offset does not invalidate or prejudice the policy or policies under which such proceeds were payable.

**CAPTIONS AND INDEX**

44. The captions and the index at the beginning of the lease, if any, are included only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this lease nor the intent of any provisions thereof.

**RECOVERY FROM LANDLORD**

45. A. Tenant shall look solely to the estate and property of Landlord in the land and building of which the demised premises are a part, for the satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default or breach by Landlord with respect to any of the terms, covenants and/or conditions of the lease to be observed and/or performed by Landlord, and no other property or assets of such Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies. Landlord represents that it owns fee title to the Real Property.

B. With respect to any provision of this lease which provides for Landlord's approval and/or consent, Tenant, in no event, shall be entitled to make, nor shall Tenant make any claim, and Tenant hereby waives any claim, for money damages; nor shall Tenant claim any money damages by way of set-off, counterclaim or defense, based upon any claim or assertion by Tenant that Landlord has unreasonably withheld or unreasonably delayed any such consent or approval.

**BROKER**

46. Tenant represents and warrants to Landlord that Koll Management is the sole broker who brought the demised premises to Tenant's attention and with whom Tenant has negotiated in bringing about this lease.

**RENEWAL OPTION**

47. The Tenant shall have the right, to be exercised as hereinafter provided, to extend the term of this lease for one (1) successive period of five (5) years upon the following terms and conditions:-

A. That at the time of the exercise of such right the Tenant shall not be in default in the performance of any of the terms, covenants or conditions herein contained with respect to a matter as to which notice of default has been given hereunder and which has not been remedied within the time limited in this lease.

B. That at the time of the exercise of such right and at the time of the commencement of any extended period: (i) The Tenant shall not have assigned this lease (except per subsection 21(F) RE: merger, etc.); (ii) the Tenant shall not have underlet any portion of the demised premises; and (iii) the Tenant named in this lease shall be the sole Tenant and occupant of the demised premises.

C. That the extension shall be upon the same terms, covenants and conditions as in this lease provided, except that (i) there will be no further privilege of extension for the term of this lease beyond the period referred to above; (ii) during the extension period the annual rental payable by Tenant to Landlord shall be the amount set forth in Article 3 of this lease as cumulatively increased pursuant to Article 11.B. of this lease throughout the Initial Term thereof ("The Cumulatively Adjusted Additional Base Rent") and the Cumulatively Adjusted Base Rent shall be further increased in accordance with said Article 11.B. on the first day of the renewal term and on each anniversary thereof during the renewal term; and (iii) during the extension period, the base year for determining additional rent under the escalation clause, Article 11 and Schedule C, shall remain unchanged and continue to be the base year established at the commencement of the term of this lease.

D. Notwithstanding anything in this Article contained to the contrary, the Tenant shall not be entitled to any extension, if at the time of the commencement of the extended period the Tenant shall be in default under any of the terms, covenants or conditions of this lease with respect to a matter as to which notice of default has been given hereunder and which has not been remedied within the time limited in this lease, or if this lease shall have terminated prior to the commencement of said period.

E. The Tenant shall exercise its right to the extension of the term of this lease by notifying the Landlord of the Tenant's election to exercise such right at least one (1) year prior to the expiration of the term of this lease. Upon the giving of this notice, this lease shall be deemed extended for the specified period, subject to the provisions of this Article, without execution of any further instrument.

## **SECURITY**

48. Tenant has deposited with Landlord the sum of \$443,619 as security for the faithful performance and observance by Tenant of the terms, provisions and conditions of this lease; it is agreed that in the event Tenant defaults in respect of any of the terms, provisions and conditions of this lease, Landlord may use, apply or retain the whole or any part of the security so deposited to the extent required for the payment of any sum as to which Tenant is in default. In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this lease, the security shall be returned to Tenant after the date fixed at the end of this lease and after delivery of entire possession of the demised premises to Landlord. In the event of a sale of the land and Building or leasing of the Building, Landlord shall have the right to transfer the security to the vendee or lessee and Landlord shall thereupon be released by Tenant from all liability for the return of such security. Tenant covenants that it will not assign or encumber or attempt to assign or encumber the moneys deposited here as security and that neither Landlord nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance. Said Security may be in the form of an irrevocable letter of credit in form, and from a financial institution, reasonably acceptable to Landlord. Landlord shall deposit the security deposit held hereunder in an interest bearing account or instrument(s) mutually agreeable to Landlord and Tenant and shall disburse said interest to Tenant (less an administrative fee equal to 1% of said security per annum) annually during the Demised Term on or about each anniversary of the Term Commencement Date upon Tenant's request therefor. Tenant acknowledges and agrees that it shall not be entitled to any interest on the security deposit if it shall elect to deliver a letter of credit as security as herein provided. Provided that (i) as of the applicable anniversary of the Term Commencement Date, Tenant shall not be in default, after the expiration of any applicable notice and cure period, under any of the terms, provisions, covenants and conditions of this Lease, and (ii) Landlord shall not have theretofore used or applied any portion of the security deposit, as provided herein, then, as of the first (1st) anniversary of the Term Commencement Date, and as of each anniversary of the Term Commencement Date thereafter through and including the fourth (4th) anniversary of the Term Commencement Date (but not thereafter), the amount of the security deposit required hereunder shall be reduced by an amount equal to twenty (20%) of the original amount deposited by Tenant hereunder (after giving effect to any adjustments to such original amount as provided in Article 5 hereof). If, at any time, Landlord shall use or apply any portion of the security deposit, as provided herein, Tenant's rights to further reduce the amount of the security deposit in accordance with the provisions of this Article shall be null and void and of no further force or effect.

## **EXPANSION OPTION**

49. Upon the condition that no Event of Default shall have occurred and be continuing, both at the time of giving of any notice hereinafter mentioned and at the effective date thereof, Tenant shall have the option (the "Additional Space Option") to lease the area in the Building consisting of the balance of the rentable area of the third (3rd) floor of the south wing of the Building (the "Additional Space"), subject to and upon the following terms and conditions:

(A) Tenant acknowledges that Landlord intends to seek a tenant for the Additional Space. Tenant agrees that upon receipt of written notice from Landlord (the "Bona Fide Offer Notice"), that Landlord has identified a bona fide tenant for the Additional Space, Tenant must exercise its Additional Space Option, if at all, by sending the Additional Space Option Notice to Landlord not later than ten (10) business days after Tenant's receipt of the Bona Fide Offer Notice, TIME BEING OF THE ESSENCE WITH RESPECT THERETO. If Tenant shall fail to send the Additional Space Option Notice in a timely manner, the Additional Space Option shall be null and void and of no further force or effect, and Tenant shall have no further option to lease the Additional Space.

(B) Upon receipt of the Additional Space Option Notice, effective as of the date that the Additional Space Work (as hereinafter defined) shall be substantially completed, of which date Landlord shall provide Tenant with not less than ten (10) days' prior written notice (the "Additional Space Commencement Date"), this lease shall be deemed automatically amended to incorporate the Additional Space into the demised premises. The Additional Space shall be leased to Tenant pursuant to all of the same terms and conditions as are applicable to the original demised premises, including base years for escalations under Article 11 hereof, except that: (i) the base annual rent payable with respect to the Additional Space shall be the then payable base annual rent per rentable square foot as is applicable to the original demised premises; (ii) Tenant's proportionate share, for the purpose of Article 11 hereof, shall be increased proportionally to reflect the rentable square footage of the Additional Space; (iii) during the extension period, the annual rental amounts set forth in Article 47 hereof shall be increased proportionally to reflect the rentable square footage of the Additional Space; (iv) the number of parking spaces in the Building Parking Area and the number of directory listings to which Tenant shall be entitled shall be increased proportionally to reflect the rentable square footage of the Additional Space; (v) Landlord shall prepare the Additional Space for Tenant's occupancy in accordance with the provisions of Article 5 and Schedule A hereof (the "Additional Space Work"), except that the amount of Landlord's Contribution with respect to the Additional Space Work shall be equal to the product obtained by multiplying (x) "LC Factor" (as herein defined), by (y) the number of rentable square feet contained in the Additional Space, by (z) the number of calendar months from the Additional Space Commencement Date until the Expiration Date of the initial term of this lease; and (vi) if the Expiration Date of the then current term of this lease shall be less than two years after the Additional Space Commencement Date, the Demised Term shall be extended to be the second anniversary of the Additional Space Commencement Date. As used herein, the term "LC Factor" shall mean an amount equal to the product obtained by dividing the amount of the Landlord's Contribution, as finally determined, payable in connection with Landlord's Initial Construction, by 67,215, and then dividing the resulting product by 60.

(C) If Tenant timely sends the Additional Space Option Notice in accordance with the terms of this Article, the parties shall promptly enter into a lease modification agreement for the Additional Space, incorporating the terms and conditions set forth in this Article, and such other terms and conditions that are consistent with the terms and conditions contained in this lease, but either party's failure to execute and deliver such agreement shall not affect Landlord's and Tenant's rights and obligations hereunder.

(D) Anything contained in this Article 49 to the contrary notwithstanding, Tenant acknowledges and agrees that Tenant's rights under this Article 49 are subject and subordinate to the rights of Interim Services, Inc. ("Interim") under a certain lease between Landlord and Interim covering other space in the Building, and which lease provides, inter alia, that Interim shall have an option to lease the Additional Space, which option shall be superior to Tenant's Additional Space Option set forth herein. If Interim shall elect to lease the Additional Space, Tenant's Additional Space Option contained herein shall be null and void and of no further force or effect, and Tenant shall have no further right or option to lease the Additional Space, nor shall Landlord have any liability to Tenant by reason of Tenant's inability to lease the Additional Space.

#### **MORTGAGEE'S CONSENT**

50. This lease, and Landlord's and Tenant's rights and obligations hereunder, shall be subject to and conditioned upon Landlord obtaining from MONY, MONY's consent to this lease (the "Consent"). Landlord shall send Tenant written notice of such Consent promptly upon Landlord's obtaining same. If Landlord shall be unable to obtain such Consent on or before a date (the "Consent Deadline"), which is not later than ten (10) business days after the date hereof, then either party may cancel this lease by sending written notice thereof to the other, given not later than the date by which the Consent shall be obtained (time being of the essence with respect thereto), whereupon this lease shall be terminated and of no further force or effect without any further liability of either party hereunder.

#### **ROOFTOP USE**

51. Upon the condition that no Event of Default shall have occurred and be continuing, subject to the following provisions of this Article, Landlord grants Tenant the right, in common with Landlord and other tenants of the Building, to install, operate and maintain, at Tenant's expense and risk, a roof top antenna for Tenant's communications and network (the "Rooftop Equipment"), as more fully described in Exhibit 3 annexed hereto, at a location on the roof of the Building to be determined by Landlord (the "Rooftop Premises"):

(A) Tenant shall submit to Landlord for its approval, a full set of engineering plans and specifications for the proposed Rooftop Equipment installation, such approval not to be unreasonably withheld, conditioned or delayed;

(B) Tenant shall make all required conduit or cable connections between Tenant's equipment in the demised premises and the Rooftop Equipment, subject to approval of such connections by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed;

(C) Any Rooftop Equipment installed by Tenant shall be erected so as not to interfere with the operation of any previously erected antenna(e) or other equipment at the Building; Tenant shall, from time to time throughout the Demised Term, make such reasonable modifications and alterations to the Rooftop Equipment as may be reasonably requested by Landlord in order to accommodate the installation, use and maintenance of such other antenna(e) or other equipment on the roof of the Building as Landlord may permit to be hereafter installed and used at the Building for the benefit of Landlord or any other tenants of the Building so as to permit all of such equipment to be operated without interference;

(D) Tenant, its employees, agents and contractors shall, at all reasonable times, have the right to enter or leave the Rooftop Premises for the purpose of maintaining, repairing, servicing and replacing the Rooftop Equipment;

(E) Tenant shall obtain all necessary municipal, state and federal permits and authorizations required to maintain and operate the Rooftop Equipment and pay any charges levied by government agencies which are the result of Tenant having the Rooftop Equipment. Landlord agrees to fully cooperate with Tenant in obtaining all such permits and authorizations, at no cost or expense to Landlord;

(F) Tenant agrees to maintain the Rooftop Equipment and Rooftop Premises in a good state of repair and to save Landlord harmless from any claims, liability or expenses resulting from the erection, maintenance, existence or removal of the Rooftop Equipment, provided that such loss, costs or damages are not due, in whole or in part, to the negligence or willful misconduct of Landlord, its agents, employees or contractors;

(G) At the conclusion of the Demised Term, Tenant shall, at Landlord's option, remove the Rooftop Equipment and surrender and restore the Rooftop Premises to Landlord in substantially as good condition as when entered, except for loss or damages resulting from casualty, condemnation, act of God or ordinary wear and tear;

(H) The liability insurance to be carried by Tenant pursuant to the provisions of this lease shall include coverage for Tenant's activity on the Rooftop Premises; and

(I) Tenant shall, upon Landlord's request, and at Tenant's sole cost, temporarily relocate the Rooftop Equipment as may be reasonably required in connection with Landlord's maintenance and repair of the roof of the Building.

(G) Anything contained in this Article 51 to the contrary notwithstanding, Landlord shall permit Tenant to erect the Rooftop Equipment notwithstanding that Tenant may not have received Zoning Board approval with respect thereto ("ZBA") from the Town of Huntington. If, at any time during the Demised Term, Landlord or Tenant shall be notified by the Town of Huntington that ZBA shall be required for the continued operation of the Rooftop Equipment, Landlord shall use its reasonable efforts to obtain ZBA. If, within six (6) months after Landlord's or Tenant's receipt of such notice, Landlord shall not have obtained either the ZBA or evidence reasonably acceptable to Tenant that the ZBA shall not be required, Tenant may cancel this lease by sending written notice to Landlord not later than (x) ten (10) business days after the expiration of said six (6) month period, or (y) the date ZBA or such evidence shall be obtained. Tenant's cancellation notice shall specify the effective date of such cancellation (the "Early Cancellation Date"), which date shall be the last day of any calendar month occurring not sooner than ninety (90) days after such notice is given, and shall be accompanied by a certified, bank or official check, payable to Landlord, in an amount equal to the sum of (i) the unamortized cost, as of the Early Cancellation Date, of Landlord's Initial Construction paid for by Landlord, (ii) the unamortized cost, as of the Early Cancellation Date, of the brokerage commission being paid to Tenant in connection with this lease, and (iii) an amount equal to three (3) months' rent and additional rent payable hereunder as of the date of Tenant's cancellation notice. The cost of Landlord's Initial Construction and the amount of the brokerage commission shall each be amortized on a straight-line basis over the initial term of this lease, except that if the Early Cancellation Date shall occur during the renewal term hereof, then the brokerage commission payable by Landlord and attributable to such renewal term shall be amortized on a straight-line basis over such renewal term. Upon Tenant's giving the cancellation notice as provided herein, Tenant shall continue to be liable to pay rent and additional rent hereunder through and including the Early Cancellation Date, Tenant shall vacate, quit and surrender the demised premises on or before the Early Cancellation Date as if the Early Cancellation Date were the Expiration Date provided for herein, and neither party shall have any further liability hereunder as of the Early Cancellation Date.

**IN WITNESS WHEREOF**

Landlord and Tenant have respectively signed and sealed this lease as of the day and year first written above.

*Witness for Landlord:*

*/s/Bennett Rechler*

*Witness for Tenant:*

*/s/s/*

*WE'RE ASSOCIATES COMPANY*

*BY: /s/Tony Fromer  
Operating Partner*

*INTERDIGITAL COMMUNICATIONS  
CORPORATION*

*BY: G Lomp, VP*

-----  
*(Signature)*

*GARY LOMP*

-----  
*(Print Name)*

*VP & GM*

-----  
*(Title)*

## Modification of Lease Agreement

Agreement made this 28th day of December, 2000 by and between WE'RE ASSOCIATES COMPANY, a New York partnership with offices at 100 Jericho Quadrangle, Jericho, New York 11753 ("Landlord") and INTERDIGITAL COMMUNICATIONS CORPORATION, with offices located at 781 Third Avenue, King of Prussia, PA 19406 ("Tenant").

W i t n e s s e t h :

Whereas, Landlord and Tenant entered into an Agreement of Lease dated as of November 25, 1996 (the "Lease") covering space in the building known as Two Huntington Quadrangle, Melville, NY (the "Premises"); and

Whereas, Tenant desires to surrender to Landlord, and Landlord desires to take back from Tenant, a portion of the demised premises (the "Surrender Premises") consisting of 11,090 rentable square feet as shown on Exhibit 1 annexed hereto and made a part hereof; and

WHEREAS, Tenant desires to retain and Landlord desires to lease to Tenant the remainder of the demised premises consisting of 56,125 rentable square feet (the "Remainder Premises") as shown on Exhibit 1a annexed hereto and made a part hereof; and

WHEREAS, Landlord and Tenant desire to extend the term of the Lease and to amend the Lease in certain other respects; and

Whereas, the parties hereto desire to amend the Lease as herein set forth.

Now, Therefore, effective as of the later of February 1, 2001 or "substantial completion" of the Remainder Premises as hereinafter defined, (the "Effective Date") the parties hereto agree as follows:

1. Tenant shall quit, vacate and surrender the Surrender Space on or before the Effective Date, provided there is "substantial completion" by the Landlord of the unimproved space on the fourth floor to accommodate the transferal of Tenant's employees from the Surrender Premises and Tenant has a reasonable period of time to move from the Surrender Premises to the unimproved area, which shall be modified and improved by Landlord as provided herein.
2. On the Effective Date, Article "1" of the Lease is amended to provide that the demised premises shall not include the Surrender Premises, but shall only include the Remainder Premises.
3. On the Effective Date, Article "2" of the Lease is amended by changing the Expiration Date from "February 28, 2002" to "February 28, 2007".
4. On the Effective Date, Article "3" of the Lease is deleted in its entirety and replaced as follows:

"RENT"

3. The annual rental rate payable by Tenant shall be \$1,011,933.75. The Tenant agrees to pay in equal monthly installments in advance on the first day of each calendar month during the Demised Term at the office of Landlord, except that Tenant shall pay the first monthly installment on execution hereof. Tenant shall pay the rent as above and as hereinafter provided, without any set off or deduction whatsoever.

5. On the Effective Date, Article "11.A" of the Lease is amended as follows:

a. the percentage "19.009%" in the fourth line thereof is deleted and replaced with the percentage "15.873%"

b. the figure "67,215" in the fifth line thereof is deleted and replaced with the figure "56,125"

6. Article 11.B shall continue to apply to the Remainder Premises. The annual rental rate for the Lease Year commencing January 1, 2002 shall be calculated as follows:

$$(\$1,011,933.75 \times 3.5\%) + 1,011,933.75 = \$1,047,351.43$$

7. Article "47" of the Lease shall continue in full force and effect. Tenant shall have the right, as provided in Article 47, to extend the term of the Lease for one successive period of five (5) years, after the New Expiration Date of February 28, 2007.

8. Article 49 of the Lease shall continue in full force and effect as if February 28, 2007 was the original Expiration Date of the Lease.

9. Landlord shall, at its expense, perform the work and make the alterations, improvements and installations in accordance with the plan mutually agreed upon by the Landlord and Tenant, for the eight thousand (8,000) square feet of the demised premises on the fourth floor, that is currently unimproved, including, but not limited to, a gym, dressing rooms, four showers, offices, conference rooms and other office space, as indicated on said plan (the "Fourth Floor Space"). A copy of said plan is attached hereto, made a part hereof, and numbered Exhibit 2. In addition, Landlord, at its expense, shall reconfigure, alter and improve the new reception area on the fourth floor in accordance with Exhibit 3, which is attached hereto and made a part hereof. Finally, Landlord shall make the alterations, improvements and installations to the current fourth floor area which includes the lab, existing storage and existing conference room areas, which area is marked in red on Exhibit 4, by subdividing the area into at least three separate labs, a new conference room and offices, as agreed, provided further, Landlord shall pay for any reasonable adjustment in area reconfigurations to said area requested by the Tenant prior to commencement of the improvements or installations.

10. Landlord shall, at its expense, repaint the demised premises, using Building standard materials; re-carpet and re-wallcover the areas marked in black on Exhibit 5 which is attached hereto and made a part hereof; replace the water fountains on the third and fourth floors; reconfigure the bathrooms on the third floor so that other tenant(s) on the third floor do not have access to the Remainder Premises; convert the current conference room and office on the third floor to a new shipping room as indicated on Exhibit 6 attached hereto and made a part hereof; reconfigure and improve the conference area and offices in the section on the third floor as provided on Exhibit 7 attached hereto and made a part hereof; improve the elevator lobby area on the third and fourth floors in a manner comparable to the elevator lobby on the first floor; and improve the elevator service in the building by updating the cabs (completed) and replacing electronic control panels and replacing all floor leveling devices (2 elevators are completed, one is currently being worked on).

11. It is expressly agreed that all of the alterations, improvements and installations provided in this Amendment to the Lease Agreement, shall be completed on or before April 1, 2001.

12. If Tenant fails to surrender the Surrender Premises on or before the Effective Date, provided Landlord has completed the new executive area on the fourth floor as provided herein and Tenant has a reasonable period of time to relocate its employees from the third floor to the new Fourth Floor Space, Tenant agrees to indemnify and save harmless Landlord from any and all claims or liability incurred as a result thereof and shall continue to pay rent and additional rent on Surrender Premises up to and including the date of surrender of Surrender Premises.

13. The alterations, improvements and installations provided in this Lease Amendment, shall include, but not be limited to, those listed in Exhibit 8, provided however, if there are any other alterations and/or improvements required which are shown on the plans and are necessary to complete the work indicated herein or to complete the project at a level of workmanship and/or materials at least equivalent to the area currently being leased by Tenant, Landlord shall, at its expense, complete said alterations and improvements in addition to those listed in Exhibit 8. The alterations, improvements; and installations listed in Exhibit 8 shall be provided at Landlord's sole cost and expense even if the cost and expense is in excess of the amount stated in Exhibit 8.

14. Where possible and practical, any improvements previously added to the third floor executive area or any other area by Tenant at its expense (e.g., oak doors, glass partitions, supplemental air conditioning etc.), shall be utilized in the new offices, provided by the Landlord in the Fourth Floor Space, if so requested by Tenant.

15. Tenant represents and warrants to Landlord that no broker other than Corporate National Realty, Inc. has been utilized in the transaction covered hereby and Landlord shall be responsible for the payment of any brokerage fee, if any, due to Corporate National Realty, Inc.

Except as amended hereby, the Lease remains, and shall remain, in full force and effect including base years for escalations pursuant to Article 11.A and B, and each and every term, condition and provision thereof is hereby confirmed, ratified and continued.

In Witness Whereof, the parties hereto have hereunto set their hands and seals the day and year first above written.

**WE'RE ASSOCIATES COMPANY**

By: /s/Bennett Rechler  
-----  
Operating Partner

**INTERDIGITAL COMMUNICATIONS CORPORATION**

By: /s/R.J. Fagan  
-----

(Print Name) Richard J. Fagan  
-----

(Print Title) EVP & CFO

STATE OF PENNSYLVANIA )

:ss.:

COUNTY OF MONTGOMERY)

On the 27 day of December, 2000, before me, the undersigned, a Notary Public in and for said State, personally appeared Richard J. Fagan, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature (s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the agreement.

*/s/Jessica Bickley*

-----

*Notary Public*

STATE OF NY )

: ss.:

COUNTY OF NASSAU )

On the 28th day of Dec., 2000, before me, the undersigned, a Notary Public in and for said State, personally appeared Bennett Rechler, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature (s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the agreement.

*/s/Elizabeth Rose*

-----  
*Notary Public*

## EXHIBIT 21

### SUBSIDIARIES OF INTERDIGITAL

Company -----	Jurisdiction / State of Incorporation -----
Digital Cellular Corporation	Pennsylvania
InterDigital Asia KK	Japan
InterDigital Canada, Ltee.	Delaware
InterDigital Finance Corporation	Delaware
InterDigital Mobilecom, Inc.	New York
InterDigital Technology Corporation	Delaware
InterDigital SE Asia, Ltd.	Pennsylvania
InterDigital Telecom, Inc.	New York
Universal Service Telephone Corp.	Nevada
USTC Supply Corporation	Nevada
USTC World Trade Corporation	Nevada
Wireless Digital Networks, Inc.	Pennsylvania

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

**To InterDigital Communications Corporation:**

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into InterDigital Communication Corp.'s previously filed Registration Statements File No. 333-94553, File No. 33-32888, File No. 33-43253, File No. 33-44689, File No. 33-47388, File No. 33-53388, File No. 33-53660, File No. 33-88248, File No. 33-89920, File No. 33-89922, File No. 33-60711, File No. 33-61021, File No. 333-02345, File No. 333-10521 and File No. 333-56412.

**Arthur Andersen LLP**

Philadelphia, PA  
March 30, 2001

---

**End of Filing**

Powered By  EDGAR  
Online

© 2005 | EDGAR Online, Inc.