INTERDIGITAL INC.

FORM 10-Q
(Quarterly Report)

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Industry	Communications Equipment
Sector	Technology
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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 No.)**

781 Third Avenue, King of Prussia, PA 19406-1409
(Address of principal executive offices and zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

Common Stock, par value $.01 per share	**55,504,760**
Class	Outstanding at August 3, 2004

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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InterDigital ® is a trademark of InterDigital Communications Corporation. All other trademarks, service marks, and/or trade names appearing in this Form 10-Q are the property of their respective owners.

GLOSSARY OF TERMS

Air Interface

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

CDMA

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

cdma2000

A standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne) and which, as amended, includes without limitation CDMA2000 1X, CDMA 1X EV-DO, CDMA-2000 1X_EV-DV and CDMA2000 3X. Although CDMA2000 1X is included under the IMT-2000 family of 3G standards, its functionality is similar to 2.5G technologies. CDMA2000 ® and cdma2000 ® are a registered trademarks of the TIA (USA).

cdmaOne

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

Digital

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

EDGE

"Enhanced Data for GSM Evolution." Technology designed to deliver data at rates of up to 473.6 kbps, triple the data rate of most wireless services, and built on the existing GSM/GPRS air interface standard and core networks infrastructure. This is, at times, referred to as EGPRS and is considered to be a 2.5G technology.

802.11

A family of WLAN standards developed by the IEEE which specifies the communication channel and access to such channel for wireless high-speed broadband access and IP-based communication (e.g., browsing, Voice Over IP, etc.).

FDMA

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

Frequency

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

GPRS

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

GSM

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

Hertz

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

IEEE

“Institute of Electrical and Electronics Engineers”. A membership organization of engineers that, among other activities, produces data communications standards.

Internet

A network comprised of more than 100,000 interconnected commercial, academic and governmental networks in over 100 countries.

IPR

Intellectual Property Right.

ITC

“InterDigital Technology Corporation”, our wholly-owned Delaware subsidiary.

Kbps

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

LAN

“Local Area Network”. A private data communications network linking a variety of data services all located in the same geographic area, and which may include a dedicated file server or computer that provides a centralized source of shared files and programs.

Multiple Access

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

Narrowband

A communications channel capable of handling voice, fax, slow-scan, video images and data transmissions; usually less than 64 kpbs.

OFDMA/OFDM

“Orthogonal Frequency Division Multiple Access/Orthogonal Frequency Division Multiplexing.” A next generation high-speed wireless data technology and modulation technique that breaks one high-speed data signal into tens or thousands of lower-speed signals. OFDMA/OFDM creates a system that allows for wide-area, multipoint coverage, is bandwidth efficient and is highly tolerant of noise and multipath.

PDC

“Personal Digital Cellular.” The standard developed in Japan for TDMA digital cellular mobile radio communications systems.

PHS

“Personal Handyphone System.” A digital cordless telephone system and digital network based on TDMA. This low-mobility microcell standard was developed in Japan and is commonly known as PAS in China.

Smart Antenna

Antennas utilizing multiple antenna elements with signal processing capabilities which enhance desired or reduce undesired transmissions to or from wireless products.

Standards

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies.

TDMA

“Time Division Multiple Access.” A method of digital wireless transmission that allows a multiplicity of users to share access (in a time ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.

Terminal

Equipment at the end of a communications path. Often referred to as an end-user device or handset. Terminal units include mobile phone handsets, personal digital assistants, computer laptops and telephones.

3G

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

TIA (USA)

“Telecommunications Industry Association.”

TIA/EIA-95

A 2G CDMA standard.

2G

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

2.5G

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

Wireless

Radio-based systems that allow transmission of information without a physical connection, such as copper wire or optical fiber.

Wireless LAN (WLAN)

“Wireless Local Area Network.” A collection of devices (computers, networks, portables, mobile equipment, etc.) linked wirelessly over a limited local area.

PART I—FINANCIAL INFORMATION

Item 1. **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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

ASSETS	JUNE 30, 2004	DECEMBER 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,905	$ 20,877
Short-term investments	82,400	85,050
Accounts receivable	55,890	37,839
Prepaid and other current assets	6,876	8,628
Total current assets	186,071	152,394
PROPERTY AND EQUIPMENT, NET	10,841	12,137
PATENTS, NET	35,708	32,246
OTHER NON-CURRENT ASSETS	11,874	8,388
	58,423	52,771
TOTAL ASSETS	$ 244,494	$ 205,165
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 179	$ 193
Accounts payable	4,135	6,435
Accrued compensation and related expenses	7,177	7,569
Deferred revenue	26,814	22,381
Foreign and domestic taxes payable	854	1,259
Other accrued expenses	6,799	2,232
Total current liabilities	45,958	40,069
LONG-TERM DEBT	1,691	1,777
LONG-TERM DEFERRED REVENUE	78,952	64,214
OTHER LONG-TERM LIABILITIES	1,620	1,620
TOTAL LIABILITIES	128,221	107,680
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, $.10 par value, 14,399 shares authorized—$2.50 Cumulative Convertible Preferred Stock, 53 shares issued and outstanding, liquidation value of $1,319	5	5
Common Stock, $.01 par value, 100,000 shares authorized, 59,217 and 58,202 shares issued and 55,711 and 54,989 shares outstanding	592	585
Additional paid-in capital	323,143	305,262
Accumulated deficit	(157,957)	(164,613)
Accumulated other comprehensive loss	(609)	(270)
Unearned compensation	(6,109)	(722)
	159,065	140,247
Treasury stock, 3,506 and 3,500 shares of common held at cost	42,792	42,762
Total shareholders' equity	116,273	97,485
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 244,494	$ 205,165

The accompanying notes are an integral part of these statements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
REVENUES	$29,379	$25,777	$62,395	$63,101
OPERATING EXPENSES:				
Sales and marketing	1,396	933	3,010	2,143
General & administrative	5,430	4,621	10,820	8,738
Patents administration and licensing	6,930	3,936	11,930	7,075
Development	12,828	11,413	25,742	22,801
Repositioning	604	—	604	—
	27,188	20,903	52,106	40,757
Income from operations	2,191	4,874	10,289	22,344
OTHER INCOME (EXPENSE):				
Other income	—	—	—	10,580
Interest and net investment income	315	534	810	1,009
Interest expense	(53)	(60)	(120)	(116)
Income before income taxes	2,453	5,348	10,979	33,817
INCOME TAX PROVISION	(1,565)	(2,190)	(4,257)	(3,932)
Net income	888	3,158	6,722	29,885
PREFERRED STOCK DIVIDENDS	(32)	(33)	(66)	(67)
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 856	$ 3,125	$ 6,656	$29,818
NET INCOME PER COMMON SHARE—BASIC	$ 0.02	$ 0.06	$ 0.12	$ 0.54
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING—BASIC	55,596	55,895	55,371	55,253
NET INCOME PER COMMON SHARE—DILUTED	$ 0.01	$ 0.05	$ 0.11	$ 0.49
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING—DILUTED	59,112	61,293	59,419	60,239

The accompanying notes are an integral part of these statements.

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

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2004	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before Preferred Stock dividends	$ 6,722	$ 29,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,848	4,737
Deferred revenue recognized	(30,613)	(28,372)
Increase in deferred revenue	49,784	54,488
Tax benefit from stock options	1,156	—
Non-cash compensation	2,241	906
Increase in deferred charges	(3,962)	(837)
Other	(81)	(120)
(Increase) decrease in assets:		
Receivables	(18,051)	(30,973)
Other current assets	2,309	2,559
(Decrease) increase in liabilities:		
Accounts payable	(2,300)	(1,851)
Accrued compensation	(392)	(719)
Other accrued expenses	4,162	1,148
Net cash provided by operating activities	15,823	30,851
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(76,436)	(74,993)
Sales of short-term investments	78,747	52,520
Purchases of property and equipment	(1,488)	(1,389)
Patent costs	(5,526)	(3,380)
Increase in notes receivable	—	(1,250)
Net cash used by investing activities	(4,703)	(28,492)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options and warrants and employee stock purchase plan	9,075	15,889
Payments on long-term debt, including capital lease obligations	(100)	(93)
Dividends on Preferred Stock	(37)	(42)
Repurchase of Common Stock	(30)	—
Net cash provided by financing activities	8,908	15,754
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,028	18,113
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,877	22,337
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 40,905	$ 40,450
SUPPLEMENTAL CASH FLOW INFORMATION:		
Issuance of restricted Common Stock and restricted stock units	$ 7,628	$ 389
Interest paid	$ 82	$ 95
Income taxes paid, including foreign withholding taxes	$ 3,495	$ 4,335
Non-cash dividends on Preferred Stock	$ 29	$ 25

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTATION :

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the financial position of InterDigital Communications Corporation (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) as of June 30, 2004, and the results of its operations for the three and six month periods ended June 30, 2004 and 2003, and the cash flows for the six months ended June 30, 2004 and 2003. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and accordingly do not include all of the detailed schedules, information and notes necessary to present fairly the financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's latest Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission (SEC) on March 15, 2004, as amended (Form 10-K). The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

The Company accounts for stock-based employee compensation under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations. No stock-option-based employee compensation cost is reflected in net income, as all options granted have an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) Statement No. 123, *Accounting for Stock-Based Compensation* , to stock-option-based employee compensation (in thousands except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income applicable to common shareholders—as reported	$ 856	$ 3,125	$ 6,656	$29,818
Add: Stock-based employee compensation expense included in reported net income	1,594	271	2,241	906
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards (a)	(3,299)	(3,674)	(7,921)	(6,686)
Net (loss) income applicable to common shareholders – pro forma	$ (849)	$ (278)	$ 976	$24,038
Net income per share – as reported – basic	0.02	0.06	0.12	0.54
Net income per share – as reported – diluted	0.01	0.05	0.11	0.49
Net loss per share – pro forma – basic	(0.02)	0.00	0.02	0.44
Net loss per share – pro forma – diluted	(0.02)	0.00	0.02	0.40

a) No tax benefit has been recognized for the stock-based employee compensation expense since the Company is in a net operating loss (NOL) credit carryforward position and the realization of such benefit cannot be assured.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Expected option life (in years)	4.76	4.50	4.76	4.50
Risk-free interest rate	3.73%	2.55%	3.37%	2.70%
Volatility	103%	107%	103%	107%
Dividend yield	—	—	—	—
Weighted average fair value	$14.73	$20.80	$20.12	$19.09

Equity instruments issued to non-employees for services are accounted for at fair value and are marked to market until service is complete. There were no such instruments issued in any period presented.

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

2. SIGNIFICANT EVENTS :

SANYO

In second quarter 2004, we entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with SANYO Electric Co., Ltd (SANYO) covering terminal units and infrastructure compliant with all 2G and 3G standards. This new patent license agreement updated and expanded a 1998 agreement between SANYO and one of our wholly-owned subsidiaries, InterDigital Technology Corporation (ITC), covering products compliant with TDMA-based standards. Under the new patent license agreement, SANYO paid us an upfront amount of $27.0 million in early third quarter 2004. We applied $750,000 of the upfront amount toward the satisfaction of royalties previously recognized as revenue in first quarter 2004 under the original 1998 patent license agreement. For sales of 2G and 3G products (excluding cdma2000 in Japan, the United States and the People's Republic of China and single mode PHS/PDC worldwide), we will recognize revenue based on SANYO's reported sales of such products. SANYO may apply its royalty obligation for such products against a $5.0 million credit provided to SANYO under the patent license agreement, until such credit is exhausted. Upon exhaustion, SANYO is required to pay royalties on a current basis. Due to the inherent difficulty in establishing reliable and objectively determinable evidence of fair value of the remaining portions of the patent license agreement covering sales of cdma2000 in Japan, the United States and the People's Republic of China, as well as worldwide sales of single mode PHS/PDC, and consistent with our revenue recognition policy, we will amortize evenly the remaining portion ($21.3 million) of the upfront payment from second quarter 2004 through fourth quarter 2008, the effective term of the patent license agreement for such products.

We and SANYO have agreed on a process for negotiating additional payments covering cdma2000 sales in Japan after the expiration of the prepaid period and for sales in the People's Republic of China and the United States in excess of an allotted number of prepaid units.

Nokia and Samsung Arbitrations

We believe that the patent license agreements we entered into in 2003 with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (together, Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) establish the financial terms necessary to define the royalty obligations of Nokia Corporation (Nokia) and Samsung Electronics Co. Ltd. (Samsung) on sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under their existing patent license agreements. Under the most favored licensee (MFL) provisions applicable to their respective patent license agreements, we believe both Nokia and Samsung are obligated to pay royalties on sales of covered products from January 1, 2002 by reference to the terms of the Ericsson (for infrastructure products) and Sony Ericsson (for terminal unit products) patent license agreements. The MFL provisions include terms for a period of review, negotiation, and dispute resolution with regard to the determination of the royalty obligations of both Nokia and Samsung. Nokia and Samsung each dispute our position. We are currently engaged in separate arbitration proceedings regarding these disputes as more fully discussed in Note 5.

We have not recorded revenue associated with the Nokia and Samsung patent license agreements related to sales of covered products during any period subsequent to January 1, 2002, and will not record any such revenue until all elements required for revenue recognition are met.

Acquisition

In July 2003, we entered into an Asset Purchase Agreement with Windshift Holdings, Inc., formerly known as Tantivy Communications, Inc. (Windshift), pursuant to which we acquired substantially all the assets of Windshift. Included in the acquisition were patents, patent applications, know-how, and state-of-the-art laboratory facilities related to cdma2000, smart antenna, WLAN and other wireless communications technologies. The acquisition included patents and patent applications to which we had previously acquired rights under a patent license agreement with Windshift. We acquired these assets to strengthen our existing cdma2000 patent portfolio and competitive position in that marketplace, to broaden our offering to potential licensees and technology partners, and to eliminate contingent payment obligations we had to Windshift in connection with the license we entered into with them in 2002 regarding the cdma2000-related patents.

The purchase price for the acquisition was $11.5 million, consisting of approximately $10.0 million in cash and cancellation of approximately $1.5 million in outstanding indebtedness owed to us by Windshift. In addition, under the terms of the Asset Purchase Agreement, Windshift will be entitled to receive, for a period of approximately five years, 1% and 4%, respectively, of amounts we receive from the licensing or sale of smart antenna and 802.11 intellectual property acquired from Windshift. We have not incurred any royalty obligation for the six months ended June 30, 2004. In addition to the purchase price, we incurred approximately $0.4 million of acquisition related costs.

We accounted for this asset acquisition under Statement of Financial Accounting Standards (FAS) 141 "Business Combinations." In connection with our acquisition, we opened an engineering design center in Melbourne, Florida and hired 10 individuals that were formerly employed by Windshift. Beginning July 31, 2003, we have included in our results of operations the results of the Melbourne, Florida design center, amortization of the acquired patents, and depreciation of the acquired fixed assets.

The following unaudited pro forma combined results of operations is provided for illustrative purposes only and assumes this acquisition of assets occurred as of January 1, 2003. The unaudited pro forma combined financial results do not purport to be indicative of the results of operations for future periods or the results that actually would have been realized had the entities been a single entity during these periods.

	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003

Pro forma revenue	$	25,777	$	63,101
Pro forma net income	$	2,055	$	26,892
Diluted net income per share, as reported	$	0.05	$	0.49
Diluted net income per share, pro forma	$	0.03	$	0.45

3. INCOME TAXES :

At December 31, 2003, the Company had federal NOL credit carryforwards of approximately $123 million, which will expire, if unused, in the years 2005 through 2021. Of this total, approximately $96 million is associated with the exercise of non-qualified stock options included in the NOL credit carryforward. However, any benefit from these NOL credit carryforwards has been deferred because the Company is in a cumulative NOL position.

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

A more-than-50% cumulative change in ownership occurred in 1992. As a result of such change, approximately $26 million of the Company's NOL credit carryforwards were limited as of December 31, 2003. If the Company experiences an additional more-than-50% cumulative ownership change, the full amount of the NOL credit carryforwards may become subject to annual limitation under Section 382. There can be no assurance that the Company will realize the benefit of any NOL credit carryforward.

The value of our deferred tax assets at December 31, 2003, including a net deferred tax asset of $42.1 million relating to our NOL credit carryforwards, was $81.3 million. At December 31, 2003, we have provided a full valuation allowance on all deferred tax assets. Our assessment did not take into consideration the potential realization of any gain contingencies and it is possible that the full valuation allowance, or a portion of it, could be reversed in second half 2004. The net value of benefits associated with the exercise of non-qualified stock options will be credited to additional paid-in capital in the year in which the benefits are realized.

The income tax provision in first half 2004 consisted of approximately $3.1 million withholding taxes associated with patent licensing royalties, principally from Japan, and also an accrual for income taxes based on an estimated effective tax rate for 2004 of 11%. Due to our NOL credit carryforwards we do not have a cash obligation associated with our federal income taxes, however approximately $3.4 million of the related NOL credit carryforwards that were utilized resulted from stock option exercises. The utilization of these credits has been recorded in additional paid-in capital. The income tax provision in second half 2003 of $3.9 million was principally composed of foreign withholding taxes.

4. INCOME PER SHARE :

The following table sets forth a reconciliation of the shares used in the basic and diluted net income per share computations:

	(In thousands, except per share data)					
	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share—basic: Income available to Common Shareholders	$ 856	55,596	$ 0.02	$ 3,125	55,895	$ 0.06
Effect of dilutive options, warrants and restricted stock units	—	3,339	(0.01)	—	5,398	(0.01)
Income per share—diluted: Income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	$ 856	58,935	$ 0.01	$ 3,125	61,293	$ 0.05

	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income per share—basic: Income available to Common Shareholders	$ 6,656	55,371	$ 0.12	$ 29,818	55,253	$ 0.54
Effect of dilutive options, warrants and restricted stock units	—	3,914	(0.01)	—	4,986	(0.05)
Income per share—diluted: Income available to Common Shareholders + dilutive effects of options, warrants and restricted stock units	$ 6,656	59,285	$ 0.11	$ 29,818	60,239	$ 0.49

For the three and six months ended June 30, 2004, options and warrants to purchase approximately 1.9 million and 1.3 million shares of Common Stock, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the weighted average market price of our Common Stock during the periods and, therefore, their effect would have been anti-dilutive.

For the three and six months ended June 30, 2003, options and warrants to purchase approximately 0.9 million and 1.0 million shares of Common Stock, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the weighted average market price of our Common Stock during the periods and, therefore, their effect would have been anti-dilutive.

5. LEGAL PROCEEDINGS :

Nokia

As previously reported in the Company's Form 10-K for the year ended December 31, 2003, as amended (Form 10-K), Form 10-Q for the quarter ended March 31, 2004 (March 31, 2004 Form 10-Q), and Form 8-K dated June 10, 2004, in July 2003 Nokia requested binding arbitration regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under its existing patent license agreement. Pursuant to the dispute resolution provisions of the patent license agreement, the arbitration has been filed in the International Court of Arbitration of the International Chamber of Commerce (ICC).

The binding arbitration relates to ITC's and the Company's claim that the patent license agreements ITC signed with Ericsson and Sony Ericsson in March 2003 defined the financial terms under which Nokia would be required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products commencing January 1, 2002. Nokia is seeking, among other things, a determination that their obligation under the existing patent license agreement is not defined by our license agreements with Ericsson and Sony Ericsson or has been discharged and a ruling that no royalty rate for its sales after January 1, 2002 can be determined by the panel until certain contractual conditions precedent have been satisfied. Nokia has additionally claimed that, in any event, the panel cannot award money damages.

In addition, Nokia sought to have reinstated certain reports, recommendations, and orders previously vacated by the United States District Court for the Northern District of Texas (Texas District Court). On June 8, 2004, the Texas District Court reinstated certain reports, recommendations, and orders (which remain under seal) relating to, among other things, claim construction and non-infringement of certain ITC patents by certain Ericsson products. We have appealed the Texas District Court's decision. The Texas District Court's June 8, 2004 order does not have any effect on the March 2003 resolution of the litigation with Ericsson or the patent license agreements signed by Ericsson and Sony Ericsson in March 2003.

Nokia also maintains that the validity and infringement of the patents are factors the arbitration panel should consider in determining Nokia's royalty obligations under the patent license agreement. We do not believe that the issues of patent validity or infringement are relevant to the arbitrable royalty dispute and we continue to vigorously contest Nokia's position.

The arbitration panel has informed the parties that January 2005 is the month during which the panel will conduct the arbitration evidentiary hearing and, absent a resolution of this matter or unexpected changes in the arbitration schedule approved by the arbitration panel, we expect a decision to be rendered thereafter.

Samsung

As previously reported in the Company's Form 10-K, March 31, 2004 Form 10-Q and June 29, 2004 Form 8-K, in 2002 during an arbitration proceeding, Samsung elected under its 1996 patent license agreement (1996 Samsung License Agreement) to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA wireless communications products, be determined in accordance with the terms of the Nokia patent license agreement, including its MFL provision. Similar to Nokia, the Company believes that Samsung's royalty obligation for sales commencing January 1, 2002 have been defined by the Ericsson and Sony Ericsson patent license agreements. In November 2003, Samsung initiated a binding arbitration against the Company and ITC. The arbitration has been filed with the ICC. Samsung is seeking to have an ICC arbitration panel determine that Samsung's obligations under the 1996 Samsung License Agreement are not defined by the license agreements with Ericsson and Sony Ericsson or, in the alternative, to determine the amount of the appropriate royalty due. We have counterclaimed for an arbitration decision requiring that Samsung pay us royalties on equivalent terms and conditions as those set forth in the Ericsson and Sony Ericsson patent license agreements for the period January 1, 2002 to December 31, 2006, and determining the amount of the royalty and payment terms. We are also seeking a declaration that the parties' rights and obligations are governed by the 1996 Samsung License Agreement, and that the Nokia patent license agreement dictates only Samsung's royalty obligations and most favored licensee rights for those products licensed under the 1996 Samsung License Agreement. Samsung has replied to our answer and counterclaim, maintaining Samsung's position (as set forth in its arbitration demand) and arguing that it has succeeded to all of Nokia's license rights. In the alternative, Samsung asserts that its royalty obligations should be governed by the MFL clause in the 1996 Samsung License Agreement. The parties are in the discovery phase of the arbitration at this time. A hearing date of February 2005 has been scheduled by the arbitration panel. The tentative hearing date is subject to timing of events in the arbitration involving the Company, ITC and Nokia (as referenced in the Form 10-K) and unexpected delays in the arbitration schedules.

Lucent

As previously reported in the Company's Form 10-K and March 31, 2004 Form 10-Q, in March 2004 Tantivy Communications, Inc., one of our wholly-owned subsidiaries, filed a lawsuit in the United States District Court for the Eastern District of Texas against Lucent Technologies, Inc. (Lucent), a leading manufacturer of cdma2000 equipment, for infringement of seven United States patents. The complaint seeks damages for past infringement and an injunction against future infringement as well as interest, costs, and attorney's fees. Lucent has responded to the complaint denying any infringement, seeking both a declaration that the patents are invalid and a dismissal of the complaint, and requesting attorneys' fees and costs.

Federal

As previously reported in the Company's Form 10-K and March 31, 2004 Form 10-Q, in November 2003 Federal Insurance Company (Federal), the insurance carrier for the settled litigation involving Ericsson Inc., delivered to us a demand for arbitration under the Pennsylvania Uniform Arbitration Act. Federal claims, based on their determination of expected value to the Company resulting from our settlement involving Ericsson Inc., that an insurance reimbursement agreement requires us to reimburse Federal approximately $28.0 million for attorneys' fees and expenses it claims were paid by it. On November 4, 2003, the Company filed an action in the United States District Court for the Eastern District of Pennsylvania (Pennsylvania District Court) seeking a declaratory judgment that the reimbursement agreement is void and unenforceable, seeking reimbursement of attorneys' fees and expenses which have not been reimbursed by Federal and which were paid directly by the Company in connection with the Ericsson Inc. litigation, and seeking damages for Federal's bad faith and breach of its obligations under the insurance policy. In the alternative, in the event the reimbursement agreement is found to be valid and enforceable, the Company is seeking a declaratory judgment that Federal is entitled to reimbursement based only on certain portions of amounts received by the Company from Ericsson Inc. pursuant to the settlement of the litigation involving Ericsson Inc. Federal has requested the Pennsylvania District Court to dismiss the action and/or to have the matter referred to arbitration. We have opposed such requests. The Pennsylvania District Court has held a hearing on Federal's requests, and a decision on such requests is pending. Prior to Federal's demand for arbitration, we had accrued a contingent liability of $3.4 million related to the insurance reimbursement agreement. If this matter results in us paying Federal substantially more than the amount accrued, it could have a material impact on our financial results.

Other

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

6. REPOSITIONING CHARGE :

In second quarter 2004, we reduced our headcount by 25 employees as part of a plan to strategically reposition the Company. We recorded a charge of approximately $0.6 million in second quarter 2004 associated with this repositioning. The charge was primarily comprised of severance and other cash benefits associated with the workforce reduction. However, we may adjust this charge due to changes in the anticipated timing and extent of administrative and other activities associated with the repositioning. Currently, these activities are expected to be completed by the end of the year.

	Severance and Related Costs	Other	Total
Expected total repositioning charge	$ 572	$ 96	$ 668
Repositioning charge recorded during second quarter 2004	572	32	604
Accrued repositioning liability at June 30, 2004	97	7	104

7. STOCK REPURCHASE AND REDEMPTION :

During second quarter 2004, our Board of Directors approved the repurchase of up to one million shares of our outstanding Common Stock (Repurchase Program). Under the Repurchase Program we may repurchase the shares from time-to-time through open-market purchases or prearranged plans. We began to repurchase shares of our Common Stock early in third quarter 2004. As of the date of this filing, we have repurchased approximately 500,000 shares of our Common Stock at a total cost of approximately $9.2 million.

During second quarter 2004, our Board of Directors approved the redemption of all shares outstanding of our $2.50 Cumulative Convertible Preferred Stock (Preferred Stock). We issued a redemption notice for 52,762 shares of Preferred Stock outstanding as of June 15, 2004. The holders of the Preferred Stock were entitled to convert their Preferred Stock at any time prior to the July 19, 2004 redemption date at a conversion rate of 2.08 shares of our Common Stock for each share of Preferred Stock. Between the date of our redemption notice and the redemption date, 50,738 shares of Preferred Stock were converted. In early third quarter 2004, we paid approximately $51,000 to fulfill our redemption obligation for the remaining 2,024 Preferred Shares.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto contained elsewhere in this document, in addition to InterDigital Communications Corporation's (collectively with its subsidiaries referred to as InterDigital, the Company, we, us and our) Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission (SEC) on March 15, 2004, as amended (Form 10-K), other reports filed with the SEC, and the "Statement Pursuant to the Private Securities Reform Act of 1995" below. Please refer to the Glossary of Terms located after the Table of Contents for a list and detailed description of the various technical, industry and other defined terms that are used in this Form 10-Q.

In second quarter 2004, we entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with SANYO Electric Co., Ltd (SANYO), covering terminal units and infrastructure compliant with all 2G and 3G standards. This new patent license agreement updated and expanded a 1998 agreement between SANYO and our wholly-owned subsidiary, InterDigital Technology Corporation (ITC), covering products compliant with TDMA-based standards. Under the new agreement, SANYO paid us an upfront amount of $27.0 million in early third quarter 2004. We applied $750,000 of the upfront amount toward the satisfaction of royalties previously recognized as revenue in first quarter 2004 under the original 1998 patent license agreement. For sales of 2G and 3G products (excluding cdma2000 in Japan, the United States and the People's Republic of China and single mode PHS/PDC worldwide), we will recognize revenue based on SANYO's reported sales of such products. SANYO may apply its royalty obligation for such products against a $5.0 million credit provided to SANYO under the patent license agreement, until such credit is exhausted. Upon exhaustion, SANYO is required to pay royalties on a current basis. Due to the inherent difficulty in establishing reliable and objectively determinable evidence of fair value of the remaining portions of the patent license agreement covering sales of cdma2000 in Japan, the United States and the People's Republic of China, as well as worldwide sales of single mode PHS/PDC, and consistent with our revenue recognition policy, we will amortize evenly the remaining portion ($21.3 million) of the upfront payment from second quarter 2004 through fourth quarter 2008, the effective term of the patent license agreement for such products.

We and SANYO have agreed on a process for negotiating additional payments covering cdma2000 sales in Japan after the expiration of the prepaid period and for sales in the People's Republic of China and the United States in excess of an allotted number of prepaid units.

In second quarter 2004, we made refinements to our strategy aimed at both increasing our focus on developing technology solutions that have strong IPR generation potential and creating product options aligned with market and customer needs. Specifically, we more clearly defined our focus on developing IPR-rich technologies that have high potential to enable broad, sustained patent licensing and to create product opportunities where there is clear customer demand. As a result of the refinements to our strategy, we repositioned our internal development resources and reduced our headcount by 25 employees. We recorded a charge of approximately $0.6 million in second quarter 2004 associated with this repositioning and expect related, annualized pre-tax cost savings of approximately $3.1 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K. A discussion of our critical accounting policies, and the related estimates, are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K. There have been no material changes in our existing accounting policies or estimates from the disclosure included in our Form 10-K.

SIGNIFICANT TRANSACTIONS / MATTERS

Nokia and Samsung Arbitrations

We believe that the license agreements we entered into in 2003 with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (together, Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) establish the financial terms necessary to define the royalty obligations of Nokia Corporation (Nokia) and Samsung Electronics Co. Ltd. (Samsung) on sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under their existing patent license agreements. Under the most favored licensee (MFL) provisions applicable to their respective patent license agreements, we believe both companies are obligated to pay royalties on sales of covered products beginning January 1, 2002 by reference to the terms of the Ericsson (for infrastructure products) and Sony Ericsson (for terminal unit products) license agreements. The MFL provisions include terms for a period of review, negotiation, and dispute resolution with regard to the determination of the royalty obligations of both Nokia and Samsung. Nokia and Samsung each dispute our position. We are currently engaged in separate arbitration proceedings regarding these disputes as more fully discussed in Part II, Item 1. Legal Proceedings.

We have not recorded revenue associated with the Nokia and Samsung license agreements related to sales of covered products during any period subsequent to January 1, 2002, and will not record any such revenue until all elements required for revenue recognition are met.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

We generated positive cash flow from operating activities of $15.8 million in the six month period ended June 30, 2004 (first half 2004) compared to $30.9 million in the six month period ended June 30, 2003 (first half 2003). The positive operating cash flow in first half 2004 arose principally from net receipts of approximately $60.3 million from patent licensing agreements. This included approximately $14.5 million from Ericsson and approximately $11.6 million from Sony Ericsson under their respective 2003 patent license agreements, $16.5 million from NEC Corporation of Japan (NEC) associated with our 3G patent license agreement, $10.0 million from Sharp Corporation (Sharp) related to our 3G patent license agreement, and $7.7 million from other licensees related to their respective patent license agreements. These receipts were partially offset by cash operating expenses of $45.0 million (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) and changes in working capital during first half 2004. The positive operating cash flow in first half 2003 arose principally from net receipts of approximately $68.0 million from patent license agreements. This included approximately $29.0 million from Ericsson and Sony Ericsson under their respective 2003 patent license agreements, $26.4 million from NEC associated with our 2G and 3G patent license agreements and 12.6 million from Sharp and other licensees related to previously recorded receivables under their respective patent license agreements. These receipts were partially offset by cash operating expenses of $35.1 million (operating expenses less depreciation of fixed assets, amortization of intangible assets and non-cash compensation) and changes in working capital during first half 2003.

Net cash used for investing activities in first half 2004 was $4.7 million compared to $28.5 million in first half 2003. We sold $2.3 million of short-term marketable securities, net of purchases, in first half 2004 compared to net purchases of $22.5 million in first half 2003. The decrease resulted from less cash provided by operating activities in first half 2004. We increased our investment in hardware and software slightly during first half 2004 to $1.5 million compared to $1.4 million in first half 2003. Our investment costs associated with patent filings increased $2.1 million to $5.5 million in first half 2004 compared to first half 2003, reflecting higher 3G patenting activity levels during the period.

Net cash provided by financing activities in first half 2004 was $8.9 million compared to $15.8 million in first half 2003. This decrease resulted from lower proceeds related to option and warrant exercises and the Company's employee stock purchase plan.

As of June 30, 2004, we had $123.3 million of cash, cash equivalents and short-term investments, compared to $105.9 million as of December 31, 2003. Our working capital, adjusted to exclude cash, cash equivalents, short-term investments, current maturities of debt and current deferred revenue, increased to $43.8 million at June 30, 2004 from $29.0 million at December 31, 2003 due primarily to the establishment of a $27.0 million account receivable from SANYO, related to our second quarter 2004 patent license agreement. This amount was offset by collections on other licensees' accounts.

During second quarter 2004, our Board of Directors approved the repurchase of up to one million shares of our outstanding Common Stock (Repurchase Program). Under the Repurchase Program we may repurchase the shares from time-to-time through open-market purchases or prearranged plans. We began to repurchase shares of our Common Stock early in third quarter 2004. As of the date of this filing, we have repurchased approximately 500,000 shares of our Common Stock at a total cost of approximately $9.2 million. We are capable of supporting our Repurchase Program, as well as operating requirements for the near future, through cash and short-term investments on hand, as well as other internally generated funds, primarily from 2G and 3G patent licensing royalties. At present, we do not anticipate the need to seek any additional financing through either bank facilities or the sale of debt or equity securities. We do not expect that any resolution of our dispute with Federal (as discussed in our Form 10-K) will prevent us from supporting our operating requirements for the near future.

As of December 31, 2003, we had net operating loss (NOL) credit carryforwards of approximately $123 million. We have a full valuation allowance against the related deferred tax asset. Our obligation to pay foreign source withholding taxes to Japan on the collection of Japanese sourced royalties has ceased effective July 1, 2004. We will continue to amortize foreign source withholding tax expense related to prepayments collected or due prior to July 1, 2004. We will continue to pay local and state income taxes, and alternative minimum taxes (AMT) when applicable. We do not expect to pay federal income tax (other than AMT) until these NOL credit carryforwards are fully utilized.

RESULTS OF OPERATIONS

Second Quarter 2004 Compared to Second Quarter 2003

Revenues

Revenues in second quarter 2004 increased $3.6 million to $29.4 million from $25.8 million in second quarter 2003. Royalties from NEC (36%), Sharp (30%) and Sony Ericsson (15%) collectively contributed 81% of our revenue in second quarter 2004. Recurring patent license royalty revenues in second quarter 2004 of $29.1 million increased $3.5 million or 14% from second quarter 2003. The increase in recurring patent license royalty revenue was primarily driven by growth in royalties from Sony Ericsson, Sharp and NEC of $1.3 million, $0.5 million, and $0.5 million, respectively.

Operating Expenses

Operating expenses increased 30% to $27.2 million (including a $0.6 million repositioning charge) in second quarter 2004 from $20.9 million in second quarter 2003. Our operating expenses continue to reflect our strong commitment to investing in the development of IPR-rich technologies that have high potential to enable broad, sustained patent licensing and to create product opportunities. The $6.3 million increase in operating expenses is primarily due to increases in personnel costs ($3.8 million), legal fees ($2.2 million), insurance premiums ($0.3 million) and patent amortization ($0.3 million). Personnel costs include salaries, benefits and other personnel related expenses such as training and severance. Approximately 77% of the increase in personnel costs is attributable to company-wide compensation initiatives instituted in first half 2004. Our company-wide compensation initiatives include the second quarter 2004 adoption of a long term incentive program applicable to a broad group of managers. The program includes a cash incentive award tied to long-term company performance goals and a grant of restricted stock units. Under the program we will substantially reduce the use of stock option grants as an equity incentive for these employees. We issued approximately 370,000 restricted stock units under the program in second quarter 2004 with a value of approximately $6.5 million on the date of the grant. We recognized approximately $0.9 million and $1.4 million of compensation expense related to our accrual for the cash-based incentive and amortization of the restricted stock units, respectively, during second quarter 2004. The addition of our Melbourne, Florida design center contributed 10% of the increase in personnel costs. The remaining increase in personnel costs is due primarily to severance costs associated with the second quarter repositioning, offset in part by related savings.

Development expenses in second quarter 2004 increased 12% to $12.8 million from $11.4 million in second quarter 2003 due primarily to a $2.0 million increase in salaries and benefits offset in part by approximately equal decreases in research and development materials and contract services.

Sales and marketing expenses of $1.4 million in second quarter 2004 increased 50% from $0.9 million in second quarter 2003 mainly due to increased personnel costs.

General and administrative expenses in second quarter 2004 increased 18% to $5.4 million from $4.6 million in second quarter 2003. The increase was related to a $0.5 million increase in personnel costs and a $0.3 million increase in insurance premiums.

Patents administration and licensing expenses increased 76% to $6.9 million in second quarter 2004 from $3.9 million in second quarter 2003 primarily the result of increases in patent enforcement costs of approximately $2.1 million and patent amortization of approximately $0.3 million. The increase in patent enforcement costs is directly attributable to our respective arbitrations and litigation with Nokia, Samsung and Lucent Technologies, Inc. (Lucent). The increase in patent amortization resulted from additional patents and related patent prosecution costs.

Other Income, Interest and Net Investment Income and Interest Expense

Interest and net investment income of $0.3 million in second quarter 2004 decreased $0.2 million from second quarter 2003 due to the timing of sales or maturities of available for sale securities with unrealized gains or losses.

Income Taxes

We do not expect to have any U.S. cash tax obligations other than alternative minimum tax until our U.S. NOL credit carryforwards are fully utilized or have expired. The income tax provision of $1.6 million in second quarter 2004 consisted of approximately $0.5 million of foreign source withholding taxes associated with patent license royalties, principally from Japan, and an accrual for income taxes based on an estimated effective tax rate for 2004. Our estimated effective tax rate is driven by our expected utilization of a portion of our NOL credit carryforwards that resulted from stock option exercises. The utilization of these credits will offset any cash obligation we may have had, however because these credits are recorded in additional paid-in capital, they do not offset the related book expense. The income tax provision in second quarter 2003 of $2.1 million was principally composed of foreign source withholding taxes.

First Half 2004 Compared to First Half 2003

Revenues

Revenues in first half 2004 decreased $0.7 million to $62.4 million from $63.1 million in first half 2003. The decrease was due to the one-time recognition of $20.3 million of revenue from Sony Ericsson in first half 2003 related to the pre-2003 sales of Sony Ericsson terminal units, essentially offset by substantial increases in recurring patent license royalties. Royalties from NEC (43%), Sharp (26%) and Sony Ericsson (14%) collectively contributed 83% of our revenue in first half 2004. Recurring patent license royalty revenues in first half 2004 of $61.5 million increased $18.9 million or 44% from first half 2003. The increase in recurring patent license royalty revenue was primarily driven by growth in royalties from NEC, Sony Ericsson and Sharp of $11.9 million, $2.6 million, and $2.4 million, respectively.

Operating Expenses

Operating expenses of $52.1 million in first half 2004 increased 28% from $40.8 million in first half 2003. Our operating expenses continue to reflect our strong commitment to investing in the development of IPR-rich technologies that have high potential to enable broad, sustained patent licensing and to create product opportunities. The $11.3 million increase in operating expenses is primarily due to increases in personnel costs ($6.5 million), legal fees ($3.2 million), insurance premiums ($0.7 million) and patent amortization ($0.6 million). Approximately 53% of the increase in personnel costs is due to company-wide compensation initiatives instituted in first half 2004 with 13% of the increase in personnel costs attributable to the addition of our Melbourne, Florida design center. The remaining increase in personnel costs is due to severance associated with our second quarter repositioning, expanded training and development programs, and the amortization, in first half 2003, of an accrued loss from a development agreement.

Development expenses in first half 2004 increased 13% to $25.7 million from $22.8 million in first half 2003 due primarily to a $3.4 million increase in salaries and benefits, partially offset by decreases in contract services.

Sales and marketing expenses of $3.0 million in first half of 2004 increased 40% from $2.1 million in first half 2003 mainly due to increased personnel and travel costs.

General and administrative expenses in first half 2004 increased 24% to $10.8 million from $8.7 million in first half 2003. The increase was related to a $1.1 million increase in personnel costs and a $0.7 million increase in insurance premiums.

Patents administration and licensing expenses increased 69% to $11.9 million in first half 2004 from $7.1 million in first half 2003 primarily the result of a $3.3 million increase in patent enforcement costs, a $0.6 million increase in patent amortization and increases in personnel cost of $0.4 million. The increase in patent enforcement costs relates to our respective arbitrations and litigation with Nokia, Samsung and Lucent. The increase in patent amortization resulted from additional patents and related patent prosecution costs.

Other Income, Interest and Net Investment Income and Interest Expense

Interest and net investment income of $0.8 million in first half 2004 decreased $0.2 million from first half 2003 due to the timing of sales or maturities of available for sale securities with unrealized gains or losses. We recognized $10.6 million as other income in first half 2003 related to the settlement of our litigation with Ericsson.

Income Taxes

We do not expect to have any U.S. cash tax obligations other than alternative minimum tax until our U.S. NOL credit carryforwards are fully utilized or have expired. The income tax provision of $4.3 million in first half 2004 consisted of approximately $3.1 million of foreign source withholding taxes associated with patent license royalties, principally from Japan, and an accrual for income taxes based on an estimated effective tax rate for 2004. Our estimated effective tax rate is driven by our expected utilization of a portion of our NOL credit carryforwards that resulted from stock option exercises. The utilization of these credits will offset any cash obligation we may have had, however because these credits are recorded in additional paid-in capital, they do not offset the related book expense. The income tax provision in second quarter 2003 of $2.1 million was principally composed of foreign source withholding taxes.

Expected Trends

Assuming a continued positive balance of royalty contributions from our existing licensees, we expect recurring patent licensing royalties from such licensees to be in the range of $27 million to $30 million per quarter over the remainder of 2004. We are also optimistic that we can conclude additional patent license agreements during 2004, which should be accretive. We continue to manage our ongoing operating expenses generally in line with our expectations and continue to make planned substantial investment in new technologies to strongly position InterDigital for the future. Also, we expect that the costs associated with the Nokia and Samsung arbitrations will continue to escalate in second half 2004 due to increased activity levels as we approach the evidentiary hearings scheduled for early 2005. Given these factors, we now expect that third quarter operating expenses will increase 6%-9% over second quarter 2004 levels (excluding repositioning charges), with fourth quarter levels equal to or slightly higher than those in the third quarter.

In addition, although we do not expect to have any U.S. cash tax obligations other than alternative minimum tax until our U.S. NOL credit carryforwards are fully utilized or have expired, our provision for income taxes may vary significantly from period-to-period. The expected variability is due to the character of our NOL credit carryforwards (the majority of which result from deductions related to the exercise of employee stock options) and recent changes in U.S./Japan source withholding tax treaties that became effective July 1, 2004. Throughout the remainder of 2004, we will continue to evaluate the need for a full valuation allowance against our deferred tax assets. In the event that we determine the valuation allowance is no longer needed, we will record the estimated realizable value of the deferred tax asset and begin providing for income taxes at a rate more consistent with our overall combined federal and state effective rates. Our provision will also include the amortization of prior foreign source withholding tax payments.

STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The foregoing Management's Discussion and Analysis contains forward-looking statements reflecting, among other things, the Company's beliefs and expectations as to (i) recurring royalties from existing licensees and cash flow in 2004; (ii) our business, our ability to enter into additional patent licenses in 2004, and our ability to create future product opportunities; (iii) our strategy; (iv) the effect of our organizational repositioning; (v) operating expenses for the remainder of 2004 and the impact of both our long-term compensation program and the increasing arbitration and litigation activities on our expenses for the remainder of 2004; (vi) the impact of any resolution of our dispute with Federal on our ability to meet our operating requirements; (vii) our lack of need to seek additional financing; (viii) our AMT and federal income tax obligations and the effect of changes in foreign source withholding tax treaties; (ix) the impact of the license agreements with Ericsson and Sony Ericsson on defining the royalty obligations of Nokia and Samsung under their respective patent license agreements with us; (x) the timing of the Nokia and Samsung arbitrations and Lucent litigation; and (xi) our stock repurchase program. Words such as "may," "future," "anticipate," expect," "believe," "will," "continue to," "assuming," "ongoing," "optimistic" or similar expressions are intended to identify such forward-looking statements.

Such forward-looking statements are subject to risks and uncertainties. We caution readers that actual results and outcomes could differ materially from those expressed in or anticipated by such forward-looking statements. You should not place undue reliance on these forward-looking statements, which are only as of the date of this Form 10-Q. In addition to the associated risks and uncertainties identified in this Form 10-Q as well as other information contained herein, each of the following factors should be considered in evaluating our business and prospects.

Our recurring royalties and cash flow are dependent on (i) the market share and performance of our primary licensees in selling their products; (ii) the economy and sales trends in the wireless market; (iii) whether we are able to expand our customer, partner and licensing relationships; (iv) whether new licensees or existing licensees make past payments for royalties due or pre-payments against future royalties; (v) our ability to successfully prosecute, enforce and protect our patents and other intellectual property rights; and (vi) unanticipated changes in the schedule or costs associated with the Nokia and Samsung arbitrations and Lucent litigation. In addition, our cash flow may be affected by a delay in the anticipated receipt of payments from our licensees, including payments from Ericsson, Sony Ericsson, Sharp, and NEC, or a failure by any licensee to realize our and market projections for sales of covered products.

Our strategy may be impacted by the foregoing factors as well as (i) difficulties or delays in our strategic initiatives; (ii) our ability to successfully develop market relevant technology and patent our technologies; (iii) changes in technology preferences of strategic partners or consumers or changes in consumer demand; (iv) the availability or development of substitute or competitive technologies; (v) our ability to leverage product opportunities as well as leverage our existing and enter into additional strategic relationships; and (vi) the repositioning of our internal technology development resources.

Additionally, Nokia's and Samsung's royalty obligations may be affected by (i) resolution of the Nokia and Samsung arbitrations as to the applicability of the terms of the Ericsson and Sony Ericsson licensing agreements to the royalty obligations of Nokia and Samsung under their respective license agreements; (ii) the actual processes, decisions, and results from the respective Nokia and Samsung arbitrations and Lucent litigation; and (iii) any future legal proceedings that could adversely affect the royalty obligations or payments under Nokia's and Samsung's respective patent license agreements.

Our expectations regarding repositioning charges are dependent upon (i) the timing and expense of administrative activities required by the repositioning; (ii) the projected annualized pre-tax cost savings associated with the repositioning; (iii) unanticipated demand for our engineering services; and (iv) our inability to hire and/or retain personnel necessary to conduct our technology development programs.

Our expectations as to operating expenses and requirements are based on (i) our level of continued self funding (which in turn may be affected by our ability to enter into or expand strategic relationships); (ii) current opportunities for future development and product options; (iii) our ability to continually improve operational efficiencies and effectiveness on an organizational level. Our operating expenses could be affected by unanticipated development costs and technical, financial or other difficulties or delays related to the development of our technologies and products. In addition, an unexpected resolution or change in timing of the legal proceeding with Federal could impact our current expectations as to the outcome as well as our operating expenses. Further, our failure to generate sufficient cash flows over the long-term, based on the factors listed above and those set forth in our Form 10-K could adversely impact operating requirements and our current lack of need to seek additional financing.

Our expectations as to our various tax obligations may be affected by unanticipated changes in foreign source withholding tax treaties, accounting treatment or payment of federal income tax. Our expectations as to our income tax expense may be affected by the above factors as well as our potential utilization of deferred tax assets and management's ongoing assessment of the valuation of such deferred tax assets.

While the Company believes that the Ericsson and Sony Ericsson license agreements establish the financial terms necessary to define the royalty obligations of Nokia and Samsung under their respective patent license agreements, any dispute (including arbitration), and the length and resolution of any dispute relating thereto, and with regard to the Lucent litigation, could affect the timing and amount of anticipated cash and revenue related to any applicable patent license agreements.

Our Repurchase Program may be affected by the potential acquisition price of our stock, our cash requirements, and other market and economic factors relating to the Repurchase Program.

Factors affecting one forward-looking statement may affect other forward-looking statements. We undertake no duty to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in quantitative and qualitative market risk from the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company's management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in rules and forms of the Securities and Exchange Commission. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2004 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Nokia

As previously reported in the Company's Form 10-K for the year ended December 31, 2003, as amended (Form 10-K), Form 10-Q for the quarter ended March 31, 2004 (March 31, 2004 Form 10-Q), and Form 8-K dated June 10, 2004, in July 2003 Nokia requested binding arbitration regarding Nokia's royalty payment obligations for its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products under its existing patent license agreement. Pursuant to the dispute resolution provisions of the patent license agreement, the arbitration has been filed in the International Court of Arbitration of the International Chamber of Commerce (ICC).

The binding arbitration relates to ITC's and the Company's claim that the patent license agreements ITC signed with Telefonaktiebolaget LM Ericsson and Ericsson Inc. (together, Ericsson) and Sony Ericsson Mobile Communications AB (Sony Ericsson) in March 2003 defined the financial terms under which Nokia would be required to pay royalties on its worldwide sales of 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA products commencing January 1, 2002. Nokia is seeking, among other things, a determination that their obligation under the existing patent license agreement is not defined by our license agreements with Ericsson and Sony Ericsson or has been discharged and a ruling that no royalty rate for its sales after January 1, 2002 can be determined by the panel until certain contractual conditions precedent have been satisfied. Nokia has additionally claimed that, in any event, the panel cannot award money damages.

In addition, Nokia sought to have reinstated certain reports, recommendations, and orders previously vacated by the United States District Court for the Northern District of Texas (Texas District Court). On June 8, 2004, the Texas District Court reinstated certain reports, recommendations, and orders (which remain under seal) relating to, among other things, claim construction and non-infringement of certain ITC patents by certain Ericsson products. We have appealed the Texas District Court's decision. The Texas District Court's June 8, 2004 order does not have any effect on the March 2003 resolution of the litigation with Ericsson or the patent license agreements signed by Ericsson and Sony Ericsson in March 2003.

Nokia also maintains that the validity and infringement of the patents are factors the arbitration panel should consider in determining Nokia's royalty obligations under the patent license agreement. We do not believe that the issues of patent validity or infringement are relevant to the arbitrable royalty dispute and we continue to vigorously contest Nokia's position.

The arbitration panel has informed the parties that January 2005 is the month during which the panel will conduct the arbitration evidentiary hearing and, absent a resolution of this matter or unexpected changes in the arbitration schedule approved by the arbitration panel, we expect a decision to be rendered thereafter.

Samsung

As previously reported in the Company's Form 10-K, March 31, 2004, Form 10-Q and June 29, 2004 Form 8-K, in 2002 during an arbitration proceeding, Samsung Electronics Co. Ltd. (Samsung) elected under its 1996 patent license agreement (1996 Samsung License Agreement) to have Samsung's royalty obligations commencing January 1, 2002 for 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE/TDMA wireless communications products, be determined in accordance with the terms of the Nokia patent license agreement, including its MFL provision. Similar to Nokia, the Company believes that Samsung's royalty obligation for sales commencing January 1, 2002 have been defined by the Ericsson and Sony Ericsson patent license agreements. In November 2003, Samsung initiated a binding arbitration against the Company and ITC. The arbitration has been filed with the ICC. Samsung is seeking to have an ICC arbitration panel determine that Samsung's obligations under the 1996 Samsung License Agreement are not defined by the license agreements with Ericsson and Sony Ericsson or, in the alternative, to determine the amount of the appropriate royalty due. We have counterclaimed for an arbitration decision requiring that Samsung pay us royalties on equivalent terms and conditions as those set forth in the Ericsson and Sony Ericsson patent license agreements for the period January 1, 2002 to December 31, 2006, and determining the amount of the royalty and payment terms. We are also seeking a declaration that the parties' rights and obligations are governed by the 1996 Samsung License Agreement, and that the Nokia patent license agreement dictates only Samsung's royalty obligations and most favored rights for those products licensed under the 1996 Samsung License Agreement. Samsung has replied to our answer and counterclaim, maintaining Samsung's position (as set forth in its arbitration demand) and arguing that it has succeeded to all of Nokia's license rights. In the alternative, Samsung asserts that its royalty obligations should be governed by the MFL clause in the 1996 Samsung License Agreement. The parties are in the discovery phase of the arbitration at this time. A hearing date of February 2005 has been scheduled by the arbitration panel. The tentative hearing date is subject to timing of events in the arbitration involving the Company, ITC and Nokia (as referenced in the Form 10-K) and unexpected delays in the arbitration schedules.

Other

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

Item 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(e) Issuer Purchases of Equity Securities.

The following table provides information concerning the Company's purchases of its Common Stock, $0.01 par value, during second quarter 2004:

Period	Total Number of Shares (or Units) Purchased	Average Price paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1-April 30, 2004	6,000(1)	$(1)	—	—
May 1-May 31, 2004	—	—	—	—
June 1-June 30, 2004	—	—	—	1,000,000(2)
Total	6,000(1)	$(1)	—	1,000,000(2)

(1) On April 8, 2004, the Company issued 6,000 restricted stock units to Robert S. Roath, a member of the Company's Board of Directors, in exchange for Mr. Roath's surrender and cancellation of 6,000 shares of the Company's restricted Common Stock (restricted stock). The restricted stock was part of a previous grant awarded to Mr. Roath on November 8, 1999. Both the restricted stock units and restricted stock were awarded under the Company's 1999 Restricted Stock Plan.

(2) During second quarter 2004, our Board of Directors approved the repurchase of up to one million shares of our outstanding Common Stock (Repurchase Program). Under the Repurchase Program we may repurchase the shares from time-to-time through open-market purchases or prearranged plans. We began to repurchase shares of our Common Stock early in third quarter 2004. As of the date of this filing, we have repurchased approximately 500,000 shares of our Common Stock of a total cost of approximately $9.2 million.

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

At our 2004 Annual Meeting of Shareholders (the Meeting) held on June 3, 2004, our Shareholders elected Messrs. Robert S. Roath, Robert W. Shaner and Alan P. Zabarsky as directors of the Company, and ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2004. Our Shareholders elected Mr. Roath as a director by a vote of 47,764,774 shares in favor and 5,835,973 shares withheld. Our Shareholders elected Mr. Shaner as a director by a vote of 51,929,227 shares in favor and 1,671,520 shares withheld. Our Shareholders elected Mr. Zabarsky as a director by a vote of 50,736,831 shares in favor and 2,863,916 shares withheld. Messrs. D. Ridgely Bolgiano, Harry G. Campagna, Steven T. Clontz, Howard E. Goldberg and Edward B. Kamins also continue to serve their terms as directors. The vote ratifying the appointment of PricewaterhouseCoopers LLP was 50,809,869 shares in favor, 2,671,309 shares against, and 119,569 shares abstaining. There were no broker non-votes with respect to any matters voted on at this Meeting.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

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

Exhibits

10.60	Indemnity Agreement dated March 15, 2004 by and between InterDigital and Edward B. Kamins [Pursuant to Item 601 of Regulation S-K, the Indemnity Agreements, which are substantially identical in all material respects, except as to the parties thereto, between InterDigital and the following individuals were not filed: Robert W. Shaner and Alan P. Zabarsky].
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Howard E. Goldberg.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Richard J. Fagan.

(b) The following is a list of Current Reports furnished or filed on Form 8-K during second quarter 2004:

(1) We furnished a Current Report on Form 8-K dated June 29, 2004 under Item 5—Other Events and Required FD Disclosure, regarding the Company's receipt of a provisional timetable for the evidentiary hearing in late February 2005 as set by the arbitration panel overseeing the ongoing arbitration proceeding between the Company, InterDigital Technology Corporation (ITC), the Company's wholly-owned subsidiary, and Samsung Electronics Co. Ltd.

(2) We furnished a Current Report on Form 8-K dated June 23, 2004 under Item 5—Other Events and Required FD Disclosure, to provide revenue recognition guidance in relation to the Company's announcement and furnishing of a Form 8-K on June 3, 2004, in connection with a patent license agreement executed by and between the Company's patent holding subsidiaries and SANYO Electric Co., Ltd.

(3) We furnished a Current Report on Form 8-K dated June 14, 2004 under Item 5—Other Events and Required FD Disclosure, to announce that the Company's Board of Directors approved the repurchase of up to one million shares of the Company's outstanding Common Stock, and approved the redemption of all shares outstanding of the Company's $2.50 Cumulative Convertible Preferred Stock.

(4) We furnished a Current Report on Form 8-K dated June 10, 2004 under Item 5—Other Events and Required FD Disclosure, to report that in connection with the ongoing arbitration proceeding involving Nokia Corporation's patent license agreement with the Company and ITC, on June 8, 2004, the United States District Court for the Northern District of Texas (Texas District Court) entered an order reinstating certain reports, recommendations, and orders (which remain under seal) previously vacated by the Texas District Court in the now-settled litigation of Ericsson, Inc. v. InterDigital and ITC.

(5) We furnished a Current Report on Form 8-K dated June 3, 2004 under Item 5—Other Events and Required FD Disclosure, to announce that the Company's patent holding subsidiaries entered into a worldwide, non-exclusive, royalty-bearing patent license agreement with SANYO Electric Co., Ltd, covering terminal units and infrastructure compliant with all 2G and 3G standards.

(6) We furnished a Current Report on Form 8-K dated May 18, 2004 under Item 9—Regulation FD Disclosure, in order to make available information to our investors and the investing public in response to a request for additional information made by Institutional Shareholder Services to the Company. The additional information pertained to fees for tax advice and preparation that the Company reported in its proxy statement for the 2004 Annual Meeting of Shareholders.

(7) We filed a Current Report on Form 8-K dated May 10, 2004 under Item 7—Financial Statements, Pro Forma Financial Information and Exhibits, and Item 12—Results of Operations and Financial Condition, relating to the Company's announcement of its results of operations and financial condition for the quarter ended March 31, 2004.

(8) We filed a Current Report on Form 8-K dated April 30, 2004 under Item 5—Other Events and Required FD Disclosure, and Item 7—Financial Statements, Pro Forma Financial Information and Exhibits, relating to the Company's announcement that it expected to report financial results for the first quarter 2004 which exceeded financial analysts' expectations.

(9) We furnished a Current Report on Form 8-K dated April 16, 2004 under Item 5—Other Events and Required FD Disclosure, to announce an internal corporate repositioning by the Company.

(10) We furnished a Current Report on Form 8-K dated April 6, 2004 under Item 5—Other Events and Required FD Disclosure, relating to the Company's Board of Directors' approval of changes to the Company's compensation program.

SIGNATURES

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

INTERDIGITAL COMMUNICATIONS CORPORATION

Date: August 9, 2004

/s/ HOWARD E. GOLDBERG
Howard E. Goldberg
President and Chief Executive Officer

Date: August 9, 2004

/s/ R. J. FAGAN
Richard J. Fagan
Chief Financial Officer

Exhibit 10.60

INDEMNITY AGREEMENT

This Indemnity Agreement, dated as of March 15, 2004, is made by and between InterDigital Communications Corporation, a Pennsylvania corporation (the “Company”), and EDWARD B. KAMINS (the “Indemnitee”).

RECITALS

1. The Company is aware that competent and experienced persons are increasingly reluctant to serve as directors, officers or agents of corporations unless they are protected by comprehensive liability insurance and indemnification, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such directors, officers and other agents.

2. The statutes and judicial decisions regarding the duties of directors and officers are often difficult to apply, ambiguous, or conflicting, and therefore fail to provide such directors, officers and agents with adequate, reliable knowledge of legal risks to which they are exposed or information regarding the proper course of action to take.

3. Plaintiffs often seek damages in such large amounts and the costs of litigation may be so enormous (whether or not the case is meritorious), that the defense and/or settlement of such litigation is often beyond the personal resources of directors, officers and other agents.

4. The Company believes that it is unfair for its directors, officers and agents and the directors, officers and agents of its subsidiaries to assume the risk of huge judgments and other expenses which may occur in cases in which the director, officer or agent received no personal profit and in cases where the director, officer or agent was not culpable.

5. The Company recognizes that the issues in controversy in litigation against a director, officer or agent of a corporation such as the Company or its subsidiaries are often related to the knowledge, motives and intent of such director, officer or agent, that he is usually the only witness with knowledge of the essential facts and exculpating circumstances regarding such matters, and that the long period of time which usually elapses before the trial or other disposition of such litigation often extends beyond the time that the director, officer or agent can reasonably recall such matters; and may extend beyond the normal time for retirement for such director, officer or agent with the result that he, after retirement or in the event of his death, his spouse, heirs, executors or administrators, may be faced with limited ability and undue hardship in maintaining an adequate defense, which may discourage such a director, officer or agent from serving in that position.

6. Based upon their experience as business managers, the Board of Directors of the Company (the “Board”) has concluded that, to retain and attract talented and experienced individuals to serve as directors, officers and agents of the Company and its subsidiaries and to encourage such individuals to make the business decisions necessary for the success of the Company and its subsidiaries, it is necessary for the Company to contractually indemnify its directors, officers and agents and the directors, officers and agents of its subsidiaries, and to assume for itself maximum liability for expenses and damages in connection with claims against such directors, officers and agents in connection with their service to the Company and its subsidiaries, and has further concluded that the failure to provide such contractual indemnification could result in great harm to the Company and its subsidiaries and the Company’s shareholders.

7. Section 1746 ("Section 1746") of the Pennsylvania Business Corporation Law (the "PABCL"), under which the Company is organized, permits the Company to indemnify its representatives (such as directors, officers, employees and agents) by agreement and to indemnify persons who serve, at the request of the Company, as the representatives of other corporations or enterprises, and expressly provides that the indemnification provided by the PABCL is not exclusive.

8. The Company desires and has requested the Indemnitee to serve or continue to serve as a director, officer or agent of the Company and/or one or more subsidiaries of the Company free from undue concern for claims for damages arising out of or related to such services to the Company and/or one or more subsidiaries of the Company.

9. Indemnitee is willing to serve, or to continue to serve, the Company and/or one or more subsidiaries of the Company, provided that he is furnished the indemnity provided for herein.

AGREEMENT

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions

a. For the purposes of this Agreement, "agent" of the Company means any person who is or was a director, officer, employee or other representative of the Company or a subsidiary of the Company; or is or was serving at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company as a director, officer, employee or representative of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise; or was a director, officer, employee or representative of a foreign or domestic corporation which was a predecessor corporation of the Company or a subsidiary of the Company, or was a director, officer, employee or representative of another enterprise at the request of, for the convenience of, or to represent the interests of such predecessor corporation.

b. For the purposes of this Agreement, "expenses" include all out-of-pocket costs of any type or nature whatsoever (including, without limitation, all attorneys' fees and related disbursements, punitive and other damages, judgments, fines, penalties, excise taxes assessed with respect to an employee benefit plan, and amounts paid or to be paid in settlement), actually and reasonably incurred by the Indemnitee in connection with either the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under this Agreement or PABCL or otherwise.

c. For the purposes of this Agreement, "proceeding" means any threatened, pending, or completed action, suit or other proceeding, whether civil, criminal, arbitrational, administrative, or investigative.

d. For the purposes of this Agreement, “subsidiary” means any corporation of which more than 10% of the outstanding voting securities is owned directly or indirectly by the Company, by the Company and one or more of its other subsidiaries, or by one or more of its other subsidiaries.

2. Agreement to Serve . The Indemnitee agrees to serve and/or continue to serve as agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an agent of the Company, so long as he is duly appointed or elected and qualified in accordance with the applicable provisions of the Bylaws of the Company or any subsidiary of the Company or until such time as he tenders his resignation in writing; provided, however, that nothing contained in this Agreement is intended to create any right to continued employment by Indemnitee.

3. Liability Insurance

a. The Company hereby covenants and agrees that, so long as the Indemnitee continues to serve as an agent of the Company and thereafter so long as the Indemnitee could be subject to any possible proceeding by reason of the fact that the Indemnitee was an agent of the Company, the Company, subject to Section 3(c), shall promptly obtain and maintain in full force and effect directors’ and officers’ liability insurance (“D&O Insurance”) in reasonable amounts from established and reputable insurers.

b. In all policies of D&O Insurance, the Indemnitee shall be named as an insured in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company’s directors, if the Indemnitee is a director; or of the Company’s officers, if the Indemnitee is not a director of the Company but is an officer; or of the Company’s employees, if the Indemnitee is not a director or officer but is a employee.

c. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or the Indemnitee is covered by similar insurance maintained by a subsidiary of the Company.

4. Mandatory Indemnification . Subject to Section 8 below, the Company shall indemnify the Indemnitee as follows:

a. To the extent the Indemnitee has been successful on the merits or otherwise in defense of any proceeding (including, without limitation, an action by or in the right of the Company) to which the Indemnitee was a party by reason of the fact that he is or was an agent of the Company, or by reason of anything done or not done by him in any such capacity, at any time in the past, present or future, against all expenses relating to such proceeding;

b. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Company) by reason of the fact that he is or was an agent of the Company, or by reason of anything done or not done by him in any such capacity, at any time in the past, present or future, the Company shall indemnify the

Indemnitee against any and all expenses and liabilities of any type whatsoever relating to such proceeding, provided the Indemnitee acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful;

c. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding by or in the right of the Company by reason of the fact that he is or was an agent of the Company, or by reason of anything done or not done by him in any such capacity, at any time in the past, present or future, the Company shall indemnify the Indemnitee against all expenses and liabilities related to such proceeding, provided the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification under this subsection 4(c) shall be made in respect to any claim, issue or matter as to which such person shall have been finally adjudged to be liable to the Company by a court of competent jurisdiction unless and only to the extent that the court in which such proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such amounts which the court shall deem proper; and

d. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that he is or was an agent of the Company, or by reason of anything done or not done by him in any such capacity, at any time in the past, present or future, and if prior to, during the pendency or after completion of such proceeding Indemnitee becomes deceased, the Company shall indemnify the Indemnitee's heirs, executors and administrators against any and all expenses and liabilities of any type whatsoever actually and reasonably incurred to the extent Indemnitee would have been entitled to indemnification pursuant to Sections 4(a), 4(b), or 4(c) above were Indemnitee still alive.

For purposes of this Section 4, the Indemnitee shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company so long as the act or failure to act of said Indemnitee is not finally adjudged by a court or other body of competent jurisdiction to have constituted willful misconduct or recklessness. For purposes of the preceding sentence, a finding by a court or other body of competent jurisdiction that an act or failure to act of the Indemnitee or some other agent of the Company constitutes "misconduct" or words of like import shall not, of itself, create a presumption that the Indemnitee has engaged in willful misconduct or recklessness under this Agreement, the Company's Articles of Incorporation, the Company's bylaws or under the PABCL.

For purposes of this Section 4, the termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnitee did not act in good faith and in a manner that he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Notwithstanding the foregoing, the Company shall not be obligated to indemnify the Indemnitee for expenses or liabilities of any type whatsoever for which payment is actually made to or on behalf of Indemnitee and not subsequently contested or returned under a valid and collectible insurance policy of D&O Insurance, or a valid and enforceable indemnity clause, bylaw or agreement.

5. Partial Indemnification . If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any expenses or liabilities of any type whatsoever incurred by him related to a proceeding, but not entitled, however, to indemnification for the total amount of such expenses and liabilities, the Company shall nevertheless indemnify the Indemnitee for such total amount except as to the portion to which the Indemnitee is not entitled.

6. Mandatory Advancement of Expenses . Subject to Section 8(a) below, the Company shall advance all expenses incurred by the Indemnitee in connection with the investigation, defense, settlement or appeal of any proceeding to which the Indemnitee is a party or is threatened to be made a party by reason of the fact that the Indemnitee is or was an agent of the Company, or by reason of anything done or not done by him in any such capacity, at any time in the past, present or future. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall be determined ultimately that the Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to the Indemnitee within twenty (20) days following delivery of a written request therefor by the Indemnitee to the Company, accompanied by evidence in reasonable detail of the expenses that the Indemnitee has incurred.

7. Notice and Other Indemnification Procedures .

a. Promptly after receipt by the Indemnitee of notice of the commencement of or the threat of commencement of any proceeding, the Indemnitee shall, if the Indemnitee believes that indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or threat of commencement of any proceeding.

b. If, at the time of the receipt of a notice of the commencement of a proceeding pursuant to Section 7(a) hereof, the Company has D&O insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

c. In the event the Company shall be obligated to pay the expenses of any proceeding against the Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by the Indemnitee (such approval not to be unreasonably withheld), upon the delivery to the Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by the Indemnitee and the retention of such counsel by the Company, the Company will not be liable to the Indemnitee under this Agreement for any fees of counsel subsequently incurred by the Indemnitee with respect to the same proceeding but the Indemnitee shall have the right to employ his own counsel in any such proceeding at the Indemnitee’s expense. If the Company has assumed the defense of any proceeding and the Indemnitee reasonably concludes at any time thereafter that there might be a conflict of interest between the Company and the Indemnitee in the conduct of any such defense, or if the Company shall not, in fact, have continuously employed counsel to assume the defense of such proceeding, then the Indemnitee shall have the right to retain his own counsel and the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

8. Exceptions . Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

a. To indemnify or advance expenses to the Indemnitee with respect to proceedings or claims initiated or brought voluntarily by the Indemnitee and not by way of defense, unless (i) such indemnification or advancement is expressly required to be made by law, (ii) the proceeding was authorized by the Board, (iii) such indemnification or advancement is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under the PABCL or (iv) the proceeding is brought to establish or enforce a right to indemnification or advancement under this Agreement or any other statute or law or otherwise as required under the PABCL;

b. To indemnify the Indemnitee for any liabilities or expenses incurred by the Indemnitee with respect to any proceeding instituted by the Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous;

c. To indemnify the Indemnitee under this Agreement for any amounts paid in settlement of a proceeding unless the Company consents to such settlement or the Company unreasonably withholds such consent;

d. To indemnify the Indemnitee under this Agreement for any expenses incurred on account of any act of failure to act of the Indemnitee which is finally adjudged by a court or other body of competent jurisdiction to have constituted willful misconduct or recklessness. For purposes of the preceding sentence, a finding by a court or other body of competent jurisdiction that an act or failure to act of the Indemnitee or some other agent of the Company constitutes "misconduct" or words of like import shall not, of itself, create a presumption that the Indemnitee has engaged in willful misconduct or recklessness under this Agreement, the Company's Articles of Incorporation, the Company's bylaws or under the PABCL;

e. To indemnify the Indemnitee under this Agreement if a court of competent jurisdiction finally adjudges that such indemnification is illegal, including, without limitation, by virtue of such indemnification being in violation of public policy or any provision of law.

9. Non-Exclusivity . The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which the Indemnitee may have under any provision of law, the Company's Articles of Incorporation or Bylaws, the vote of the Company's shareholders or disinterested directors, other agreements, or otherwise, both as to action in his official capacity and to action in another capacity while occupying his position as an agent of the Company, and the Indemnitee's rights hereunder shall continue after the Indemnitee has ceased acting as an agent of the Company and shall inure to the benefit of the heirs, executors and administrators of the Indemnitee.

10. Enforcement. Any right to indemnification or advancement of expenses granted by this Agreement to Indemnitee shall be enforceable by or on behalf of Indemnitee in any court of competent jurisdiction if (i) the claim for indemnification or advancement of expenses is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. Indemnitee, in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting his claim. It shall be a defense to any action for which a claim for indemnification is made under this Agreement (other than an action brought to enforce a claim for expenses pursuant to Section 6 hereof, provided that the required undertaking has been tendered to the Company) that Indemnitee is not entitled to indemnification because of the limitations set forth in Sections 4 and 8 hereof. Neither the failure of the Company (including its Board or its shareholders) to have made a determination prior to the commencement of such enforcement action that indemnification of Indemnitee is proper in the circumstances, nor an actual determination by the Company (including its Board or its shareholders) that such indemnification is improper, shall be a defense to the action or create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise.

11. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

12. Survival of Rights.

a. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an agent of the Company and shall continue thereafter so long as Indemnitee could be subject to any possible proceeding by reason of the fact that Indemnitee was serving in the capacity referred to herein.

b. The Company shall require any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

13. Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification and advancement of expenses to the Indemnitee to the fullest extent permitted by law including those circumstances in which indemnification and advancement of expenses would otherwise be discretionary.

14. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of the Agreement (including without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable and to give effect to Section 13 hereof.

15. Modification and Waiver . No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

16. Notice . All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand and receipted for by the party addressee or (ii) if mailed by certified or registered mail with postage prepaid, on the third business day after the mailing date. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

17. Governing Law . This Agreement shall be governed exclusively by and construed according to the laws of the Commonwealth of Pennsylvania as applied to contracts entered into and to be performed entirely within Pennsylvania.

18. Counterparts . This Agreement may be executed in any number of counterparts (including by facsimile), all of which, taken together, shall constitute one instrument.

19. Gender; Number . Words of gender may be read as masculine, feminine or neuter, as required in context. Words of number may be read as singular or plural, as required by context.

The parties hereto have entered into this Indemnity Agreement effective as of the date first above written.

INTERDIGITAL COMMUNICATIONS CORPORATION

/s/ Lawrence F. Shay

Name: Lawrence F. Shay
Title: General Counsel

Address of Company:
781 Third Avenue,
King of Prussia, PA 19406

INDEMNITEE:

/s/ Edward B. Kamins

Name: Edward B. Kamins
Title: Director

Exhibit 31.1

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

I, Howard E. Goldberg, President and Chief Executive Officer, InterDigital Communications Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of InterDigital Communications Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ HOWARD E. GOLDBERG
Howard E. Goldberg
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF INTERDIGITAL COMMUNICATIONS CORPORATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of InterDigital Communications Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ R. J. FAGAN

Richard J. Fagan
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the “Company”) for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Howard E. Goldberg, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 9, 2004

/s/ HOWARD E. GOLDBERG
Howard E. Goldberg
President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the accompanying Quarterly Report on Form 10-Q of InterDigital Communications Corporation (the "Company") for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Fagan, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 9, 2004

/ s/ R. J. FAGAN
Richard J. Fagan
Chief Financial Officer