INTERDIGITAL INC.

FORM 10-K
(Annual Report)

Filed 03/31/99 for the Period Ending 12/31/98

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)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-11152

INTERDIGITAL COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	23-1882087
(State or other jurisdiction of incorporation or organization)	(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:
Common Stock, Par Value $.01 Per Share
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:
$2.50 Cumulative Convertible Preferred Stock,
Par Value $.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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, 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. [ ]

On March 5, 1999 the aggregate market value of the Registrant's Common Stock, $.01 par value, held by non-affiliates of the Registrant was approximately $235,328,233.

On March 5, there were 48,474,381 shares of the Registrant's Common Stock, $.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 1999 are incorporated by reference into Items 10 through 12 hereof.

PART I

Item 1. BUSINESS

General. InterDigital Communications Corporation ("InterDigital"), a public corporation incorporated in the Commonwealth of Pennsylvania, develops technology for advanced digital wireless telecommunications applications. In conjunction with its technology development, InterDigital has developed specific products incorporating its proprietary technologies for market and sale. InterDigital has also developed an extensive body of technical know-how and a broad patent portfolio related to those technologies and related product embodiments. InterDigital offers its customers, licensees and companies with which it has strategic relationships what it believes is unique access to both Time Division Multiple Access ("TDMA") and wide band Code Division Multiple Access ("CDMA") proprietary and standards compliant digital wireless technology.

Since its inception, InterDigital has expended substantial sums to develop its patented technologies, establish and continuously upgrade the patent portfolio owned by InterDigital Technology Corporation ("ITC"), a wholly-owned subsidiary, develop and commercialize products delivering the advantages afforded by its technologies, and establish a market for those products. InterDigital had an accumulated deficit of approximately $160 million as of December 31, 1998.

Strategy. InterDigital's strategic objective is to grow as a leading-edge provider of communications technology. InterDigital believes achieving that position will enable it to deliver sustainable earnings growth through a combination of revenues from strategic engineering relationships, product sales, licensing and alliances.

B-CDMA Alliance (TM) Program. The Company's current B-CDMA Alliance program relates to its proprietary Broadband Code Division Multiple Access(TM) ("B-CDMA(TM)") air interface technology, InterDigital's trademarked brand of wide band CDMA technology. Under the B-CDMA Alliance program, InterDigital seeks to establish strategic relationships with key companies in the telecommunications industry, with the objectives to (i) spread the commercialization of products based on its technologies, (ii) generate licensing revenues through the product sales involving its licensed technologies and the marketing activities of InterDigital's B-CDMA Alliance partners and licensees, and (iii) continue its development of its B-CDMA technology for a possible range of extended applications such as packet data and Internet access.

In December 1994, InterDigital initiated the B-CDMA Alliance program by entering into an integrated series of agreements with Siemens Aktiengesellschaft ("Siemens") covering UltraPhone(R) system marketing and product development, wide band CDMA technology development, TDMA and CDMA patent licensing and other areas of cooperation. InterDigital entered into its second B-CDMA Alliance with Samsung Electronics Co., Ltd ("Samsung") in February 1996. The Samsung agreements cover B-CDMA technology development, TDMA and CDMA patent licensing, product development, technology transfer and other areas of cooperation. In March 1998, InterDigital entered into its third B-CDMA Alliance with Alcatel Espana ("Alcatel") covering B-CDMA technology development, patent licensing, product development and sales, technology transfer, standards support, and other areas of cooperation.

In February 1999, Siemens withdrew from the current B-CDMA development project. In connection therewith, Alcatel is re-evaluating its role in the B-CDMA development project. (See "- B-CDMA Technology and Product Development - B-CDMA Alliance Partners".)

Strategic Engineering Relationships. In January 1999, InterDigital initiated its effort to create strategic engineering relationships when it entered into an agreement with Nokia Corporation ("Nokia") providing for the development of new technology for third generation wireless communications products designed for high data rate applications, such as Internet access. The agreement also includes royalty bearing TDMA and CDMA patent licenses, which are paid up generally through the project period, and provide a structure for determining the royalty payments thereafter. InterDigital is positioning itself through this arrangement to deliver significant value to companies seeking to develop third generation ("3G") standard compliant technologies and product embodiments. This new relationship supports InterDigital's strategic shift, from a supplier of proprietary, finished systems to a provider of communications technology to the industry as a whole.

Licensing. InterDigital has also sought to capture value from ITC's patent portfolio based upon third party usage of the underlying inventions. In this regard, ITC implemented a comprehensive patent licensing strategy which started in 1993. ITC offers licenses to make, have made, use or sell products incorporating its patented inventions. Together with InterDigital, ITC offers non-exclusive, royalty bearing patent, technology and know-how, and trademark licenses to telecommunications manufacturers that manufacture, use or sell, or intend to manufacture, use or sell, equipment that utilizes InterDigital's extensive portfolio of intellectual property. InterDigital licenses its technologies both to companies with whom it has strategic relationships (including alliance partners) and to other companies. These efforts have lead to patent license agreements with a total of eighteen companies as of December 31, 1998. One licensee has been added in 1999, bringing the total to nineteen as of March 30, 1999. (See, "Technology and Patent Licensing" and Item 3. "Legal Proceedings".)

InterDigital's licensing and alliance programs have resulted in the recognition of $92.5 million, $6.0 million and $28.7 million of licensing, alliance and other strategic partner revenue in 1998, 1997 and 1996, respectively.

Products. InterDigital markets and sells the UltraPhone product, which is a fixed wireless local loop radio telephone system (based on InterDigital's TDMA technology) providing businesses and households access to basic telephone service through a wireless local loop. InterDigital markets the UltraPhone product in selected markets around the world as an optimal solution to rural telecommunications needs. However, in early 1998, InterDigital ceased re-engineering and re-design efforts on this product. During 1998, InterDigital had approximately $4.9 million of sales related to the UltraPhone product, as compared to approximately $43.8 million in 1997.

InterDigital and its B-CDMA Alliance partners have also started to market wireless local loop radio telephone systems based on InterDigital's B-CDMA technology. Field trials of these systems are in progress. InterDigital's B-CDMA product is known as the TrueLink(TM) product. InterDigital plans to sell TrueLink components, including ASICs (Application Specific Integrated Circuits). During 1998, InterDigital had approximately $1.9 million of sales related to InterDigital's TrueLink(TM) product, including service revenues to Samsung and ASICs and other components sold to Siemens for its integration into pre-production products.

Risks. InterDigital's strategy is forward looking in nature and, as such, is inherently subject to risks and uncertainties. The successful commercial development and deployment of InterDigital's technologies and products based on those technologies, engineering-based partnerships and projects, the development of sustainable earnings growth, and the receipt of revenues are dependent upon many factors, some of which are detailed elsewhere in this Form 10-K, such as technological achievement, the continued validation of the theories upon which the new technology is being designed, the world market for those technologies and products, the effect of the Siemens withdrawal, Samsung's continued participation in the B-CDMA Alliance and in B-CDMA product develeopment and sales, the outcome of Alcatel's re-evaluation of its commitment to the B-CDMA Alliance, the fulfillment of InterDigital's expectations by companies with whom it has a strategic relationship, the continued validity of InterDigital's patents, the continued availability of debt, equity, alliance partner or other strategic relationship funding sufficient to support an increasing level of efforts over several years and, ultimately, market acceptance of the resultant products. Other factors which could cause actual results to differ materially from those which InterDigital seeks to achieve are detailed elsewhere in this "Business" section and in "Management's Discussion and Analysis of Financial Position and Results of Operations - Overview and Statement Pursuant to the Private Securities Litigation Reform Act of 1995".

B-CDMA Technology and Product Development

General. InterDigital, together with its B-CDMA Alliance partners, have been developing products embodying InterDigital's B-CDMA technology, InterDigital's particular embodiment of wide band CDMA air interface technology. The initial phases of the development effort have been oriented towards commercial deployment of wireless local loop products with performance and cost characteristics applicable to a market segment distinct from InterDigital's UltraPhone system. These applications include urban and suburban deployment in both developed and developing countries of systems providing high quality voice, high-speed data transfer and multi-media capabilities. InterDigital expects that its B-CDMA technology could be developed for a possible range of extended applications.

InterDigital has applied its proprietary B-CDMA technology in the architecture of its TrueLink wireless local loop product. Unlike conventional multiple access systems which utilize radio sharing techniques based on division of available bandwith into narrow channels and/or time slots, B-CDMA technology distributes multiple, simultaneous conversations and/or data transmissions across a broad segment of radio spectrum. The TrueLink product is designed to provide subscribers with the capability to access to the public switched telephone network on demand for voice, data, facsimile, ISDN, and video/multimedia services.

The TrueLink system implements a transparent wireless infrastructure which offers telecommunications services in a point-to-multipoint network. It consists of four major network elements: the radio carrier station ("RCS"), the remote network terminal ("RNT"), the radio distribution unit ("RDU"), and the Access Integrator ("AI"). The RCS, the functional base station, connects to the public switched telephone network through either the RDU or the local telephone company's central office via terrestrial links. The RCS transmits to the RNT, which is located on the subscribers' premises and provides the subscriber line interface to telephone equipment. The RCS transmission to the RNT replaces the traditional wireline. Finally, the AI provides administrative and maintenance functions for the system. The TrueLink system is particularly suited for urban and suburban environments.

B-CDMA Alliance Partners. As of December 31, 1998, InterDigital's B-CDMA Alliance partners included Siemens, Samsung, and Alcatel. In February 1999, Siemens, as a result of a corporate realignment in its business, notified InterDigital that Siemens was withdrawing from the current B-CDMA development project. As part of the B-CMDA project, Siemens performed or was to perform a variety of tasks, including without limitation the development of a radio, system test and the manufacture of certain prototype and finished product. InterDigital and Siemens are in the process of negotiating Siemens withdrawal from the project. However, InterDigital can give no assurance that it will receive the assistance it requires or that the withdrawal can be affected without a material impact on InterDigital's resource requirements related to the project or on the project as a whole. InterDigital did not have any revenues relative to the Siemens agreement in 1998 and does not believe that Siemens withdrawal, on its own, will materially affect InterDigital's 1999 revenues.

Since the Siemens announcement, Alcatel has begun to re-evaluate its commitment to the B-CDMA development project. Alcatel's decision to continue or not continue with the project may be affected by, among other factors, the schedule for delivery of products and additional costs and resource allocation stemming from the Siemens withdrawal. Alcatel's continuing commitment to the project will likely result in a restructuring of the existing contractual relationship, including provisions concerning resource allocation and milestone related payments. There can be no assurance that Alcatel and InterDigital will agree to continue the development effort or restructure the contract. If Alcatel does not continue to participate in the current B-CDMA development effort on terms acceptable to InterDigital, InterDigital may re-evaluate its resource commitment to the development project. A withdrawal by Alcatel would not affect currently projected 1999 revenues. However, this action would change InterDigital's business prospects with regard to B-CDMA products, at least as currently envisioned, and could negatively impact InterDigital's revenues beyond 1999, including revenues anticipated from licensing and product sales.

In addition, from time to time companies re-evaluate strategies relative to their development projects. InterDigital believes that, as is customary in any such re-evaluation process, various projects being undertaken by Samsung, including Samsung's development and commercialization of B-CDMA products based on B-CDMA technology, could be impacted in the future if such projects do not show the potential for producing acceptable profits or suitable market growth. Because Samsung is not currently making further contributions to the InterDigital B-CDMA development project, any decision by Samsung to discontinue its B-CDMA products would not require InterDigital to commit additional resources to the current B-CDMA development project. In addition, a withdrawal by Samsung would not affect currently projected 1999 revenues. However, as with any B-CDMA Alliance partner withdrawal from the B-CDMA program, a withdrawal by Samsung could negatively impact future revenues that InterDigital was anticipating to derive (in the form of royalties) from the sales of B-CDMA products by Samsung.

Competition. A number of companies, many of which are substantially larger and have substantially greater financial, technical, marketing and other resources than InterDigital, sell or may introduce products which will be competitive with InterDigital's (and its B-CDMA Alliance partners') B-CDMA products. In addition, in situations where a potential customer's needs for local loop services favors deployment of wireless technologies, there are many existing and announced terrestrial and satellite -based delivery systems that may be considered. Other manufacturers offer competitive analog and digital wireless local loop systems. Fixed analog and digital cellular systems are also offered to provide service in the local loop. Competitive CDMA technologies are currently being deployed as wireless local loop and cellular applications. At least one company is offering add-on modules which are promoted as having the capability of converting cellular systems into wireless local loop systems. InterDigital believes that, if it and its alliance partners can enter the market ahead of certain of its competitors, its competitive position will be enhanced. While InterDigital believes that its development efforts are likely to give it and its alliance partners this competitive advantage, there can be no assurance that InterDigital will be able to accomplish its goal, either by maintaining its commercialization schedule or otherwise. Some competitors may be further along in their development efforts than InterDigital is fully aware. Finally, if Alcatel withdraws from the current B-CDMA development project and, as a result, InterDigital reduces its investment in that project, InterDigital's TrueLink system would have difficulty competing in the marketplace since the current development project involves re-engineering for cost-effectiveness. An inability or perceived inability to compete on a price or other basis may result in a decision by InterDigital to discontinue or limit this product line.

Even in that competitive environment, however, InterDigital believes that its B-CDMA technology has several advantages as compared to other currently available or developing digital wireless technologies in these applications:

o Robust Radio Signal. The B-CDMA radio signal is expected to have extremely high immunity to interference and multipath fading because the radio signal is spread over a larger bandwidth than that utilized by other technologies. In addition, the advanced digital signal processing techniques employed in InterDigital's B-CDMA technology implementation are expected to allow a greater portion of a degraded signal to be recovered.

o Simplified Network Planning. InterDigital's B-CDMA technology allows nearly all available radio frequencies to be utilized in each cell site. This simplifies frequency planning and the process of cell site planning and network expansion as compared to other digital wireless technologies.

o Bandwidth on Demand. InterDigital expects that its B-CDMA technology will allow operators to offer services supported by bandwidth on demand to their customers. This means that customers can, through a single air interface, readily access a full range of services ranging from basic telephony to ISDN.

o System Design Flexibility. The B-CDMA air interface technology has been designed to allow product implementations capable of utilizing virtually any currently available voice coding technology. (These technologies utilize varying rates of data transfer, which affects service quality and system capacity). This is expected to allow product developers and operators the ability to balance the competing demands of system capacity and service quality. InterDigital expects that systems utilizing its B-CDMA technology will have higher capacity capabilities at comparable service quality levels as compared to systems utilizing other technologies.

o Privacy. InterDigital believes that CDMA technologies (both broadband and narrowband) allow more secure transmission than other wireless technologies currently available, making intentional or accidental eavesdropping extremely difficult with commercially available technology.

B-CDMA Technology, Business Strategy and Market. Although the wireless local loop market has not generated the rapid growth predicted by market analysts, InterDigital believes that this market continues to offer revenue opportunities. InterDigital expects that B-CDMA products will be deployed in urban and suburban settings, in commercial and residential applications, for voice, data, facsimile, ISDN, and video/multimedia services, primarily through one of its B-CDMA Alliance partners. InterDigital expects that the B-CDMA product will compete with many of the products with which the UltraPhone product has competed (see "- The UltraPhone System - Competition and Market") and against other current and future products, some of which purport to offer many of the advantages of InterDigital's B-CDMA technology. InterDigital believes that demand will be highest in developing countries which are planning significant infrastructure development and where significant numbers of persons are not presently served or are served by antiquated systems, or in any areas in developed or developing countries where the demographics do not justify investments in cellular infrastructure. InterDigital also expects that there will be demand for such products in developed countries where there is a growing demand for advanced services, in particular high data rate transmission capability. InterDigital intends to position itself as a provider of B-CDMA components, primarily for its partners. InterDigital also intends to pursue additional B-CDMA technology- based strategic relationships with the objectives of incorporating B-CDMA ASIC's and other components into partners' systems, or manufacturing TrueLink by those partners for distribution and sale by those partners. There can be no assurance that InterDigital will be able to form any such strategic relationships.

Backlog. InterDigital had no orders on backlog for the TrueLink product at December 31, 1998. To the extent orders are received during 1999, back orders are not expected to substantially affect the Company's 1999 operating results.

Production of Proprietary Products. InterDigital and Siemens had provided contractually for the manufacture of InterDigital's TrueLink(TM) wireless local loop product by Siemens. InterDigital does not have any other agreements in place for the production of the TrueLink(TM) product. As a result of Siemens withdrawal from the current B-CDMA development project, InterDigital does not expect that Siemens will continue to manufacture for InterDigital beyond the near term and, possibly, at all. Samsung is currently evaluating whether or not it desires to become a manufacturer of B-CDMA products for InterDigital. There can be no assurance that, in the future, InterDigital will be able to enter into any agreements for the manufacture of TrueLink or OEM procurement contracts for TrueLink, either at all or on terms acceptable to InterDigital. InterDigital has entered into an agreement with Texas Instruments, Inc. to manufacture InterDigital's new integrated chip based on InterDigital's B-CDMA technology. InterDigital anticipates that, in the future, such chips may be marketed and sold to differing markets by either Texas Instruments or by InterDigital.

Strategic Engineering Services and Product Development

Based upon the core competencies of its engineering group resulting from its research and development work in the TDMA and wide band CDMA arenas dating back to the 1980's time period, InterDigital believes that it is positioned to deliver significant value to companies seeking to develop 3G compliant technologies and product embodiments. In the first of such arrangements, InterDigital and Nokia entered into a strategic technology development agreement in January 1999 covering the development of new technology for 3G wireless communications products designed for high data rate applications, such as Internet access. The agreement provides that InterDigital is to deliver technology building blocks for Nokia to use in 3G wireless products. The agreement 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. InterDigital is to 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 that technology. The Company continues to approach other major telecommunication companies with the objective of structuring strategic engineering services relationships, particularly within the 3G market.

As of March 1, 1999, InterDigital employed approximately 135 people whose primary responsibilities are B-CDMA and 3G technology development, and additionally utilizes the efforts of outside engineering resources and engineering contributions from companies with whom it has strategic relationships. Further development of InterDigital's technologies may require additional technical and administrative support, as well as additional marketing resources and higher levels of sustained efforts for the next several years. In addition, if InterDigital were to restructure the current B-CDMA development project in a manner that requires it to make additional commitments, InterDigital could require significant additional engineering resources. The recruitment of personnel with technical expertise in wireless communications technology development is highly selective and competitive. In addition to recruiting high quality engineers, InterDigital intends to attempt to satisfy its increasing need for engineering resources through, among other things, consulting services and further strategic relationships. The failure to attract and retain highly qualified personnel could interfere with InterDigital's technology and product development efforts.

InterDigital has expensed $17.2 million, $24.2 million and $21.6 million during 1998, 1997 and 1996, respectively, related to all of its research and development efforts for both TDMA and B-CDMA based product development.

Technology and Patent Licensing

General. InterDigital's patents, patent applications and rights to file patent applications on certain future inventions are owned by ITC. ITC currently holds approximately 123 United States and approximately 331 non-U.S. patents relating specifically to digital wireless radiotelephony technology (TDMA and/or CDMA) which expire at various times beginning in 2004 and ending in 2019. ITC also has approximately 15 other patents, both in the United States and in non-U.S. countries. ITC has also filed approximately 61 United States and approximately 238 non-U.S. patent applications relating primarily and variously to the CDMA and TDMA technologies. ITC's patents have effective terms of up to 20 years from the date of their first filing.

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. If any third party successfully asserts that certain of InterDigital's patent claims are not valid or do not cover their products, InterDigital's licensing potential and revenues could be adversely affected. In addition, in the normal course of business, third parties have asserted, and may assert in the future, that InterDigital is engaged in the infringing use of a third party's patents or proprietary technology. If any such third party successfully asserts that InterDigital is engaged in any such infringing use, InterDigital may be required to contest the validity of such patents or proprietary technology, to acquire licenses to use the patented or proprietary technology and/or to redesign InterDigital's products to avoid further infringement. The cost of enforcing and protecting the patent portfolio or defending InterDigital against infringement claims can be significant.

Patent Licensing Activities. ITC has undertaken a comprehensive licensing program, the ultimate objective of which is the realization of licensing revenues from third party use of inventions underlying its patent portfolio. ITC generally seeks to license its patents on reasonable terms and conditions, including reasonable royalty rates. ITC believes that making its patented digital wireless technologies available to third parties will provide a potentially significant source of revenue. In 1990, the initial digital cellular telephone standard known as IS-54 employing TDMA technology was jointly adopted by the Telecommunications Industry Association ("TIA") and Electronics Industry Association ("EIA") as an interim standard. 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 the TIA/EIA/IS- 54-B Cellular System Dual-Mode Mobile Station-Base Station Compatibility Standard (the "IS-54-B Standard") and the 800 MHz Cellular System, TDMA Radio Interface, Dual-Mode Mobile Station - Base Station Compatibility Standard (the "IS-136 Standard"). In addition, InterDigital believes that in many instances licenses under its patents are required in order for third parties to manufacture and sell equipment in compliance with certain other TDMA-based standards currently in use worldwide. Those standards include but are not limited to the Global System for Mobile Communication, the Japanese Digital Cellular Standard, Digital Enhanced Cordless Telephone and Personal Handyphone System. Currently, numerous manufacturers supply digital cellular equipment conforming to such standards.

At December 31, 1998, ITC had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain TDMA patents (and in certain instances, technology) to Hughes Network

Systems ("HNS"), American Telephone & Telegraph Company, Siemens, Matsushita Electric Industrial Co. Ltd., Sanyo Electric Co., Ltd., Pacific Communications Systems Inc., Mitsubishi Electric Corporation, Hitachi Ltd., Kokusai Electric Co., NEC Corporation, OKI Electric Industry Ltd. ("OKI"), Samsung, Sharp Corporation, Kyocera Corporation, Denso Corporation and Toshiba Corporation. The OKI agreement was the result of a settlement of litigation filed by ITC in 1993. Certain licenses typically contain "most favored nations" provisions, applied on a going forward basis only, and provisions which could, in certain events, cause the licensee's obligation to pay royalties to InterDigital to be suspended for an indefinite period, with or without the accrual of the royalty obligation. Certain of InterDigital's licensees had, in the past, stated, among other things, that the outcome of a prior litigation over ITC's patents materially impacts the royalties due under their license agreements. While InterDigital believes that these positions, to the diminishing extent that they continue to be asserted, are meritless, the positions taken by ITC's licensees may impact ITC's ability to secure new licenses or to generate recurring licensing revenue under the existing agreements. ITC's licensing opportunities are also affected by the increasing concentration of the 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.

At December 31, 1998, ITC had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain CDMA patents (and in certain instances, technology) to Siemens, Samsung, Alcatel and Qualcomm Incorporated ("Qualcomm"), and a limited, non-exclusive, non-transferable, royalty-bearing license to Advanced Digital Technologies. One of these licenses involved a CDMA cross-license agreement with Qualcomm, entered into in 1994 in settlement of litigation filed in 1993. In return for a one-time payment of $5.5 million, ITC granted to Qualcomm a fully-paid, worldwide license to use and sublicense certain specified and then existing (but excluding defined after-filed and/or granted) ITC CDMA patents (including related divisional and continuation patents) to make and sell products for IS-95-type wireless applications, including, but not limited to, cellular, PCS, wireless local loop and satellite applications. Qualcomm has the right to sublicense certain of ITC's licensed CDMA patents so that Qualcomm's licensees will be free to manufacture and sell IS-95-type CDMA products without requiring any payment to ITC. Neither ITC's patents concerning cellular overlay and interference cancellation nor its current inventions are licensed to Qualcomm. Under the settlement, Qualcomm granted to InterDigital a royalty-free license to use and to sublicense the patent that Qualcomm had asserted against InterDigital and a royalty-bearing license to use certain Qualcomm CDMA patents in InterDigital's B-CDMA products, if needed. InterDigital does not believe that it will be necessary to use any of such royalty-bearing or non-licensed Qualcomm patents in its B-CDMA system. In addition, Qualcomm agreed, subject to certain restrictions, to license certain CDMA patents on a royalty bearing basis to those InterDigital customers that desire to use Qualcomm's patents. The license to InterDigital does not apply to IS-95-type systems, or to satellite systems. Certain of Qualcomm's patents, relating to key IS-95 features such as soft and softer hand-off, variable rate vocoding, and orthogonal (Walsh) coding, are not licensed to InterDigital. The license to Advanced Digital Technologies was entered into as a part of the spin-off of InterDigital's government contracting business in 1996. This license is limited in its field of use to CDMA technology on the date of the license.

In 1999, InterDigital entered into royalty bearing TDMA and CDMA patent licenses with Nokia, which are paid up generally through the project period, and provide a structure for determining royalty payments thereafter.

Patent Litigation

Ericsson. In September 1993, ITC filed a patent infringement action against Ericsson GE Mobile Communications, Inc. ("Ericsson GE"), its Swedish parent, Telefonaktieboleget 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 damages, 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 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 amended 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. During the third quarter of 1998, Ericsson Inc. filed a Motion for Partial Summary Judgement, with respect to which InterDigital has replied. The Court has not yet ruled on this Motion. Also during the third quarter, the United States District Court for the Northern District of Texas granted InterDigital's Motion to amend its Counterclaim by adding four additional patents. The litigation is currently in the discovery stage. 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 collection of royalty revenues could be materially and adversely affected.

Patent Oppositions. 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.

The UltraPhone System

General. The UltraPhone telephone system is a digital telecommunications system, based on TDMA technology, which is designed to provide wireless local loop telephone service as an alternative to conventional wireline systems. It offers greater flexibility and ease of installation than conventional wireline-based systems and is designed to provide high transmission quality, capacity and spectrum efficiency to large numbers of users over a broad region. Utilizing InterDigital's patented TDMA and other proprietary technologies, the UltraPhone telephone system enables its users, which have historically consisted primarily of local Telephone Operating Companies ("TELCOs"), to offer communication services in places where the cost of, or time required for, installing, maintaining or upgrading conventional wireline telephone service supports selection of the UltraPhone system. For these reasons, the UltraPhone telephone system is particularly well-suited for rural areas of developing countries. Sales of UltraPhone systems accounted for approximately 5%, 86% and 47%, respectively, of the total revenues of InterDigital during 1998, 1997 and 1996. Through December 31, 1998, InterDigital has sold over 356 UltraPhone systems worldwide, with aggregate UltraPhone product revenue totaling over $210 million.

The UltraPhone system consists of an advanced digital radio central network station serving individual or clustered subscriber units omni-directionally covering a radius of up to approximately 40 miles from the Base Station (depending upon the terrain). InterDigital has also developed a rapidly deployable and transportable version of the fixed UltraPhone Base Station which is designed to provide high quality and private telephone communications in cases of natural disaster, tactical military situations, emergencies and other temporary circumstances.

Competition and Market. The UltraPhone product competes with wireline and wireless systems which provide basic telephone service in developing nations. It has competed with many of the products that InterDigital expects its TrueLink product to compete with. (See "- B-CDMA Technology and Product Development - Competition"). The UltraPhone system has been deployed in applications ranging from remote rural to dense urban areas, but is generally utilized and differentiates itself from competitive products by generally being more cost effective in rural applications where its service features are required. Other technologies, including wireline based systems and wireless systems with smaller service areas than the UltraPhone system, are generally more cost effective and may provide more advanced features in dense urban applications where the UltraPhone system is not typically marketed. Microwave-based wireless systems with larger service areas than the UltraPhone system and which have data transfer capability up to 64 Kilobits per second, are generally more cost effective than the UltraPhone system in more remote rural applications where the UltraPhone system is also not typically marketed.

Intense price competition exists in the market in which the UltraPhone system competes. Historically, InterDigital has marketed the UltraPhone system at sales prices which generated little, if any, margin. Absent significant cost reduction, which would require substantial additional engineering investment, margins are not expected to improve. In early 1998, the Company made a strategic decision to cease re-engineering and re-design efforts on the UltraPhone system. Accordingly, the Company does not expect improvements in margins from sales of the UltraPhone product. In addition, InterDigital expects that its ability to generate profitable UltraPhone sales will continue to be hampered by the world-wide economic uncertainties, which InterDigital believes has affected its customers and potential customers ability to undertake costly infrastructure projects. On the other hand, the UltraPhone system offers its potential customers a proven product which demonstrates reliability and high quality.

UltraPhone Business Strategy. InterDigital believes that the UltraPhone product can be competitive in selected markets around the world, and intends to concentrate on those niche opportunities where the potential exists to win profitable contracts. InterDigital also intends to continue to service, but not emphasize, the United States market to the extent that the UltraPhone system meets specified requirements.

Backlog. At December 1998, InterDigital's backlog of orders for UltraPhone telephone equipment and services was approximately $1.0 million. There were no significant orders in backlog at December 31, 1997.

Production. InterDigital assembles, integrates and tests the UltraPhone Subscribers and Base Stations using component parts manufactured by various suppliers to InterDigital's specifications. In most, but not all instances, component parts could be purchased from several different sources. Should InterDigital's relationship with most of its suppliers cease in the future, InterDigital believes that alternative sources of the various component parts are available, although such an event would likely have an adverse impact on shipments to its customers and support activities. In certain instances, however, critical component parts for the UltraPhone system are purchased from single sources thereby making InterDigital dependent upon those sources. Given InterDigital's decision to eliminate spending on re-engineering and re-design of the UltraPhone product, if select components were to become unavailable, InterDigital would have to evaluate whether the then current market for the UltraPhone product would warrant the investment necessary to establish another source. If InterDigital were to determine the investment was not warranted and there was no other source of supply, the sales of UltraPhone could cease or be curtailed. InterDigital has also entered into a technology transfer agreement under which Samsung is licensed to produce UltraPhone systems and may thereby become a potential supplier to InterDigital.

Technical and Quality Standards and Market Acceptance. The UltraPhone system is required to meet conditions promulgated by international, domestic or regional organizations or financing agencies, and to comply with country-specific type acceptance or certification standards. An organization jointly owned by the Bell regional holding companies develops and publishes compliance standards which have been adopted as either compulsory or elective benchmarks by the Bell regional holding companies and other United States TELCOs. In addition to these and additional organization recommendations and technical or acceptance standards which may be applicable, an international set of quality standards has been promulgated, generally for future implementation, by the International Standardization Organization. InterDigital has, in the past, been able to comply with all technical and acceptance standards necessary to consummate its sales contracts, including ISO-9001 certification.

Product Sales

Sales by Geographic Area. Product revenues by geographic area are as follows (in thousands):

	Year Ended December 31,		
	1998	1997	1996
U.S.	$ 911	$ 1,253	$ 1,958
Non-U.S.	5,840	42,601	23,016
	$6,751	$43,854	$24,974

Major Customers. During 1998, InterDigital's revenue related to B-CDMA components totaled approximately $1.9 million. Also, during 1998, Myanma Posts and Telecommunications notified InterDigital that it wishes to terminate its contract with InterDigital due to financing difficulties. In 1997, InterDigital's Indonesian and Philippine customers represented 75% and 7% of total product revenues, respectively. All of such customer sales represented sales of the UltraPhone product. During 1997, InterDigital began shipping prototype units of the TrueLink product and shipped a total of approximately $1.1 million of that product to Siemens. During 1996, InterDigital's Philippine customer (Philippine Long Distance Telephone Company) and its Indonesian customer accounted for 56% and 16% of product revenues, respectively.

Technical Standards

InterDigital is active in the ongoing standards setting process for third generation mobile products and wireless local loop products sponsored by certain standards setting bodies. Working on its own and with its strategic partners, InterDigital is proposing standards which incorporate elements of its technologies. These are being proposed in the U.S. and internationally and include technology building blocks built into InterDigital's B-CDMA technology, plus extension of that technology for third and fourth generation applications. InterDigital also hopes, through one or more of its B-CDMA Alliance partners, to establish the critical mass which would allow B-CDMA technology to be considered a defacto standard, where appropriate. In addition, InterDigital is proposing standards based on new technology it is developing for Nokia. InterDigital generally has designed and builds UltraPhone equipment, and intends to design and have built TrueLink system components, in accordance with such industry regulations and standards as may be appropriate.

Government Regulation

The telecommunications industry in general is subject to continued regulation on the federal, state and international levels. The sale of telecommunications equipment, such as the UltraPhone telephone system, is regulated in the United States and in many other countries, primarily to ensure compliance with federal technical standards for interconnection, radio emissions and non-interference (i.e. type acceptance of a particular product).

Employees

As of March 1, 1999, InterDigital had approximately 215 full-time employees. In addition, the services of consultants and part-time employees are utilized. None of InterDigital's 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	5
Customer Support	13
Manufacturing	13
Research and Development	135
Patent Licensing	8
Corporate and Administration	41
Total	215

Executive Officers of InterDigital

The Executive Officers of InterDigital are:

Name	Age	Position
Willaim A. Doyle	49	President and Director
Howard E. Goldberg	53	Executive Vice President - Stategic Alliance and President of InterDigital Patents Corporation ("Patents Corp.")
Joseph Gifford	53	Executive Vice President - Business Development
Mark Lemmo	41	Executive Vice President - Engineering & Product Operations
Gary Lomp	41	Executive Vice President and Chief Technology Officer
Charles "Rip" Tilden	45	Executive Vice President - Communications, Investor Relations and Strategic Planning
Richard J. Fagan	42	Senior Vice President and Chief Financial Officer
William J. Merritt	40	Senior Vice President, General Counsel and Secretary

William A. Doyle, a director of InterDigital since May 1996, has served as President of InterDigital since November 1994. Previously, Mr. Doyle had been Executive Vice President and Chief Administrative Officer from February 1994 to November 1994 and Vice President from March 1991 to February 1994. He also served as InterDigital's General Counsel and Secretary from March 1991 to December 1994.

Howard E. Goldberg was promoted to President of InterDigital Patents Corporation in October, 1998, while still retaining his title as Executive Vice President-Strategic Alliance of InterDigital. Prior to that, he also held the positions of General Counsel and Secretary from May 1995 to October 1998. Mr. Goldberg served as Vice President, General Counsel and Secretary from December 1994 to May 1995. He served as a lawyer in various consulting and full time employment capacities prior to that from April 1993, including the position of Vice President - Legal Affairs and Associate General Counsel.

Joseph Gifford was appointed Executive Vice President, Business Development in April 1997. Prior to joining InterDigital Communications Corporation, Mr. Gifford was an executive at Motorola, Inc. from August 1993 to April 1997, where he was responsible for business development in the Wireless Access Systems Division.

Mark Lemmo was promoted to Executive Vice President, Engineering & Product Operations in October 1996. Previously, Mr. Lemmo had been Vice President-Sales and Marketing since June 1994 and Vice President of Engineering from August 1991 to June 1994.

Gary Lomp was named Executive Vice President and Chief Technology Officer in June 1998. He served in various capacities as a Vice President relating to InterDigital's B-CDMA research and development efforts from October 1992, when he joined InterDigital as part of the acquisition of SCS Telecom and SCS Mobilecom, through June 1998.

Charles "Rip" Tilden was named Executive Vice President - Communications, Investor Relations and Strategic Planning of InterDigital in March 1998. Prior to that, he held the positions of 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, PA, an office products and paper distribution company, since December 1994. Before moving to Alco Standard, Mr. Tilden was Vice President, Communications for GenCorp in Akron, OH, an aerospace defense, automotive and polymer products company from 1988 to 1994.

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

William J. Merritt was promoted to Senior Vice President, General Counsel and Secretary in October 1998. Prior to that, he served in the capacity of Vice President - Legal and Assistant Secretary since January 1996. Prior to joining InterDigital, from 1987 to 1996, Mr. Merritt held a variety of positions in the Legal Department for Long Island Lighting Company, a New York electric and gas utility company, the last of which was Assistant General Counsel responsible for all company litigation and corporate matters. Mr. Merritt was also General Counsel to that company's power plant operation subsidiary, Dynamic Energy Services Corporation, since 1995.

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, with the exception of Mr. Lomp, are parties to agreements which provide severance pay benefits, among other things, in certain events of termination of employment. Certain of these 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 certain 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 and the immediate vesting of all stock options.

Item 2. PROPERTIES

InterDigital owns one facility, subject to a mortgage, with an aggregate of approximately 50,000 square feet of office, development, warehousing and assembly facilities in King of Prussia, Pennsylvania. (See Note 11.) In December 1996, InterDigital entered into a five year lease for approximately 67,000 square feet of office and development facilities in Melville, New York. This facility is the primary location for the majority of InterDigital's B-CDMA development activities. (See Note 10.)

Item 3. LEGAL PROCEEDINGS

InterDigital is both plaintiff and defendant in certain litigation relating to its patents. (See Item 1. "Business-Technology and Patent Licensing" of this Form 10-K.)

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 InterDigital.

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

None.

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.

1998	High	Low
First Quarter	6 3/16	2 9/16
Second Quarter	7 7/16	5 3/16
Third Quarter	5 7/8	2 11/16
Fourth Quarter	6 7/8	3

1997	High	Low
First Quarter	7 7/16	5 1/4
Second Quarter	6 15/16	4 1/2
Third Quarter	6 5/16	4 15/16
Fourth Quarter	5 9/16	2 13/16

As of March 5, 1999, there were approximately 2,298 holders of record of InterDigital's Common Stock.

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

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The information set forth below should be read in conjunction with the Consolidated Financial Statements and notes thereto, and the other financial information included elsewhere in this Form 10-K, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein.

	1998	1997	1996	1995	1994
Consolidated Statement of Operations Data (in thousands, except per share data)					
Revenues:					
Product and Services	$ 6,751	$ 43,854	$ 24,974	$ 16,581	$ 20,086
Licensing and Strategic Partner	92,470	5,982	28,719	67,693	28,709
Contract services	--	--	--	681	1,171
Total revenues	99,221	49,836	53,693	84,955	49,966
Income (loss) from continuing operations	36,968	(34,267)	(11,644)	34,605	(13,753)
Discontinued operations	--	--	--	--	(295)
Net income (loss) before preferred dividends	36,968	(34,267)	(11,644)	34,605	(14,048)
Net income (loss) applicable to common shareholders	$ 36,713	$(34,523)	$(11,904)	$ 34,340	$(14,330)
Net income (loss) per share -- Basic:					
Continuing Operations	$ 0.76	$ (0.72)	$ (0.26)	$ 0.78	$ (0.37)
Discontinued Operations	--	--	--	--	(0.01)
Net income loss) per share -- Basic	$ 0.76	$ (0.72)	$ (0.26)	$ 0.78	$ (0.38)
Weighted Average number of shares outstanding -- Basic	48,380	48,166	46,462	43,925	37,463
Net Income (loss) per share -- Diluted:					
Continuing Operations	$ 0.75	$ (0.72)	$ (0.26)	$ 0.74	$ (0.37)
Discontinued Operations	--	--	--	--	(0.01)
Net Income (loss) per share -- Diluted	$ 0.75	$ (0.72)	$ (0.26)	$ 0.74	$ (0.38)
Weighted average number of shares outstanding -- Diluted	48,771	48,166	46,462	46,503	37,463
Operations and Other Data:					
Number of UltraPhone systems sold	6	66	49	25	34
Number of UltraPhone subscriber stations sold	2,070	23,430	10,764	5,474	8,570
Consolidated Balance Sheet Data (in thousands):					
Cash and cash equivalents	$ 20,059	$ 17,828	$ 11,954	$ 9,427	$ 6,264
Short Term Investments	32,318	7,976	43,063	55,060	--
Working capital	54,752	22,902	57,076	59,008	10,118
Total assets	99,523	69,363	112,636	83,167	43,830
Long-term debt	3,772	4,460	5,011	1,061	753
Accumulated deficit	(160,039)	(196,752)	(162,229)	(150,325)	(184,665)
Total shareholders' equity	75,808	38,505	72,507	62,440	14,872

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 elsewhere in this document.

InterDigital commenced operations in 1972 and until 1987 was primarily engaged in research and development activities related to its TDMA wireless digital communications technology. In 1986, InterDigital introduced the UltraPhone system, a fixed digital wireless local loop telephone system employing its patented and proprietary TDMA technology, which it began installing in 1987. InterDigital's operations from 1987 through 1992 were characterized by increasing revenues accompanied by significant operating losses. During this period, significant costs were incurred related to the commercialization and continued development of the UltraPhone system, development of production sources and capacity, and the implementation of a broad-based sales and marketing effort designed to promote regulatory and market acceptance of the UltraPhone system.

During the mid-1990's InterDigital experienced losses caused by (i) the failure to achieve sufficient sales volumes of UltraPhone systems to cover associated overhead, (ii) substantial investments in UltraPhone product redesigns and enhancements, (iii) substantial investment in B-CDMA research and development, and (iv) significant litigation costs associated with enforcement of InterDigital Technology Corporation's ("ITC") intellectual property rights. At the same time that InterDigital was experiencing these losses, it began to realize positive results from its efforts to capitalize upon the revenue potential of its TDMA and CDMA patent portfolio and to align itself with key telecommunication companies. During 1994, 57% of InterDigital's total revenues resulted from licensing revenues, including revenue related to InterDigital's first B-CDMA alliance agreement with Siemens. During 1995, InterDigital reported its first profitable fiscal year since its inception due to licensing and strategic partner revenue. During 1996, InterDigital completed its second major B-CDMA Alliance with Samsung, and licensing and strategic partner revenue constituted 53% of total revenues for the year. However, since licensing and strategic partner revenue had been based upon the receipt of up-front, non-refundable payments pursuant to license and alliance agreements entered into at sporadic intervals, InterDigital's profit and loss status varied from quarter to quarter. In 1997, InterDigital was unprofitable, primarily due to substantially increased investment in the development of its B-CDMA technology. 1997 revenues of $49.8 million included $4.4 million from licensing revenue from its B-CDMA Alliance partners, $1.6 million of recurring royalty fees from one licensee, and $43.8 million from product sales.

In late 1997 and early 1998, the continuing viability of UltraPhone business was further impacted by intensified product and price competition, chiefly due to the introduction into the market of the lower cost Digital Enhanced Cordless Telephone system and by economic uncertainties in Asia. In January 1998, InterDigital restructured its operations to cease all UltraPhone development efforts and de-emphasize related sales efforts to devote its resources to B-CDMA technology and product development. In March 1998, InterDigital entered into its third B-CDMA Alliance, with Alcatel, under which agreement Alcatel agreed, among other things, to pay InterDigital $25 million in technology transfer and services fees over a period of time through 2003. In 1998, InterDigital recognized $4.6 million in revenue related to the Alcatel agreement. During 1998, InterDigital entered into four new TDMA licensing agreements and received revenues under several other licensing agreements. Licensing and strategic partner revenue totaled $92.5 million in 1998. In January 1999, InterDigital entered into a strategic engineering relationship with Nokia involving the development of new technology for 3G products designed for high data rate applications, such as Internet access. This agreement includes royalty bearing TDMA and CDMA patent licenses, which are paid up generally through the project period, and also provides a structure for determining the royalty payments thereafter. InterDigital will recognize $31.5 million in licensing revenue in the first quarter of 1999 related to paid-up royalties from the Nokia Agreement.

In February 1999, Siemens withdrew from InterDigigal's current B-CDMA development project. Following InterDigital's announcement of Siemens withdrawal, Alcatel informed InterDigital that it intends to re-evaluate its participatiaon in the B-CDMA development project and the B-CDMA Alliance and has commenced that re-evaluation. Alcatel's decision to continue or not continue with the project may be affected by, among other factors, the schedule for delivery of products and additional costs and resource allocation stemming from the Siemens withdrawal. Alcatel's continuing commitment to the project will likely result in a restructuring of the existing contractual relationship, including provisions concerning resource allocation and milestone related payments. There can be no assurance that Alcatel and InterDigital will agree to continue the development effort or restructure the contract. If Alcatel does not continue to participate in the current B-CDMA development effort on terms acceptable to Interdigital, InterDigital may re-evaluate its resource commitment to the development project. A withdrawal by Alcatel would not affect currently projected 1999 revenues. However, this action would change InterDigital's business prospects with regard to B-CDMA products, at least as currently envisioned, and could negatively impact InterDigital's revenues beyond 1999, including revenues anticipated from licensing and product sales.

In addition, from time to time companies re-evaluate strategies relative to their development projects. InterDigital believes that, as is customary in any such re-evaluation process, various projects being undertaken by Samsung, including Samsung's development and commercialization of B-CDMA products based on B-CDMA technology, could be impacted in the future if such projects do not show the potential for producing acceptable profits or suitable market growth. Because Samsung is not currently making further contributions to the InterDigital B-CDMA development project, any decision by Samsung to discontinue its B-CDMA products would not require InterDigital to commit additional resources to the current B-CDMA development project. In addition, a withdrawal by Samsung would not affect currently projected 1999 revenues. However, as with any B-CDMA Alliance partner withdrawal from the B-CDMA program, a withdrawal by Samsung could negatively impact future revenues that InterDigital was anticipating to derive (in the form of royalties) from the sales of B-CDMA products by Samsung.

InterDigital expects the variability in its licensing and strategic partner revenues and, consequently, its cash flow to continue until significant recurring royalties are received under the applicable agreements. InterDigital's expectation as to its ability to generate revenue related to licensing and strategic partner activities is forward looking in nature and, as such, is inherently subject to risks and uncertainties and is dependent upon various factors or events, among other risks, uncertainties, factors and events detailed elsewhere in this Annual Report, including the effect of the Siemens withdrawal, whether or not Alcatel continues its participation and/or makes further contributions to the B-CDMA development effort, Samsung's continued development and commercialization of B-CDMA products, InterDigital's continuation of its developments work for Nokia, the ability to enter into additional alliances, strategic engineering relationships and/or licenses for InterDigital's patents and other intellectual property, the extent to which and when current and new licensees ship products that utilize the licensed technology and the licensees' abilities or willingness to pay the applicable license or royalty fees. Further, InterDigital relies on certain third parties to assist with its development activities. Delays or difficulties in such third parties' development efforts can lead to changes in the strategies of the companies with whom InterDigital has strategic relationships, which could ultimately affect InterDigital's relationships with such companies, the marketability of InterDigital's technology and products, and the receipt of revenues. Revenues and other business prospects could also be adversely impacted by adverse decisions in InterDigital's outstanding and any future intellectual property rights litigation or other patent-related proceedings, including but not limited to, any non-issuance of ITC's patent applications or declaration of invalidity or declaration of non-infringement of ITC's patents. (See "- Statement Pursuant to the Private Securities Litigation Reform Act of 1995" below and Notes 1, 3, 4 and 5 to "Notes to Consolidated Financial Statements".)

InterDigital also expects to continue to derive revenues from its product operations. InterDigital and its B-CDMA Alliance partners have engaged in the marketing of their products based on InterDigital's B-CDMA technology. Field trials of these systems are in progress. During 1998, InterDigital had approximately $1.9 million of sales related to InterDigital's TrueLink product. These sales included service revenue to Samsung and B-CDMA ASIC and other component sales to Siemens for its integration into pre-production products. In addition, although InterDigital is not actively pursuing many wireless local loop opportunities that might have previously been considered for the UltraPhone system, InterDigital intends to continue to market the UltraPhone system on a selective basis in rural niche markets where the potential for profit exists and through post contract add-ons and systems expansions and servicing and follow on orders. InterDigital's ability to derive future revenue from product sales will be affected by, among other factors detailed elsewhere in this Annual Report, the affect of the Siemens withdrawal, whether or not Alcatel continues its participation and/or makes further contributions to the B-CDMA development effort, Samsung's success with its B-CDMA program, and the intensified competition for sales of wireless local loop telephone systems. (See "- Statement Pursuant to the Private Securities Litigation Reform Act of 1995" below.)

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

InterDigital had working capital of $54.8 million at December 31, 1998 compared to working capital of $22.9 million at December 31, 1997. The increase in working capital since December 1997 is due primarily to the increase in cash and short term investments derived from the success of the patent licensing and strategic partner programs in 1998. InterDigital had, prior to 1995, experienced liquidity problems due to its lack of profits sufficient to generate cash at a level necessary to fund its investment in additional equipment, its UltraPhone technology development, its patent activities, its B-CDMA technology research and development activities, and its operating expenses. From the fourth quarter of 1994 through the second quarter of 1996, InterDigital generated cumulative operating profits and substantially strengthened its cash position through its alliance partner, strategic engineering relationship and licensing transactions. However, during the third and fourth quarters of 1996 and during all of fiscal 1997, InterDigital again experienced operating losses. In 1998, InterDigital experienced operating losses in the first and third quarters, offset by profits in the second and fourth quarters. Despite this variability, InterDigital reported its strongest earnings in its history for 1998. InterDigital expects that it may continue to experience significant fluctuations in working capital due to variations in the amount and timing of license and strategic partner related revenue.

InterDigital experienced positive cash flows of $30.1 million from operations during 1998 as compared to negative cash flows of $23.8 million in 1997. The positive cash flows from operations are primarily due to the success of the patent licensing program during the year.

Net cash flows from investing activities for 1998 include investments in property and equipment of $1.8 million and additions to patents of another $1.8 million. Also included in net cash flows from investing activities is InterDigital's investment of $24.2 million of funds in short-term, highly liquid securities.

During 1998, InterDigital experienced negative cash flows of $353,000 from financing activities primarily for the payment of long term debt.

Cash and cash equivalents of $20.1 million as of December 31, 1998 includes $143,000 of restricted cash. Short term investments of $32.2 million as of December 31, 1998 were held by InterDigital Finance Corporation, a wholly owned subsidiary of InterDigital. Accounts receivable of $15.0 million at December 31, 1998 reflect amounts due from normal trade receivables, including non-U.S. open accounts, as well as funds to be remitted under letters of credit and licensing agreements. Of the outstanding trade receivables as of December 31, 1998, $13.7 million has been collected through March 5, 1999.

Inventory levels decreased at December 31, 1998 to $5.1 million from $12.3 as of December 31, 1997, reflecting InterDigital's estimate of the net realizable value of inventory for the UltraPhone product relative to its niche market. Inventories at December 31, 1998 and December 31, 1997 are stated net of valuation reserves of $13.7 and $5.8 million, respectively.

Included in other accrued expenses at December 31, 1998 are professional fees, consulting and other accruals and deferred rent relating to the corporate headquarters and manufacturing facilities, as well as sales taxes payable.

Demands on working capital in 1999 and beyond are expected to be significant. Subject to Alcatel's continued participation in the current development effort, InterDigital expects to aggressively support its B-CDMA technology development efforts to further commercialize its technology in 1999. As the commercial development effort for the next version of TrueLink and the next generation B-CDMA ASIC continues, substantial additional expenditures are expected to be incurred for further development and re-engineering, marketing and other activities. Siemens withdrawal from the B-CDMA project may impose additional development costs on InterDigital. In addition, a renegotiation of the Alcatel agreement could adversely affect both the Company's short term revenue and its development cost burden. Further, in 1999 and beyond, InterDigital expects to incur substantial development costs as it focuses development efforts on 3G wireless technology. Some of these costs are expected to be absorbed by companies with whom InterDigital has strategic relationships. Further, the cost of prosecuting patent applications worldwide, defending the validity of ITC's patents, and litigating patent infringement actions related to ITC's patents can be substantial.

InterDigital is capable of supporting its operating requirements during 1999 through internally generated funds. Should the need arise to fund new development activities, contingency resolution, external growth activities or other matters. InterDigital may seek financing by means of a bank loan or line of credit or through the sale of debt or equity securities. InterDigital does not presently maintain bank lines of credit and can give no assurance that it could secure such a loan or line of credit, either at all or on acceptable terms. In addition, there can be no assurances that InterDigital will be able to sell any such securities, or, if it can, that it can do so on terms acceptable to InterDigital.

InterDigital believes that its investment in inventories and non-current assets at December 31, 1998 are realizable based on expected selling prices and order volumes. Property and equipment are currently being utilized in InterDigital's on-going business activities, and InterDigital believes that no additional write-downs are required at this time due to lack of use or technological obsolescence. With respect to other assets, InterDigital believes that the value of its patents is at least equal to the value included in the December 31, 1998 balance sheet.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the revenues from each revenue category as a percentage of total revenues and gross margins from product sales:

	As A % of Total Revenues		
	Year Ended December 31,		
	1998	1997	1996
Revenues:			
Product Revenues	6.8%	88.0%	46.5%
Licensing and Strategic Partner	93.2	12.0	53.5
Total Revenues	100.0%	100.0%	100.0%
Product Gross Margins	(160.4)%	(4.4)%	(9.6)%

1998 Compared With 1997

Total Revenues. Total revenues in 1998 increased 99.1% to $99.2 million from $49.8 million in 1997 due to the significant increase in licensing and strategic partner revenue. In 1998, licensing and strategic partner revenue included $4.6 million from Alcatel, $3.4 million from Samsung, $83.5 million from new and existing license agreements and $962,000 in recurring royalties. In 1997, licensing and strategic partner revenue included the recognition of the final $1.6 million of strategic partner revenue from Siemens, $2.8 million from Samsung and $1.6 million in recurring royalties.

Cost of Product Revenues. Cost of product revenues decreased in 1998 to $17.6 million from $41.9 million in 1997. The decrease is directly related to the decrease in product sales. In 1998, there were insufficient product sales to absorb manufacturing overhead and increases in inventory reserves resulting in a negative gross margin of 160.4% as compared to a positive gross margin of 4.4% in 1997. In 1998, InterDigital recorded charges totaling $7.9 million to reduce the carrying value of its inventory of UltraPhone components to its net realizable value due to excess inventories resulting from the cancellation of the Myanmar contract. Quantities are now considered excess relative to the niche market for UltraPhone products.

Other Operating Expenses. Other operating expenses include sales and marketing expenses, general and administrative expenses, patents administration, and product development expenses.

Sales and marketing expenses decreased 46.9% to $3.9 million during 1998 as compared to $7.3 million in 1997. The decrease is primarily due to decreased sales commissions and decreased marketing activity for the UltraPhone product.

General and administrative expenses for 1998 decreased 25.9% to $5.3 million from $7.2 million in 1997. The decrease is due to cost management and the reduction in workforce in early 1998.

Patents administration and licensing costs increased 118.4% to $11.1 million in 1998 from $5.1 million in 1997. The increase is primarily due to increased activities related to the generation of licensing revenue and the protection and enforcement of InterDigital's patent portfolio.

Product development costs decreased 29.2% to $17.2 million in 1998 from $24.2 million in 1997. The decrease is primarily due to reduced development of InterDigital's UltraPhone system and to the timing of certain B-CDMA related development expenses.

Other Income and Expense. Interest expense was $367,000 in 1998 as compared to $410,000 in 1997. In 1998, interest expense includes $199,000 of mortgage interest on InterDigital's King of Prussia property which was purchased in 1996, and $168,000 of interest on capital leases. In 1997, mortgage interest was $225,000 and interest on leases was $180,000.

Interest income for 1998 increased 18.5% to $2.5 million from $2.1 million in 1997 due to higher average invested cash balances during 1998.

1997 Compared With 1996

Total Revenues. Total revenues in 1997 decreased 7.2% to $49.8 million from $53.7 million in 1996 due to the significant decrease in licensing and strategic partner revenue in 1997 partially offset by an increase in product revenues of 75.6% to $43.8 million from $25.0 million in 1996. Licensing and strategic partner revenue of $6.0 million in 1997 included $2.8 million of alliance revenue from Samsung, the final $1.6 million of alliance revenue recognized on the Siemens agreement and $1.6 million of recurring royalty fees from one licensee. In 1996, license and strategic partner revenue of $28.7 million included $23.0 million of alliance revenue from Samsung, $4.8 million of alliance revenue recognized on the Siemens agreements and $900,000 of recurring royalty fees from one licensee.

Cost of Product Revenue. The cost of product sales in 1997 revenue increased 53.1% to $41.9 million from $27.4 million in 1996. This increase is due primarily to the increase in product revenues. InterDigital achieved sufficient product revenue to substantially absorb manufacturing overhead costs resulting in a 4.4% positive gross margin compared to a negative 9.6% gross margin in 1996.

InterDigital restructured its operations to de-emphasize and eliminate most areas of spending related to its UltraPhone business. InterDigital's gross profit margin ratios on UltraPhone product sales had been negatively affected by the relative proportions of direct and distributor sales, by the average number of subscribers and clusters per system sold, by its ability to absorb manufacturing overhead costs through generation of sufficient production volume, by the field service costs for installation, warranty, training and post-sale support, and by varying selling prices and product materials costs. Consistent with industry practices, distributor commissions have been included in both revenues and cost of sales. Historically, InterDigital's gross profit margin from UltraPhone system sales has been inadequate to support its operating and other expenses. The low sales volumes experienced in recent years have resulted in production volumes which were inadequate to fully absorb fixed production overhead costs and increases in inventory reserves, producing negative gross margins.

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

Sales and marketing expenses increased 55.5% to $7.3 million during 1997 as compared to $4.7 million in 1996. The increase is primarily due to increases in product marketing efforts, participation in trade shows, sales commission and activity levels associated with InterDigital's B-CDMA based product.

General and administrative expenses for 1997 increased 10.6% to $12.3 million from $11.1 million in 1996. The increase is due primarily to an increase in amortization of patents as well as an increase in expenses related to the protection and exploitation of InterDigital's patents portfolio and corporate communications activity.

Product development expenses increased 12.2% in 1997 to $24.2 million from $21.6 million in 1996. Staff and activity levels devoted to the development of the B-CDMA technology increased significantly.

Other Income and Expense. Interest expense for 1997 was $410,000 as compared to $271,000 for 1996. Interest expense for 1997 includes $225,000 of mortgage interest on InterDigital's King of Prussia property which was purchased in 1996 and $180,000 of interest on leases. In 1996, mortgage interest was $124,000 and interest on leases was $135,000.

Interest income for 1997 decreased 50.1% to $2.1 million from $4.2 million in 1996 due to substantially lower average invested cash balances during 1997 as compared to 1996.

Minority Interest. In December 1992, InterDigital sold 5.76% of the common shares of Patents Corp., which had, prior thereto, been a wholly-owned subsidiary of InterDigital. InterDigital recorded an increase in minority interest in the second quarter of 1996 of $4,000. During September 1996, InterDigital reacquired the minority interest of Patents Corp. in exchange for shares of InterDigital's Common Stock and will therefore no longer record a charge for minority interest.

Backlog

At December 31, 1998, shippable backlog of product and related services was approximately $1.0 million.

Year 2000

Many currently installed computer systems in many companies are not capable of distinguishing 21st century dates from 20th century dates. As a result, beginning on January 1, 2000, both IT (Information Technology) and non-IT systems used by many organizations in a wide variety of industries (including technology, transportation, utilities, finance and telecommunications) will produce erroneous results or fail unless they have been modified or upgraded to process date information correctly. Significant uncertainty exists concerning the scope and magnitude of problems associated with the century change. InterDigital recognizes the need to ensure our operations will not be adversely affected by Year 2000 system failures. In this regard, InterDigital has begun to implement a Year 2000 compliance program, consisting of auditing, assessing, remediating, testing, and contingency planning, to ensure InterDigital's IT and non-IT systems will function properly beyond 1999. The program is designed to cover both systems operated by InterDigital as well as systems operated by third parties that InterDigital considers to be material to its operations. InterDigital has established a Committee consisting of members of management from various disciplines to implement this program and has engaged a consultant to assist the Committee.

As part of its Year 2000 compliance program, InterDigital is engaging in a comprehensive assessment of the potential overall impact of the impending century change on its business, financial condition and operating results. InterDigital has conducted a thorough audit of its systems and has begun to test and upgrade certain of its systems for Year 2000 compatibility. In addition, InterDigital has begun the process of identifying and contacting certain third parties upon which it relies to ensure that those third parties have assessed the Year 2000 issues on their own systems and are taking steps to ensure that their systems are Year 2000 compatible. InterDigital believes that it will have the ability to allocate adequate resources for its Year 2000 compliance program and expects any Year 2000 remediation required to continue its operations to be made on its own systems to be completed on a timely basis. However, InterDigital has not completed its assessment, and still has many systems that require evaluation and/or testing for Year 2000 compliance. In addition, InterDigital cannot yet estimate with any degree of certainty the timing for completion of its compliance program, and expects differing aspects of that program will be completed at varying times. There can be no assurance that these systems or the systems of third parties upon which InterDigital's business relies will be identified or remediated on a timely basis or successfully. This could cause delays or difficulties in development efforts. Moreover, InterDigital's products and components may be integrated into larger systems that InterDigital cannot adequately evaluate for Year 2000 compliance. InterDigital may face claims based on Year 2000 problems in other companies' products, or issues arising from the integration of multiple products within an overall system. InterDigital's business, financial condition, or results of operations could be materially adversely affected by the failure of its systems, or those operated by third parties upon whom InterDigital relies to properly operate or manage dates beyond 1999.

To date, InterDigital has not incurred any material costs directly associated with its Year 2000 compliance efforts. InterDigital has incurred the compensation expense associated with its salaried employees who have devoted some of their time to its Year 2000 assessment, remediation efforts and the cost of its consultant. InterDigital does expect to expand additional resources on its remediation efforts out of general corporate funds, but does not expect the total cost of Year 2000 remediation efforts to be material to its business, financial condition and operating results. Those costs have not yet been fully assessed. During the months prior to the century change, InterDigital will continue to evaluate its products and systems, as well as certain products and systems provided to it by third parties, to determine whether they are Year 2000 compliant. Despite this assessment, InterDigital may not identify and correct all significant Year 2000 problems on a timely basis. Year 2000 compliance efforts may involve significantly more time and expense than expected, and unremediated problems could affect its business, financial condition, and operating results. InterDigital currently has no contingency plans to address the risks associated with unremediated Year 2000 problems but intends to develop such plans, to the extent reasonably practicable, as part of its compliance program.

Statement Pursuant to the Private Securities Litigation Reform Act of 1995

The foregoing Management's Discussion and Analysis and discussions of InterDigital's "Business" contain forward looking statements reflecting, among other things, InterDigital's current beliefs and expectations as to its strategic objectives, earnings growth, revenue potential and variability, and working capital requirements; the development, standardization, capabilities, production, commercialization, marketing and evolution of its B-CDMA products and/or the underlying technology and of its new technologies; the ability to diversify into new technologies and applications; objectives of, potential for and competitive positions of InterDigital's product business; market for products and marketing plans; litigation; growth in industry markets, demand and in telecommunication infrastructure; the affect of the Siemens withdrawal; the outcome of Alcatel's and Samsung's re-evaluations, and InterDigital's ability to capture value from B-CDMA technology and products; the continuation of the development effort with Nokia and of the technology and products developed under the Nokia agreement to enhance InterDigital's competitive position; ability to form additional alliances and strategic engineering relationships, capture value from InterDigital's patent portfolio, license its intellectual property and generate licensing revenues; patent validity, enforceability, applicability and infringement and license; enforceability; the actions of InterDigital's B-CDMA Alliance partners, Nokia, and other licensees; the ability to attract and retain personnel; and Year 2000 compliance. Words such as "objectives", "seeking", "expects", "believes", "intends", "anticipates", "plans", "hopes", 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. InterDigital cautions the 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. These factors include but are not limited to: general economic conditions of InterDigital's customers, potential customers and the wireless industry; actual or perceived world-wide economic conditions; the reversal or slowdown in anticipated TELCO infrastructure spending; the effects of, and changes in, foreign trade, monetary and fiscal conditions, policies, laws and regulations or other activities of foreign and the United States governments, agencies and similar organizations; foreign exchange rates and fluctuation in those rates;

adverse foreign tax consequences; delays in remittance and difficulties of collection of foreign payments; efforts to nationalize foreign-owned operations; unstable foreign governments, legal systems and intergovernmental disputes; foreign governmental action or inaction; imposition of unfavorable government or industry standards; the inability to maintain or secure adequate capital (or access thereto) to fund operations; the failure to achieve and/or maintain market acceptance of InterDigital's products and technology or to introduce new competitive products on a timely and cost effective basis; the inability to hire and/or retain appropriately qualified technical, sales or management personnel; the availability of competitive products superior on a perceived, relative or actual basis with InterDigital's products; technical, financial or other difficulties or delays in the development, re-engineering, production, testing, commercialization and marketing of InterDigital's products or technologies; failure of B-CDMA based equipment to meet performance tests; lack of sufficient endorsement of InterDigital's technology and products from operators, producers and others, or the failure to achieve widespread dissemination thereof; demand for and pressures on margin on InterDigital's products; the failure to enter into additional alliances and strategic engineering relationships necessary to achieve InterDigital's business objectives; the failure to fully and successfully implement the alliance and strategic engineering programs including the failure or inability of companies with whom InterDigital has strategic relationships to meet InterDigital's expectations or contractual commitments; availability of required frequencies or other things necessary to fulfill their obligations to InterDigital; failure to achieve desired development goals, budget and/or schedule relating to the Nokia development project; Nokia's exercise of its rights to terminate the development project for convenience; inability to retain or hire adequate personnel; inability of Siemens and InterDigital to negotiate mutually acceptable terms for their withdrawal; attempts by other B-CDMA Alliance partners to renegotiate their relationships including withdrawal from the B-CDMA Alliance; failure of InterDigital or third parties to successfully identify or remediate Year 2000 problems or a timely basis or at all; higher than expected Year 2000 remediation costs; the difficulty or inability to enforce contractual commitments abroad; the failure of InterDigital to successfully negotiate licensing agreements for InterDigital's patents and other intellectual property or to enforce InterDigital's rights under its license agreements; substantial increased costs and other burdensome effects of legal and administrative cases and proceedings, and the outcomes thereto, relating to InterDigital's assertion of its patents rights, and other claims against InterDigital's patents or its products; the inability or failure of InterDigital to protect its intellectual property rights, including enforcing non-disclosure and non-competition agreements, prosecuting key patent applications or defending key patents, and the inability to successfully prove infringement of its patents. Other risk factors and further explanations of certain of the above risk factors are included in the foregoing "Management's Discussion and Analysis" and discussions of InterDigital's "Business" contained in this Annual Report. In addition, other factors may exist that may not be fully known to InterDigital at this time. InterDigital undertakes no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

Item 8. INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements and the schedule referred to below are the responsibility of InterDigital'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 generally accepted auditing standards. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

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 respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Philadelphia, PA
February 24, 1999

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 1998	December 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of $143 and $193, respectively	$ 20,059	$ 17,828
Short term investments	32,218	7,976
Accounts receivable, net of allowance for doubtful accounts of $975 and $897, respectively	14,983	3,058
Inventories	5,102	12,284
Other current assets	3,056	5,428
Total current assets	75,418	46,574
Property, plant and equipment	9,697	11,373
Patents, net of accumulated amortization of $6,701 and $5,579 respectively	9,948	9,292
Long term deposits	2,934	519
Other	1,526	1,605
	24,105	22,789
	$ 99,523	$ 69,363
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	$ 723	$ 869
Accounts payable	5,973	8,223
Accrued compensation and related expenses	2,959	2,920
Deferred revenue	3,936	3,461
Foreign and domestic taxes payable	2,249	481
Other accrued expenses	4,826	7,717
Total current liabilities	20,666	23,671
LONG TERM DEBT	3,049	3,591
DEFERRED REVENUE	--	3,596
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, $ .10 par value, 14,399 shares authorized -- $2.50 Convertible Preferred, 102 shares issued and outstanding	10	10
Common Stock, $.01 par value, 75,000 shares authorized, 48,427 shares and 48,230 shares issued and outstanding	484	482
Additional paid-in capital	235,631	234,765
Accumulated deficit	(160,039)	(196,752)
	76,086	38,505
Treasury stock, 50 shares held at cost	278	--
Total shareholders' equity	75,808	38,505
	$ 99,523	$ 69,363

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,		
	1998	1997	1996
REVENUES:			
Product revenues	$ 6,751	$ 43,854	$ 24,974
Licensing and strategic partner revenue	92,470	5,982	28,719
	99,221	49,836	53,693
OPERATING EXPENSES:			
Cost of product revenues	17,577	41,914	27,370
Sales and marketing	3,864	7,276	4,679
General and administrative	5,327	7,189	6,893
Patents administration and licensing	11,145	5,102	4,222
Product development	17,166	24,248	21,609
	55,079	85,729	64,773
Income (loss) from operations	44,142	(35,893)	(11,080)
OTHER INCOME (EXPENSE):			
Interest income	2,454	2,070	4,151
Interest expense	(367)	(410)	(271)
Income (loss) before income taxes and minority interest	46,229	(34,233)	(7,200)
INCOME TAX PROVISION	(9,261)	(34)	(3,554)
Income (loss) before minority interest	36,968	(34,267)	(10,754)
MINORITY INTEREST	-	-	(890)
Net income (loss)	36,968	(34,267)	(11,644)
PREFERRED STOCK DIVIDENDS	(255)	(256)	(260)
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$36,713	$(34,523)	$(11,904)
NET INCOME (LOSS) PER COMMON SHARE - BASIC	$ 0.76	$ (0.72)	$ (0.26)
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	$ 0.75	$ (0.72)	$ (0.26)

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	Treasury Stock	Total
BALANCE, DECEMBER 31, 1995	$ 11	$ 444	$ 212,310	$ (150,325)	---	$ 62,440
Exercise of Common Stock options	---	4	2,311	---	---	2,315
Exercise of Common Stock warrants	---	16	7,342	---	---	7,358
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	42	(260)	---	(218)
Sale of Common Stock under Employee Stock Purchase Plan	---	1	349	---	---	350
Issuance of Common Stock associated with the Patents Corp. merger	---	15	11,891	---	---	11,906
Conversion of preferred stock to common	(1)	1	---	---	---	---
Net loss	---	---	---	(11,644)	---	(11,644)
BALANCE, DECEMBER 31, 1996	10	481	234,245	(162,229)	---	72,507
Exercise of Common Stock options	---	---	17	---	---	17
Exercise of Common Stock warrants	---	---	18	---	---	18
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	92	(256)	---	(164)
Sale of Common Stock under Employee Stock Purchase Plan	---	1	393	---	---	394
Net loss	---	---	---	(34,267)	---	(34,267)
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
BALANCE, DECEMBER 31, 1998	$ 10	$ 484	$ 235,631	$ (160,039)	$ (278)	$ 75,808

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 36,968	$ (34,267)	$ (11,644)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities-			
Depreciation and amortization	4,629	4,855	3,747
Deferred revenue	(3,121)	(4,003)	4,803
Inventory reserve increase (decrease)	7,942	(107)	(1,045)
Minority interest in subsidiary	-	-	890
Decrease (increase) in assets-			
Receivables	(11,925)	10,863	(10,764)
Inventories	(760)	1,686	(7,965)
Other current assets	(278)	1,846	(2,439)
Increase (decrease) in liabilities-			
Accounts payable	(2,250)	(6,904)	10,814
Accrued compensation	39	632	(745)
Other accrued expenses	(1,123)	1,555	1,053
Net cash provided by (used in) operating activities	30,121	(23,844)	(13,295)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale (purchase) of short-term investments, net	(24,242)	35,087	11,997
Purchase of property and equipment	(1,831)	(3,927)	(8,740)
Patent Costs	(1,778)	(966)	(870)
Other non-current assets	314	(190)	(319)
Net cash provided by (used in) investing activities	(27,537)	30,004	2,068
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from sales of Common Stock and exercises of stock options and warrants	815	429	10,025
Lease obligations incurred	251	452	4,667
Payments on long-term debt, including capital lease obligations	(939)	(1,003)	(717)
Cash dividends on Preferred Stock	(202)	(164)	(221)
Purchase of Treasury Stock	(278)	-	-
Net cash provided by (used in) financing activities	(353)	(286)	13,754
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,231	5,874	2,527
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,828	11,954	9,427
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 20,059	$ 17,828	$ 11,954

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

1. BACKGROUND:

InterDigital Communications Corporation and its subsidiaries (in these Notes, collectively "InterDigital") develops and markets advanced digital wireless telecommunications systems using both proprietary and standards compliant technologies for voice and data communications. In conjunction with its technology development, InterDigital has developed an extensive body of technical know-how and a broad patent portfolio related to those technologies and related product embodiments.

Through its technical know-how, patent portfolio and internal expertise, InterDigital has entered into strategic relationships with four companies to date, three of which are still on-going, based in large part on technology development. (See Notes 3, 4, 5 and 18.) InterDigital and its B-CDMA Alliance partners are developing a new air interface technology and products, based on InterDigital's patented B-CDMA technology and other proprietary technologies. The initial phases of the development effort are oriented towards development and commercialization of wireless local loop systems. InterDigital's B-CDMA Alliance partners are currently re-evaluating their commitment to the B-CDMA Alliance. (See notes 4 and 5.) InterDigital has also entered into a cooperative agreement which provides for the development of new technology for third generation wireless communications products. (See note 18.) Companies with whom InterDigital has strategic relationships also have licensed varying portions of ITC's patent portfolio.

InterDigital, through ITC, has also sought to capitalize upon the revenue potential of its patent portfolio through the implementation, starting in 1993, of a comprehensive patent licensing strategy. This strategy has resulted in patent license agreements with a total of eighteen companies as of December 31, 1998 and, together with InterDigital's strategy to align itself with other telecommunications companies, has resulted in the recognition of $92.5 million, $6.0 million and $28.7 million of licensing and strategic partner revenue in 1998, 1997, and 1996, respectively.

InterDigital's TDMA-based wireless local loop product is the UltraPhone system, a telephone system providing business and households access to basic telephone service through a wireless local loop. UltraPhone systems revenues accounted for less than 5% of total revenues of InterDigital during 1998. In 1998, InterDigital restructured its operations to de-emphasize the UltraPhone product and has reduced the carrying value of UltraPhone related inventory to its net realizable value. InterDigital's new product, TrueLink, is a wireless local loop product based on InterDigital's proprietary B-CDMA technology. This product was commercially launched in Hannover, Germany at the CEBIT telecommunications show in March 1998. Also in 1998, InterDigital and two of its B-CDMA Alliance partners commenced field trials of systems embodying InterDigital's B-CDMA technology at various sites. During 1998, InterDigital had approximately $1.9 million of TrueLink product sales.

InterDigital's operations are subject to numerous risks and uncertainties, including but not limited to, successful commercial development and deployment of InterDigital's technologies and products based on those technologies. The development of sustainable earnings growth is dependent upon many factors, such as technological achievement, the continued validation of the theories upon which the new technology is being designed, the effect of the Siemens withdrawal from the B-CDMA Alliance, InterDigital's ability to continue working with its other B-CDMA Alliance partners on acceptable terms or at all, the world market for InterDigital's technologies and InterDigital's and its licensees' and alliance partners' products, the ability to generate a satisfactory gross profit on product revenues, uncertainty and volatility of future profitability, cash flows and access to capital, dependence on alliance and strategic engineering arrangements and key personnel, the continued validity of InterDigital's patents, the continued availability of debt, equity, alliance partner or strategic relationship funding sufficient to support an increasing level of efforts over several years, and market acceptance of the resultant products, among other factors.

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 reporting 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, 1998, 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". Therefore, any unrealized holding gains or losses should be presented in a separate component of stockholders' equity. At December 31, 1998 and 1997, there were no significant unrealized holding gains or losses.

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

	December 31, 1998	December 31, 1997
Money market funds and demand accounts	$ 3,160	$ 8,979
Repurchase agreements	516	7,856
Commercial paper	16,383	993
	$ 20,059	$ 17,828

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

Short-term investments available for sale as of December 31, 1998 consisted of $18.2 million in government-issued discount notes and $14.0 million in corporate debt securities. Short-term investments available for sale as of December 31, 1997 consisted of $2.6 million in government-issued discount notes and $5.3 million in corporate debt securities.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis and market 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, generally five to ten years. The buildings are being depreciated over twenty-five years. Depreciation expense was $3.5 million, $3.2 million, and $2.5 million in 1998, 1997 and 1996, respectively.

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 their estimated useful lives, generally 10 years. Amortization expense was $1.1 million, $1.4 million and $696,000 in 1998, 1997 and 1996, respectively.

Product Development

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

Revenue Recognition

Product revenues are recognized upon shipment of systems. Installation, training and other services are recognized upon completion of services.

Patent licensing revenues included in licensing and strategic partner revenues consist primarily of up-front royalty payments and one-time, non-refundable fees which were recognized at the time of the applicable agreement. Strategic partner revenues included in licensing and strategic partner revenues were generated by patent, technology and know-how licensing and development agreements. Due to the combined nature of the agreements, revenue is recognized over the performance period. Recurring royalty revenues under both licensing and strategic partner agreements, to the extent received, may be recognized in the future according to the terms of the agreements. (See Notes 3, 4, 5 and 18.)

Concentration of Credit Risk

Financial instruments which potentially subject InterDigital to concentration of credit risk consist primarily of cash equivalents, short-term investments, and accounts receivable. InterDigital places its cash equivalents and short-term investments only in highly rated financial instruments and in United States Government obligations. InterDigital's accounts receivable are derived principally from sales of product and patent license agreements which provide for deferred and/or installment payments. Approximately 87% of InterDigital's 1998 product sales were export sales. (See Note 6.) InterDigital generally requires a United States dollar irrevocable letter of credit for the full amount of significant export sales to be in place at the time of shipment, except in cases where credit risk is considered to be acceptable.

Impairment of Long-Lived Assets

Pursuant to SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", InterDigital is required to evaluate the impairment of long-lived assets and certain intangibles assets when factors indicate that such assets should be evaluated for possible impairment. InterDigital reviews the realizability of its long-lived assets by analyzing the projected undiscounted cash flows. No such adjustments have been recorded in 1998, 1997 and 1996.

Net Income (Loss) Per Common Share

InterDigital follows SFAS No. 128. "Earnings per Share", which was effective the year ended December 31, 1997. This statement requires the disclosure of both basic and diluted earnings per share as well as the retroactive restatement of prior years' per share disclosures. The following tables reconcile the numerator and denominator of the basic and diluted net income (loss) per share computations (in thousands, except for per share data):

	Year Ended December 31, 1998			Year Ended December 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income (Loss) per Share-Basic: Income (loss) available to common stockholders	$36,713	48,380	$0.76	$(34,523)	48,166	$(0.72)
Effect of Dilutive Options and Warrants	--	391	(0.01)	--	--	--
Income (Loss) per Share-Diluted Income (loss) available to common stockholders + assumed conversions	$36,713	48,771	$0.75	$(34,523)	48,166	$(0.72)

	Year Ended December 31, 1996		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income (Loss) per Share-Basic: Income (loss) available to common stockholders	$(11,904)	46,462	$(0.26)
Effect of Dilutive Options and Warrants	--	--	--
Income (Loss) per Share-Diluted Income (loss) available to common stockholders+ assumed converions	$(11,904)	46,462	$(0.26)

At December 31, 1998 options and warrants to purchase 7.4 million shares of Common Stock were outstanding at exercise prices ranging from $4.9375 to $11.625, but were not included in the computation of diluted earnings per share because the results would be anti-dilutive. Options and warrants (See Note 14) to purchase Common Stock were outstanding during 1997 and 1996, but were not included in the computation of diluted net income (loss) per share because they are anti-dilutive.

Supplemental Cash Flow Information

In 1998 InterDigital paid $6.9 million in foreign withholding taxes and $650,000 in federal and state income taxes. InterDigital paid $22,000 of federal and state income taxes during 1997. In 1996, InterDigital paid $3.7 million, in foreign withholding, federal and state income taxes. Additionally, InterDigital paid $350,000, $362,000 and $253,000 of interest during 1998, 1997 and 1996, respectively.

Reclassifications:

Certain prior period amounts have been reclassified to conform to the 1998 presentation.

3. SIEMENS AGREEMENTS:

On December 16, 1994, InterDigital entered into a Master Agreement and a series of four related agreements, some of which were subsequently amended, as elements of an integrated transaction establishing a broad based marketing and technology alliance with Siemens.

As partial consideration for the rights and licenses granted by InterDigital, Siemens agreed to pay $20 million, of which $15.1 million was paid in cash, with the remaining payment offset against payments due to Siemens from InterDigital in conjunction with the Samsung alliance. In accordance with accounting requirements, InterDigital recognized the $20 million of revenue over the contract performance period due to the combined nature of the contracts. All revenues related to the rights and licenses granted by InterDigital to Siemens were recognized prior to 1998. In 1997 and 1996 InterDigital recognized $1.6 million and $4.8 million, respectively, of revenue related to the Siemens agreement.

In February of 1999 Siemens announced that it intends to withdraw from the current B-CDMA development project. InterDigital and Siemens are in the process of defining the process for Siemens' withdrawal from the project.

4. SAMSUNG AGREEMENTS:

On February 9, 1996, InterDigital entered into a series of agreements with Samsung as a second major step in implementing its alliance strategy. Under the various agreements, Samsung made up-front payments to InterDigital in excess of $35 million (of which approximately one-half constituted royalty prepayments), less applicable withholding taxes. All payments from Samsung were received by June 30, 1996. In July 1996, InterDigital made, via offset certain payments to Siemens, which in turn, committed to provide additional technical assistance.(See Note 3.) The net up-front amount received by InterDigital, after giving effect to the receipt of certain exemptions from Korean Service Withholding Tax granted by the Korean Ministry of Information and Communications, was approximately $29 million. Samsung is also obligated to provide engineering manpower for the development of InterDigital's B-CDMA technology.

Samsung has received from InterDigital royalty-bearing licenses covering InterDigital's TDMA and B-CDMA patent portfolio, its UltraPhone and B-CDMA technologies and is licensed to use certain InterDigital trademarks. The agreements give Samsung the right to manufacture and sell privately labeled UltraPhone systems.

InterDigital recognized $3.4, $2.8 million and $23 million as revenue during 1998, 1997 and 1996, respectively. The balance of the revenue is expected to be recognized through fiscal 1999, the expected date of completion of the applicable development effort. Samsung is currently re-evaluating its commitment to its current B-CDMA product development effort. If it were to cease its product development efforts, InterDigital would not expect to receive any additional payments from Samsung.

5. ALCATEL AGREEMENTS:

On March 12, 1998, InterDigital entered into an Agreement with Alcatel Espana for B-CDMA technology development, patent licensing, product development, technology transfer, standards support and other areas of cooperation. Under the terms of the Agreement, Alcatel agreed to pay technology transfer and services fees of approximately $25 million. Of this fee, $5.4 million was paid in March 1998. The Agreement provides for payment of an additional $12.6 million based on the achievement of certain product development and commercialization milestones. The Agreement also provides for payment of the remaining fee in conjunction with the purchase of B-CDMA ASICs (Application Specific Integrated Circuits) through December 2003. In 1998 InterDigital recognized $4.6 million in revenue related to the Alcatel agreement. Alcatel is currently re-evaluating its commitment to the current B-CDMA development project. If it were to withdraw from the project, InterDigital would not expect to recognize any additional revenue from Alcatel.

6. MAJOR CUSTOMERS AND GEOGRAPHIC DATA:

Product Revenue

During 1998, 43% of InterDigital's product revenue was for shipments to Namibia through an alliance partner. Direct sales to strategic partners represented 28% of product revenue.

During 1997, InterDigital's Indonesian and Philippine customers accounted for 75% and 7% of total product revenues, respectively. During 1996, InterDigital's Philippine customer and its Indonesian customer accounted for 56% and 16% of product revenues, respectively.

Due to the economic uncertainties in Asia, InterDigital does not expect any significant orders from its Indonesian or Philippine customers in the near future.

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

	Year Ended December 31,		
	1998	1997	1996
U.S.	$ 911	$ 1,253	$ 1,958
Non-U.S.	5,840	42,601	23,016
	$ 6,751	$ 43,854	$ 24,974

Licensing and Strategic Partner Revenue:

In 1998, ITC entered into four new TDMA license agreements with Sharp Corporation, Kyocera Corporation, Toshiba Corporation, and Denso Corporation, and revised TDMA license agreements with Sanyo and Kokusai, and granted a CDMA (including technology) license to Alcatel (See Note 5). In prior years, ITC had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain TDMA patents (and in certain instances, technology) to HNS, American Telephone & Telegraph Company, Siemens (see Note 3), Matsushita Electric Industrial Co. Ltd., Sanyo Electric Co., Ltd., Pacific Communications Systems Inc., Mitsubishi Electric Corporation, Hitachi Ltd., Kokusai Electric Co., NEC Corporation, OKI, and Samsung (see Note 4). In prior years, ITC had granted non-exclusive, non-transferable, perpetual, worldwide, royalty-bearing licenses to use certain CDMA patents (and in certain instances, technology) to Siemens, Samsung, Qualcomm and Advanced Digital Technologies. Many of these licenses contain "most favored licensee" provisions, applied on a going forward basis only, and provisions which could, in certain events, cause the licensee's obligation to pay royalties to InterDigital to be suspended for an indefinite period, with or without the accrual of the royalty obligation.

In 1998, InterDigital recognized $4.6 million and $3.4 million in revenue related to the Alcatel and Samsung agreements, respectively. During 1998 InterDigital entered into four new TDMA licensing agreements and revised agreements with two existing licensees. These licensing transactions resulted in an additional $83.5 million of revenue in 1998. Additionally, recurring royalty fees of $962,000 were recognized in 1998.

In 1997, InterDigital recognized $2.8 million in licensing and strategic partner revenue from Samsung, $1.6 million from Siemens and $1.6 million of recurring royalty revenue from one licensee. The 1996 licensing and strategic partner revenues included $23.0 million from Samsung, $4.8 million from Siemens and $900,000 of recurring royalty fees from one licensee.

7. PATENTS CORP.:

During the fourth quarter of 1992, InterDigital formed Patents Corp. and contributed to Patents Corp. its entire ownership interest in ITC in return for 100% of its common stock. InterDigital had previously contributed all of its past, present and future (conceived on or before February 2002) patent rights to ITC. Subsequently, Patents Corp. issued 22 Units in a private placement at $250,000 per Unit, receiving net proceeds of $5.2 million in return for 5.76% of the ownership interest in Patents Corp.

During September 1996, InterDigital entered into an Agreement and Plan of Merger (the "Plan of Merger") with Patents Corp. and IP Acquisition Corporation ("Merger Co"), a wholly-owned subsidiary of InterDigital, providing for the merger of Merger Co with and into Patents Corp. (the "Merger") and the issuance of approximately 1.5 million shares of InterDigital Common Stock to the shareholders of Patents Corp. in exchange for their Patents Corp. Common Stock.

Upon completion of the Merger, Patents Corp. became a wholly-owned subsidiary of InterDigital and $7.1 million, representing the excess of the fair value of InterDigital Common Stock exchanged over the book value of the minority interest, was assigned as additional Patents assets on the consolidated balance sheet.

8. INVENTORIES:

	December 31, 1998	December 31, 1997
	(In thousands)	
Component parts and work-in-progress	$ 2,958	$ 10,249
Finished goods	2,144	2,035
	$ 5,102	$ 12,284

Inventories are stated net of valuation reserves of $13.7 million and $5.8 million as of December 31, 1998 and 1997, respectively. In 1998, InterDigital recorded charges totaling $7.9 million to reduce the carrying value of its inventory of UltraPhone components to its net realizable value, due to excess inventories resulting from the cancellation of the Myanmar contract. Quantities are now considered excess relative to the niche market for UltraPhone products.

9. PROPERTY, PLANT AND EQUIPMENT:

	December 31, 1998	December 31, 1997
	(In thousands)	
Land, building & improvements	$ 4,258	$ 4,231
Machinery and equipment	8,971	8,018
Computer equipment	7,484	6,699
Furniture and fixtures	2,806	2,771
Leasehold improvements	1,139	1,108
	24,658	22,827
Accumulated depreciation	(14,961)	(11,454)
Net PP&E	$ 9,697	$ 11,373

10. LONG-TERM DEBT OBLIGATIONS:

	December 31, 1998	December 31, 1997
	(In thousands)	
Mortgage Debt	$ 2,575	$ 2,673
Capitalized leases	1,197	1,787
Total long-term debt obligations	3,772	4,460
Less -- Current portion	(723)	(869)
	$ 3,049	$ 3,591

During 1996, InterDigital purchased its King of Prussia 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 interest rate of 11.2%, through 2001. The net book value of equipment under capitalized lease obligations is $1.7 million.

Maturities of principal of the long-term debt obligations as of December 31, 1998 are as follows (in thousands):

1999	$ 723
2000	449
2001	363
2002	149
2003	149
Thereafter	1,939
	$3,772

11. COMMITMENTS AND CONTINGENCIES:

InterDigital has entered into various operating lease agreements, primarily for office, assembly and warehouse space. Total rent expense was $1.4 million, $1.3 million and $1.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. Minimum future rental payments for operating leases as of December 31, 1998 are as follows (in thousands):

1999	$ 1,991
2000	1,639
2001	1,625
2002	614
2003	412
Thereafter	1,167
	$ 7,448

Included in the minimum future rental payments is $167,000 for the lease which expires in 1999, of InterDigital's former Great Neck, New York facilities comprising 15,000 square feet and $206,000 per year for the lease of another New York facility comprising approximately 38,000 square feet. InterDigital is currently negotiating releases under one of these agreements. There can be no assurance that InterDigital will be able to obtain this release. InterDigital has recorded an accrual to cover expected facility expenses incurred through the estimated date of release under the agreements. InterDigital does not expect an additional material charge to expense related to this lease. If InterDigital were not released from the aforementioned lease agreement, approximately $3.4 million would be payable under the leases through 2006.

Sole Source Suppliers

InterDigital currently buys several of its base station and subscriber station components from sole source suppliers. A change in or loss of suppliers or difficulties in the supply of components from said sources could cause a delay in manufacturing and shipments, a possible loss of sales, and could cause InterDigital to fail to fulfill certain performance obligations under current customer contracts, which would affect operating results adversely.

Employment Agreements

InterDigital has entered into agreements with certain officers that provide for the payment of severance pay benefits, among other things, in certain events of termination of employment. Certain of these agreements generally provide for the payment of severance up to a maximum of one year's salary (approximately $1.9 million at December 31, 1998) and up to a maximum of one year's continuation of medical and dental benefits. In certain 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 $3.9 million at December 31, 1998) and the immediate vesting of all stock options.

12. LITIGATION:

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 (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 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 damages, 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 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 amended 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. During the third quarter of 1998, Ericsson Inc. filed a Motion for Partial Summary Judgement, with respect to which InterDigital has replied. The Court has not yet ruled on this Motion. Also during the third quarter, the United States District Court for the Northern District of Texas granted InterDigital's Motion to amend its Counterclaim by adding four additional patents. The litigation is currently in the discovery stage. InterDigital records expenses for fees related to litigation as they are incurred.

13. PREFERRED STOCK:

The holders of the $2.50 Convertible Preferred Stock are entitled to receive, when and as declared by the Board, cumulative annual dividends of $2.50 per share payable in cash or Common Stock (as defined) at the election of InterDigital (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 InterDigital fails 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 price of $12 per share (subject to adjustment under certain conditions). In 1998, 1997 and 1996, InterDigital declared and paid dividends on the $2.50 Convertible Preferred Stock of $255,000, $256,000 and $260,000, respectively. These dividends, were paid with cash of $202,000, $162,000 and $218,000, and 8,860, 19,281 and 5,862 shares of Common Stock, respectively.

Upon any liquidation, 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 distributions to shareholders, $25 per share plus all dividends accrued, before any distribution is made to the Common shareholders. After such payment, the holders of the $2.50 Convertible Preferred Stock would not be entitled to any other payments. The redemption price for each share of $2.50 Convertible Preferred Stock is $25 per share.

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 on a parity with the $2.50 Preferred, 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 semiannual dividends on the $2.50 Preferred are not paid by InterDigital, the holders of the Preferred, separately voting as a class, will be entitled to elect one additional director of InterDigital.

14. COMMON STOCK OPTIONS PLANS AND WARRANTS

Common Stock Option Plans

InterDigital has granted options under two incentive stock option plans, four non-qualified stock option plans and one plan which provides for grants of both incentive and non-qualified stock options to non-employee directors, officers and employees of InterDigital and certain others, depending on the plan. One incentive stock option plan, three non-qualified stock option plans and the plan that allows for both incentive and non-qualified stock options are authorized to grant options for up to 600,000, 2,035,600, 1,500,000, 2,000,000 and 4,000,000 shares, respectively of InterDigital's Common Stock. No further grants are allowed under the remaining stock option plans. The Board of Directors or a Committee of the Board determines the number of options to be granted. The option prices are determined based on market prices in accordance with the terms of the plans. Under the terms of the incentive stock option 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 the non-qualified option 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. All options granted under the plan which provides for both incentive and non-qualified stock options to non-employee directors and grants awarded to inventors most commonly vest in six bi-annual installments. All incentive options granted under such plan 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.

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

	Available for Grant	Outstanding Options Number	Price Range	Weighted Average Exercise Price
BALANCE AT DECEMBER 31, 1995	6,378	4,014	$.01-$14.875	$7.01
Granted	(862)	862	$5.625-$11.53	7.79
Canceled	88	(88)	$.60-$14.875	9.93
Exercised	--	(399)	$.60-$8.875	5.75
BALANCE AT DECEMBER 31, 1996	5,604	4,389	$.01-$14.875	7.14
Granted	(2,539)	2,539	$4.375-$5.688	5.45
Canceled	879	(879)	$5.250-$14.500	9.15
Exercised	--	(3)	$0.600-$5.625	4.79
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	4,204	5,786	$01-$11.625	$6.05

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 1998, 1997 and 1996 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:

	1998	1997	1996
Net income (loss) applicable to Common Shareholder-as reported	$36,713	$(34,523)	$(11,904)
Net income (loss) applicable to Common Shareholders - pro forma	$32,837	$(37,894)	$(13,757)
Net income (loss) per share - as reported - basic	$ 0.76	$ (0.72)	$ (0.26)
Net income (loss) per share - as reported - diluted	$ 0.75	$ (0.72)	$ (0.26)
Net income (loss) per share - pro forma - basic	$ 0.68	$ (0.79)	$ (0.30)
Net income (loss) per share - pro forma - diluted	$ 0.67	$ (0.79)	$ (0.30)

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 1998, 1997 and 1996; no dividend yield; expected volatility of 83% for 1998, 70% for 1997, and 80% for 1996, risk-free interest rates of approximately 5.22%, 6.24 % and 6.25% for 1998, 1997 and 1996, respectively, and an expected option life of 3.05 years for 1998 and 3.72 years for 1997 and 1996. The weighted average fair value at the date of grant for options granted during 1998, 1997 and 1996 is estimated as $5.04, $2.89 and $5.11 per share, respectively. The pro forma effect on net income (loss) for 1998, 1997 and 1996 is not representative of the pro forma effect on net income (loss) in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

The following table summarizes information regarding the stock options outstanding at December 31, 1998 (in thousands, except per share amounts):

Range of Exercise Prices	Number Outstanding As of 12/31/98	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable As of 12/31/98	Weighted Average Exercise Price
$ 0.01-$ 5.38	1,151	6.96	$ 4.15	915	$ 3.95
$ 5.44-$ 5.44	1,928	8.72	$ 5.44	981	$ 5.44
$ 5.50-$ 6.00	1,173	10.18	$ 5.73	906	$ 5.75
$ 6.13-$ 7.69	741	7.17	$ 7.08	703	$ 7.05
$ 7.75-$11.50	538	13.97	$ 8.92	537	$ 8.92
$11.63-$11.63	255	45.95	$11.63	255	$11.63
$ 0.01-$11.63	5,786	9.87	$ 6.05	4,297	$ 6.26

Common Stock Warrants

As of December 31, 1998, in addition to the option plans discussed above, InterDigital has various warrants outstanding to purchase 3,574,000 shares of Common Stock at exercise prices ranging from $2.50 to $10.00 per share, with a weighted average exercise price of $5.37 per share. As of December 31, 1998, all of these warrants are currently exercisable. These warrants expire in various years through 2006. 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.

15. 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. Each right entitles shareholders to buy one one-thousandth of a share of Series B Junior Participating Preferred Stock at a purchase price of $45 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 15% of InterDigital's outstanding Common Stock or a non-exempt person or group begins an offer for 15% or more of InterDigital's outstanding Common Stock. 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.

16. RELATED-PARTY TRANSACTIONS:

During 1996, InterDigital utilized as a consultant the son of an executive officer and member of the Board of Directors. He was paid $72,000, for these consulting services and was reimbursed certain traveling expenses.

17. INCOME TAXES:

The 1998 income tax provision includes a federal alternative minimum tax provision of $860,000, a foreign withholding tax provision of $8.35 million, and a current state tax provision of $100,000, partially offset by a state tax refund of $49,000. The 1997 income tax provision includes a current state tax provision of $34,000. The 1996 income tax provision includes a current foreign withholding tax provision of $3.3 million and a current state tax provision of $133,000. At December 31, 1998, InterDigital had net operating loss carryforwards of approximately $96.7 million. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit is recorded as of December 31, 1998.

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

2002	$ 7.9 million
2003	18.2 million
2004	20.0 million
2005	11.9 million
thereafter	38.7 million
	$ 96.7 million

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 purposes of Section 382 occurred up to and including December 31, 1998. 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.

18. SUBSEQUENT EVENT (unaudited):

On January 22, 1999, InterDigital entered into an agreement with Nokia involving the development of new technology for third generation wireless telecommunications products designed for high data rate applications, such as Internet access. The agreement includes royalty bearing TDMA and CDMA patent licenses, which are paid up generally through the project period, and provides a structure for determining the royalty payments thereafter. In the first quarter of 1999, InterDigital recorded $31.5 million as licensing revenue relative to the Nokia agreement.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cash Equivalents and Investments. InterDigital does not use derivative financial instruments in its investment portfolio. InterDigital places its investments in instruments that meet high credit quality standards, as specified in InterDigital's investment policy guidelines This policy also limits the amount of credit exposure to any one issue, issuer, and type of instrument. InterDigital does not expect any material loss with respect to its investment portfolio.

The following table provides information about InterDigital's 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 1999.

(in thousands)

Cash equivalents	$20,059
Average interest rate	5.28%
Short-term investments	32,218
Average interest rate	4.96%
Total portfolio	$52,272
Average interest rate	5.08%

Long-term Debt The table below sets forth information about InterDigital's long-term debt obligation, by expected maturity dates.

	1999	2000	2001	2002	2003 and beyond	Total	Fair Value
Fixed Rate	$723,000	$449,000	$363,000	$149,000	$2,088,000	$3,772,000	$3,772,000
Weighted Average Interest Rate	9.71%	8.51%	7.41%	8.30%	8.28%	8.50%	

Item 9. CHANGES IN 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 of InterDigital" in Part I 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 2001 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, 1998 and forwarded to shareholders prior to the 1999 annual meeting of shareholders (the "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 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 Schedule.

The Index to Financial Statements and Schedules and the Financial Statements begin on page 26.

(3) Exhibits.

*2.1 Plan of Merger by and among InterDigital, Patents Corp. and Merger Co. dated as of August 16, 1996 (Exhibit 2 to InterDigital's Registration Statement No. 333-10521 filed on August 20, 1996).

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

*3.2 By-laws, as amended October 6, 1996 (Exhibit 3.2 to the September 1996 Form 10-Q).

*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 13, 1987).

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

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

*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 Decembeer 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 E-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 quarterly period 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 on June 6, 1993).

*10.12 Master Agreement among InterDigital, ITC, and Siemens dated December 16, 1994 (Exhibit 99.1 to InterDigital's Current Report on Form 8-K dated December 16, 1994 the ("December 1994 8-K)). **

*10.13 Patent License Agreement among InterDigital, ITC and Siemens dated December 16, 1994 (Exhibit 99.2 to the December 1994 Form 8-K). **

*10.14 TDMA/CDMA Development and Technical Assistance Agreement between InterDigital and Siemens dated December 16, 1994 (Exhibit 99.3 to the December 1994 Form 8-K). **

*10.15 Cooperation Agreement between InterDigital and Siemens dated December 1994 (Exhibit 99.5 to the December 16, 1994 Form 8-K). **

*10.16 ASIC Design and Development Agreement dated February 12, 1996 by and between InterDigital Communications Corporation and LSI Logic Corporation (Exhibit 10.19 to InterDigital's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K")).

*10.17 Employment Agreement dated February 25, 1997 by and between InterDigital Communications Corporation and Howard E. Goldberg (Exhibit 10.24 to the 1996 Form 10-K).

*10.18 Employment Agreement dated November 20, 1996 by and between InterDigital Communications Corporation and William A. Doyle (Exhibit 10.25 to the 1996 Form 10-K).

*10.19 Employment Agreement dated November 18, 1996 by and between InterDigital Communications Corporation and Charles Tilden (Exhibit 10.26 to the 1996 Form 10-K).

*10.20 Severance Benefit Agreement dated April 26, 1996 by and between InterDigital Communications Corporation and D. Ridgely Bolgiano (Exhibit 10.27 to the 1996 Form 10-K).

*10.21 Severance Benefit Agreement dated April 26, 1996 by and between InterDigital and Mark Lemmo (Exhibit 10.32 to InterDigital's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 1997).

*10.22 Employment Agreement dated June, 1997 by and between InterDigital and Joseph Gifford (Exhibit 10.33 to the September 1997 Form 10-Q).

10.23 Employment Agreement dated September 3, 1998 by and between InterDigital and William Merritt.

10.24 Employment Agreement dated November 16, 1998 by and between InterDigital and Richard Fagan.

21 Subsidiaries of InterDigital.

23.1 Consent of Arthur Andersen LLP.

27 Financial Data Schedule.

---

* Incorporated by reference to the previous filing indicated.

** Confidential treatment has been granted for portions of these agreements.

(b) Reports filed on Form 8-K during the last quarter of 1998:

InterDigital filed a Current Report on Form 8-K dated November 2, 1998 under Item 5 - Other Events relating to its license agreement with Denso Corporation. No financial statements were filed with this report.

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

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
1998				
Allowance for uncollectible accounts	$897	$ 84	$ 6	$975
1997				
Allowance for uncollectible accounts	$558	$508	$169	$897
1996				
Allowance for uncollectible accounts	$340	$339	$121	$558

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, 1999.

INTERDIGITAL COMMUNICATIONS CORPORATION

By: /s/ William A. Doyle

William A. Doyle
President and Principal Executive Officer

By: /s/ R.J. Fagan

Richard J. Fagan
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements 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 30,1999	*/s/ D. Ridgely Bolgiano* -------------------------------- *D. Ridgely Bolgiano, Director*
Date: March 30,1999	*/s/ Harry Campagna* -------------------------------- *Harry Campagna, Director*
Date: March 30,1999	*/s/ William A. Doyle* -------------------------------- *William A. Doyle, Director*
Date: March 30,1999	*/s/ Robert Roath* -------------------------------- *Robert Roath, Director*
Date: March 30,1999	*/s/ Joseph S. Colson, Jr.* -------------------------------- *Joseph Colson, Director*

EXHIBIT INDEX

Exhibit No.	Description
10.23	Employment Agreement dated September 3, 1998 by and between InterDigital and William Merritt.
10.24	Employment Agreement dated November 16, 1998 by and between InterDigital and Richard Fagan.
21	Subsidiaries of InterDigital.
23.1	Consent of Arthur Andersen LLP.
27	Financial Data Schedule.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made this 3rd day of September, 1998, by and between William J. Merritt, a Pennsylvania resident (the "Employee"), and InterDigital Communications Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company"), with reference to the following recitals:

A. The Company is engaged in the business of developing and marketing certain types of advanced digital wireless telecommunications systems using proprietary technologies for voice and data communications, as more particularly described in the Company's Form 10-K as filed from time to time, and the licensing of wireless digital telephone technology (the "Business").

B. Employee serves in the position of Vice President-Law of the Company.

C. The Company and Employee desire to provide for Employee's rights in the event of a termination of Employee's employment relationship with 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. 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 1; provided that, such date shall be at least four (4) weeks after the date of such notice. 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 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 shall be provided to similarly situated executive employees of the Company ("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") 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 9 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 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 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.

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 that (i) Employee violates or breaches any Company policy; or (ii) Employee commits an act 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 (iii) 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 (iv) during the term of Employee's employment, Employee is convicted of a felony. Except as specifically set forth in this Section 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.

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 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.

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 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.

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 9 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 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 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.

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 2 or 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 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, for a period of twelve (12) months 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 6(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 6(b), the Company shall have no liability or obligation to Employee for compensation or benefits hereunder by reason of such termination.

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), 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 (2) 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 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 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. For these purposes,"Person" means an individual, partnership, corporation, joint venture, association, trust, unincorporated association, other entity or association.

8. Covenant Not to Compete. The Employee shall not, during the term of his employment (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 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;

(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 herein, (ii) in the event Employee's employment hereunder is terminated for Cause pursuant to Section 5 herein, 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 Letter. As a condition precedent to the Company's payment of severance and continuation of medical and dental insurance coverage pursuant to Sections 1 and 5 above, Employee must sign and deliver to Company Company's termination letter 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.

10. 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.

11. Notice. Any notice or communication required or permitted under this Agreement shall be in writing and made by hand delivery or sent by

certified or registered mail, return receipt requested or by recognized overnight courier, addressed as follows:

If to Employee:

William J. Merritt
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.: President

with a copy to:
General Counsel

,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.

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,

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

(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. Entire Agreement. 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.

14. 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.

15. Survival. 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.

16. Amendment. This Agreement may only be amended, modified or varied by a written document or exchange of writings signed by Employee and either the President or Chief Executive Officer of the Company.

17. 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.

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

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/ William A. Doyle*
Title: Asst. Secr.	*William A. Doyle, President*
	/s/ William Merritt
	WILLIAM A. MERRITT

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made this 16th day of November, 1998, by and between Richard Fagan, a resident of Chadds Ford, Pennsylvania (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, the Company and Employee have entered into a letter agreement, dated November 16, 1998, pursuant to which, inter alia, the Company has offered Employee and Employee has accepted the position of Senior Vice President and Chief Financial Officer of the Company (the "Letter 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 and Chief Financial Officer (such position, Employee's "Position") for a period commencing no later than November 16, 1998 and continuing until employment hereunder is terminated pursuant to the provisions of Section 9 hereto (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 reasonably assigned to Employee from time to time by the President. Employee shall report to the President 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 Sixty 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, commencing in 1999, 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 Hay Associates. Notwithstanding the foregoing two sentences, 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. Employee shall also be entitled to receive stock options subject to Board approval as more particularly described in the Letter Agreement.

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 9.7(a), Employee will be entitled to receive all accrued and unpaid (as of the date of such termination) Base Salary and Benefits and other 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 9.7(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 9.7(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:

Richard Fagan
1 Cross Creek Lane
Chadds Ford, PA 19317
or
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 and the Letter 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. The provisions of this Agreement supersede any inconsistent provisions contained in the Letter Agreement. The balance of the Letter Agreement shall remain in full force and effect and unaffected hereby. This Agreement may not be changed or modified, except by an Agreement in writing signed by each of the parties hereto.

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	*By: /s/ William A. Doyle*
Jane Schultz	*William A. Doyle*
Asst. Secretary	*President*

[CORPORATE SEAL]

/s/ R. J. Fagan

RICHARD FAGAN

EXHIBIT 21

SUBSIDIARIES OF INTERDIGITAL

Company	State of Incorporation
Digital Cellular Corporation	Pennsylvania
InterDigital Finance Corporation	Delaware
InterDigital Mobilecom, Inc.	New York
InterDigital Patents Corporation	Delaware
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's previously filed Registration Statements 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 and File No. 333-10521.

Philadelphia, PA Arthur Andersen LLP March 29, 1999

ARTICLE 5

ARTICLE 5 FOR 1997 10-K

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
CASH	20,059
SECURITIES	32,218
RECEIVABLES	15,958
ALLOWANCES	975
INVENTORY	5,102
CURRENT ASSETS	75,418
PP&E	24,658
DEPRECIATION	14,961
TOTAL ASSETS	99,523
CURRENT LIABILITIES	20,666
BONDS	3,049
PREFERRED MANDATORY	0
PREFERRED	10
COMMON	484
OTHER SE	75,314
TOTAL LIABILITY AND EQUITY	99,523
SALES	6,751
TOTAL REVENUES	99,221
CGS	17,577
TOTAL COSTS	17,577
OTHER EXPENSES	17,166
LOSS PROVISION	84
INTEREST EXPENSE	367
INCOME PRETAX	46,229
INCOME TAX	9,261
INCOME CONTINUING	36,968
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	36,968
EPS PRIMARY	.76
EPS DILUTED	.75

End of Filing