10-K

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INTERDIGITAL COMMUNICATIONS CORP
CROSS-REFERENCE: WAS INTL. MOBILE MACHINES CORP (AMS) - 10/92
TICKER-SYMBOL: IDC EXCHANGE: AMS

2200 RENAISSANCE BOULEVARD
KING OF PRUSSIA, PA 19406
215-278-7800

INCORPORATION: PA

COMPANY-NUMBER: CUSIP NUMBER: 46002610
COMMISSION FILE NO.: 1-11152
IRS-ID: 23-1882087

SIC: SIC-CODES: 3663, 8742
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INDUSTRY-CLASS: COMMUNICATIONS EQUIPMENT

FYE: 12/31

AUDITOR: ARTHUR ANDERSEN & CO.

STOCK-AGENT: SECURITY TRUST COMPANY, N.A.

INVESTOR-CONTACT: MS. MARCIA BEXLEY - MGR SHAREHOLDER RELATIONS

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

INTERDIGITAL COMMUNICATIONS CORPORATION
2200 RENAISSANCE BOULEVARD,
KING OF PRUSSIA, PA 19406
215-278-7800

FOR FISCAL YEAR ENDED : 12/31/92
COMMISSION FILE NUMBER: 0-10797

STATE OF INCORPORATION: PENNSYLVANIA
IRS EMPLOYER I.D.: 23-1882087

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $ .01 PER SHARE	

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
$2.50 CUMULATIVE CONVERTIBLE PREFERRED STOCK, PAR VALUE $ .10 PER SHARE	

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.
YES X. NO .

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

On March 30, 1993, the aggregate market value of the Registrant's Common Stock, $ .01 par value, held by non-affiliates of the Registrant was approximately $103,882,000.

On March 30, 1993, there were 29,379,623 shares of the Registrant's Common Stock, $ .01 par value, outstanding.

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PART I

ITEM 1. BUSINESS

Background

InterDigital Communications Corporation (the "Company" or "InterDigital") engaged in four related lines of business during 1992. As used herein, the Company refers to InterDigital Communications

Corporation and its subsidiaries, or such subsidiaries individually or collectively, as the context may require.

The Company's primary revenue generating business unit is engaged in the development, production, marketing, and sale of wireless digital communications products. Substantially all of the Company's revenues are derived from this business unit. The Company currently offers the UltraPhone Wireless Digital Loop Carrier (R) (the "UltraPhone (R)"), a digital radiotelephone system for local telephone service, which is based on a patented and proprietary Time Division Multiple Access ("TDMA") technology. The Company, through the UltraPhone, seeks to provide cost-effective basic telephone service in areas where the cost of installing, upgrading or maintaining conventional wireline telephone service is high. The Company believes that the primary application is for domestic and foreign telephone company applications where new service, expansion, upgrading from party lines and the cost effective replacement of existing wireline telephone systems is required. It is directly marketing the UltraPhone to domestic telephone operating companies ("TELCOs") and to distributors in and to the governments of foreign countries. The Company also sells its UltraData (R) wireless data communications products to selected markets. Sales of UltraPhone accounted for approximately 81% of the total net sales of InterDigital during 1992.

The Company's primary business unit is also engaged in the research and development of various applications of its patented and proprietary Broadband Code Division Multiple Access ("B-CDMA") technology and various products derived therefrom. B-CDMA technology has application to the current cellular and future personal communications services ("PCS") marketplace as well as certain other wireless digital communications markets and products.

The Company's second business unit performs certain research, engineering, marketing or training services for third parties, including the U.S. Government. These services have been provided for various other organizations under contract, including digital cellular engineering and marketing development for Hughes Network Systems, Inc. ("HNS"), tactical digital cellular development for the United States Army, wireless PBX

[*3] [HARDCOPY PAGE 3]

development for a communications equipment manufacturer and training programs for various governmental agencies.

Through its subsidiary, InterDigital Patents Corporation ("Patents Corp"), the Company is engaged in the protection and exploitation of the Company's intellectual property. See "Intellectual Property Rights" and 5 of the Notes to Consolidated Financial Statements.

The remaining business unit is engaged in the ownership and management of rural TELCOs (the "TELCO Business"). The Company entered this line of business through the acquisition of Haviland Telephone Company, Inc. See "TELCO Business" and Note 3 of the Notes to Consolidated Financial Statements.

The Company was incorporated in 1972 and since such date has expended substantial sums for research and development purposes, to establish a market for its technologies and to develop manufacturing capabilities. Accordingly, as of December 31, 1992, the Company's accumulated deficit was $135,396,000. There can be no assurance that the Company will achieve sufficient levels of revenue and gross margin to attain and maintain profitable operations. However, management believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1993. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Position, Liquidity and Capital Requirements".

The UltraPhone System

General

The UltraPhone system is designed to provide a wireless digital local telecommunications capability, with a central network station serving subscribers omni-directionally at distances of up to approximately a 40 mile radius from the network station (depending upon terrain). The network station provides interconnection to the worldwide public switched telephone network.

The digital UltraPhone project began in 1981 when the Company engaged M/A-COM, Inc. ("M/A-COM") as an independent contractor to commence development of a spectrum-efficient digital mobile radio system. Field trials commenced in September 1986. Over 175 UltraPhone systems have been ordered to date by customers, including certain Regional Bell Operating Companies and independent telephone companies in the United States and various telephone authorities in Mexico, Kuwait, the Philippines, China, Indonesia, Venezuela and Canada.

The Company's TDMA technology, which is employed by the UltraPhone, utilizes advanced digital communications techniques

[*4] [HARDCOPY PAGE 4]

to allow the broadcast of four simultaneous, telephone quality, full-duplex conversations in each 25 KHz radio channel pair, compared to only one conversation per channel pair for conventional analog radiotelephone systems (including analog cellular radio). Full duplex conversations are those in which parties may transmit and receive simultaneously. The Company believes that no other company has demonstrated a digital system with as high a degree of voice quality and spectrum efficiency (i.e., the number of communications that can be transmitted over a given set of frequencies) for local telephone service. The spectrum efficiency of the Company's system allows lower system operating costs because the cost of each radio channel at the network station can be shared by up to four times more users (or "subscribers") (which allows the same user population to be served with only 25% of the network station equipment) than conventional analog systems. Spectrum efficiency also offers a solution to the increasingly serious problem of radio frequency congestion. Additionally, because of its voice coding techniques and systems architecture, the UltraPhone provides a high level of security and protection from interception or monitoring. The Company believes that this is an important advantage in both fixed and mobile telephone use.

In the late 1980's, the UltraPhone system began receiving market acceptance. In September 1988, the UltraPhone system was accepted for use on telephone systems of Rural Electrification Association ("REA") borrowers. The REA, an agency of the United States Department of Agriculture, provides loans to independent telephone companies to finance REA accepted capital equipment purchases. In 1992, 1991 and 1990, the Company received orders for $1,420,000, $6,600,000 and $1,300,000, respectively, for the purchase of UltraPhone equipment financed through REA funding. In 1989, Contel Service Corporation classified the Company's UltraPhone system as "Acceptable" which constitutes approval for the purchase and use of the Company's UltraPhone system by Contel's operating telephone companies. Also in 1989, Bell Communications Research ("Bellcore") completed evaluation and acceptance of the UltraPhone system in response to a request by certain Regional Bell Operating Companies. In addition, the current UltraPhone system has been certified for operation in Canada, Mexico, Indonesia, Russia and all the Commonwealth of Independent States (CIS). Further, on April 20, 1990, the UltraPhone system obtained type acceptance from Telefonos de Mexico ("Telmex") and in August 1990, the Mexican Secretariat of Communications and Transports approved the use of radio frequencies for the UltraPhone systems in Mexico.

While the Company believes that the UltraPhone wireless loop system has advantages over conventional wireline telephone systems and other wireless communications technologies for the provision of local telephone service in nonmetropolitan areas, its ability to maintain and increase its market position will be dependent upon continued approval and acceptance by telephone

[*5] [HARDCOPY PAGE 5]

companies or telephone authorities and their customers for basic telephone service and regulatory approvals for operation in selected radio frequencies. Radio frequency allocations may be changed from time to time which can have a positive or negative impact on a customers' ability to install and operate UltraPhone systems. See "Government Regulations".

Product Description

The UltraPhone is designed to provide cost-effective high quality voice and data transmission to large numbers of single or clustered customers over a broad region with inherent privacy for fixed or mobile communications utilizing radio frequencies in an efficient manner. The UltraPhone system consists of an advanced digital radio network station and individual subscriber stations. The radio network station consists of a radio carrier station and a central office terminal which provides interconnection to the local telephone central office and the public switched telephone network.

The UltraPhone wireless digital local circuit is transparent to the subscriber and any type of standard telephone instrument can be used with the UltraPhone. The UltraPhone is also transparent to the central office and it is generally not necessary to modify or replace existing switching equipment. Transparency in this context means that there is no discernible difference to a subscriber or the central office between a wireline system connection and an UltraPhone system.

The network (or "base") station for the UltraPhone is configured in a standard cabinet with rack-mounted digital cards, and is modularly expandable through the addition of new radio channel elements. It is designed for automatic, unattended operation with low maintenance and is capable of serving (on a cost-effective basis) up to 564 subscribers, depending upon terrain, channel availability and other factors. Each channel element supports four simultaneous full-duplex telephone conversations multiplexed in a standard 25 KHz radio channel.

The UltraPhone subscriber station, which includes a radio, power amplifier, digital circuit card assembly and other components, is installed on or near the subscriber's premises. Standard telephone instruments (including multiple extension phones and ancillary instruments such as answering machines, facsimile transmission machines and data terminals) plug in by means of ordinary house telephone wiring. A small antenna establishes the radio link to the base station. The unit is powered by standard AC, DC electrical current or by solar power, in each case with battery back-up for power outages. The UltraPhone subscriber unit is available in a variety of configurations including a fixed unit, a transportable unit, a 24-line or an 8-line cluster and a mobile package for use in vehicles.

[*6] [HARDCOPY PAGE 6]

InterDigital also markets international versions of the UltraPhone system. The systems comply with the recommendations of international organizations including the Consultative Committee on International Telephone and Telegraph ("CCITT") and the International Radio Consultative Committee ("CCIR"). The international versions of the UltraPhone currently offer the same range of subscriber configurations available domestically as mentioned above.

InterDigital has developed a rapidly deployable, transportable version of the fixed UltraPhone system, which is designed to meet customer's needs for high quality telephone communications in natural disasters, emergencies and temporary installations. With a transportable UltraPhone on site, telephone service can be provided in a matter of hours. The transportable UltraPhone has been used, for example, in Puerto Rico to restore communications at the U.S. Naval Base after Hurricane Hugo; in Panama during "Operation Just Cause"; in Glen Cove, New York after the crash of Avianca Airlines Flight 52; during a week-long battle against a fire in a remote area of Colorado; in Kuwait after Operation Desert Storm; and in Florida after Hurricane Andrew.

Marketing

In North America the telephone operating companies are the primary target market for the UltraPhone system. The telephone industry in the United States is highly concentrated, with the seven Regional Bell Operating Companies and ten large independent TELCOs accounting for substantially all of the total market. The Canadian market is also dominated by a few large TELCOs. Internationally, the government operated Post, Telegraph and Telephone operations ("PTT's") constitutes the primary target market.

The Company believes that the future demand for the UltraPhone system in the United States is based on growth of the subscriber base (i.e., new subscribers), upgrade to single-party service of party lines and replacement of existing wireline plant due to wear and tear. The Company believes that the UltraPhone has the capability to address effectively the market for party line upgrades and replacement of existing wireline plant in rural areas and may also be able to compete in special situations in other markets where flexible, rapid deployment and/or digital capability is necessary. The UltraPhone, as a radio-based system, may also have a competitive advantage over wire and cable installations because it can serve subscribers in any direction from the central office, whereas wire and cable can only serve subscribers along the line where the wire or cable is installed. Potential demand internationally is based upon the need to both establish and improve telecommunications.

[*7] [HARDCOPY PAGE 7]

The Company has sold UltraPhone systems to 13 of the largest 25 telephone companies as reported by the U.S. Telephone Association (ranked in terms of number of access lines as of December 31, 1990). UltraPhone systems have been sold to 5 of the 7 Regional Bell Operating Companies and major independents, including GTE, Alltel, PTI Communications, Big Bend Telephone Company and Citizens Utilities Company. The Company has also sold UltraPhone system to a number of smaller TELCOs.

Internationally, the Company has developed a network of 21 distributors and independent sales representatives to market the UltraPhone system worldwide under both exclusive and non-exclusive arrangements. The Company believes that neither the distributors nor the independent sales representatives currently sell products competitive with the UltraPhone. UltraPhone systems are often ordered for multi-system projects. Sales lead-times for such projects may exceed 12 months. As a result, UltraPhone production and sales are not stable throughout the year and require a make-to-order manufacturing scheduling and production environment. The key obstacles to selling UltraPhone systems in international markets are the allocation of sufficient and compatible radio frequency and the availability of appropriate financing. It has been the Company's policy to require that an irrevocable letter of credit confirmed by a U.S. bank for the full amount of the sale be in place prior to the shipment of non-domestic orders except in cases where, based upon previous experience, credit risk is considered by the Company to be acceptable.

The Company's two principal customers accounted for an aggregate of approximately 65% of the Company's UltraPhone sales in 1992 as follows: P.T. Telkom (Indonesia) - 54.1% and Telmex - 10.8% of UltraPhone sales. During 1991 and 1990, Telmex was the Company's largest customer, with purchases of $12,684,000 and $6,759,000, or 40.3% and 42.7% of UltraPhone sales, respectively. See Note 4 of the Notes to Consolidated Financial Statements.

As of March 29, 1993, the Company's backlog of orders for UltraPhone systems was approximately $4,000,000 (which includes $2,800,000 of orders from Haviland), substantially all of which is expected to be delivered in 1993, compared to a backlog of approximately $31,000,000 as of March 25, 1992. See "Management's Discussion and Analysis - Revenue' and Operating Expenses'."

In addition, in December 1992, the Company received an additional order from a foreign distributor for UltraPhone systems valued at approximately $8,000,000, which is not reflected in the backlog listed above. The terms and technical specifications of this order, however, have undergone, and continue to undergo, revision and renegotiation, resulting in a portion of this order being shipped in the first quarter pursuant to revised terms and conditions. Following completion of

[*8] [HARDCOPY PAGE 8]

currently ongoing negotiations, it is anticipated that the remaining portion of this order will be shipped in the second and third quarters of 1993. As a result of these negotiations, the Company currently anticipates the aggregate sales value of all shipments under this order will be approximately $4,000,000. Also, at the present time, the Company is negotiating an order with the same distributor for which third party financing arrangements have been finalized. When received, this order would produce approximately $16,000,000 of additional revenues, which would be paid at the time of shipment.

Production

Beginning in 1987, the Company engaged HNS to manufacture UltraPhone network stations and subscriber units. In 1989, the Company also engaged HNS to provide certain engineering services relating to enhancements to the UltraPhone system. Later that year, the Company cancelled its manufacturing agreement with HNS and commenced its own direct manufacturing of UltraPhone network stations. In February 1992, the Company and HNS entered into a formal termination of the production relationship between them. Litigation is currently pending between the Company and HNS relating to, among other things, the termination of these agreements. See "Legal Proceedings".

The Company currently manufactures, integrates and tests UltraPhone network stations and subscriber units at its own facilities. Component parts for the UltraPhone system are purchased by the Company from many different sources. For example, in May 1986, the Company contracted to purchase from Alcatel Network System/Transcom ("Alcatel", formerly a business unit of ITT Corporation), a subsidiary of Alcatel N.V., the telephone central office interface required for all UltraPhone network stations sold by the Company. That relationship continues to the present time on an informal basis. Should the Company's relationship with Alcatel or any other supplier cease in the future, the Company believes that alternative sources of component parts are available to it on terms acceptable to it.

During 1992 and continuing into 1993, the Company has experienced certain supply and quality problems relating to certain components used in the UltraPhone. The Company and its suppliers have worked closely together to remedy the quality issues which are not currently expected to have continuing adverse effects to the Company beyond mid-1993. See Management's Discussion and Analysis - "Revenues".

Competition

In the United States, the UltraPhone wireless local loop system competes primarily against conventional wireline telecommunications technology, including wireline multiplexing systems known as "subscriber loop carrier systems". One of the

[*9] [HARDCOPY PAGE 9]

primary methods by which the UltraPhone competes with wireline systems is on the basis of subscriber cost. With a wireline system, the cost of the system increases approximately proportionally to the increased distance between the central telephone office and the subscriber, whereas increases in distance have no effect on the cost of the UltraPhone system, within its service area. In addition, as the potential customer base of the Company continues to become more familiar with the use of wireless radio-based telephone systems for local telephone service, the Company anticipates that it will compete favorably with wireline systems in terms of customer confidence in wireless systems such as the UltraPhone.

Although there are other companies involved in developing and marketing radiotelephone equipment (including cellular radio systems and equipment) for use in rural areas in the United States, the Company is not aware of any other company which is selling digital, spectrum-efficient radiotelephony products in the United States for basic telephone service. To the Company's knowledge, most competing radio-based telephone systems for use in rural areas cannot support the high subscriber density of the UltraPhone system, and those that do are not omni-directional systems like the UltraPhone, which can support both mobile and fixed subscribers. Further, compared to older analog systems and cellular radio systems, the UltraPhone offers greater privacy in communications. Internationally, the UltraPhone competes against conventional wireline technology as well as other radio-based carrier systems including cellular telephone and thin-route microwave systems.

Analog fixed or mobile radiotelephone systems are sometimes used to provide basic telephone services. Analog systems provide lower voice quality and require significantly greater radio frequency spectrum than the UltraPhone. Digital cellular telephone systems now emerging in the market may be used to provide telephone services in lieu of UltraPhone. International rural radiotelephone products typically operate in microwave frequencies. Microwave rural radio products require significant radio spectrum for operation, require line-of-site transmission, and cannot support mobile radio communications. The UltraPhone economizes on radio spectrum and can be used in fixed or mobile applications. Digital cellular systems are designed for mobile applications and do not adequately support facsimile, data communications, payphone or clustered service applications. These and other systems may compete with the UltraPhone for end-user applications.

In the United States, a number of companies sell products which compete with the UltraPhone. The Rockwell Corporation has marketed a digital radiotelephone system for basic telephone service which operates within the range of frequencies authorized by the Federal Communications Commission ("FCC") for use in providing basic telephone service via radio in rural areas. In

[*10] [HARDCOPY PAGE 10]

addition, SR Telecom, Inc., a Canadian company, has sold radiotelephone systems to provide radio-based telephone service to rural areas in the United States. The use of such equipment to provide basic telephone service in the U.S. requires the telephone companies using such equipment to receive a waiver of FCC rules since the equipment does not operate on available radio frequencies. There may also be additional companies engaged in wireless telephone development of which the Company is not aware, and there are other companies involved in telecommunications equipment research and development (including AT&T and Motorola), many of which have financial resources greatly in excess of those of the Company.

Outside the United States, a number of companies, including SR Telecom, Inc., Ericsson Radio Systems Ab, Nippon Electric Co., Ltd. and Alcatel N.V., sell rural radio systems for basic telephone exchange service applications, certain of which use digital technology, but the Company believes such systems do not offer the same capabilities as UltraPhone in international markets.

HNS has begun to actively market digital wireless communications systems incorporating the Company's TDMA technology. The Company believes that it is entitled to royalties associated with revenues realized by HNS; the Company and HNS are currently adverse parties in litigation. See "Legal Proceedings".

The Company believes that it will be necessary to devote substantial funds and efforts toward continued commercialization of UltraPhone technology in order to obtain and maintain a competitive position.

The Company believes that its UltraPhone product and TDMA and B-CDMA technologies may have significant application in the area of mobile telephony. See "Technology Development". The Company believes that the primary competition for these applications will come from the numerous companies which currently serve the market for mobile telephones and are also engaged in development activities in that area. The market for mobile telephones today consists primarily of analog automobile telephones, known generically as "cellular mobile radio". Other companies (including Motorola, Inc., AT&T, Ericsson Radio Systems Ab, and Northern Telecom, Ltd.) involved in mobile and portable radiotelephony, including cellular radio, have substantial investments in their technology and equipment and financial resources greatly in excess of those of the Company, and are developing digital spectrum-efficient mobile telephone technology. Some of these companies also provide mobile telephony switching equipment to cellular operators, which the Company does not provide. In addition, a digital spectrum efficient prototype using Narrowband Code Division Multiple

[*11] [HARDCOPY PAGE 11]

Access ("N-CDMA") technology has been demonstrated by a third party for mobile telephony and personal communications.

In June 1992, the Cellular Telecommunications Industry Association ("CTIA") announced that it would ask the Telecommunications Industry Association ("TIA") to begin the standardization process for N-CDMA digital technology. Qualcomm, Inc. claims to hold certain key patent rights to N-CDMA technology. N-CDMA is an alternative technology to the B-CDMA and TDMA technologies for digital wireless communications. The incorporation of such N-CDMA technology into a second digital cellular standard could have an adverse effect on the exploitation and acceptance of the Company's TDMA technology.

Government Regulation

Federal and state governments, with federal regulation administered by the FCC, regulate the telecommunications industry in the United States. The sale of telecommunications equipment in the U.S. such as the UltraPhone is regulated primarily to ensure compliance with federal technical standards for interconnection, radio emissions and non-interference (type acceptance). The Company has received type acceptance from the FCC for the UltraPhone system currently being marketed. The need for subsequent approvals will depend on the nature of any subsequent modifications to the equipment. Internationally, the current UltraPhone system has been certified for use in Canada, Mexico, Indonesia, and Russia.

United States operators of the UltraPhone system (e.g., the telephone companies) are required to obtain licenses from the FCC to operate any radio system. Approvals by state regulatory commissions are also required under certain circumstances. FCC licenses have been obtained by the telephone companies currently using UltraPhone to provide telephone service.

On December 10, 1987, the FCC issued its Report and Order "In the Matter of Basic Exchange Telecommunications Radio Service" ("BETRS"). The BETRS Report and Order made additional spectrum available for telephone companies to provide basic telephone service via radio in rural areas. It provided for 94 channels to be used to provide BETRS: 26 channels in the 450 MHz band (where UltraPhone operates); 50 channels in the 800 MHz band; and 18 channels in the 150 MHz band. The authorizations are on a co-primary basis, which essentially means that they will be available for use by radiotelephone systems unless they are already in use. On December 12, 1988, the FCC issued a Report and Order authorizing cellular licensees to provide BETRS on a secondary basis.

[*12] [HARDCOPY PAGE 12]

Technology Development

General

The Company's TDMA technology and architecture have been designed for fixed, mobile and portable applications. A limited number of subscriber units for mobile telephone service have been sold by the Company.

The Company engages in continual research and development for digital wireless telecommunications technologies, including its patented TDMA and B-CDMA technologies. Other applications exist or are being developed which may use the Company's TDMA technology. The Electronic Industry Association ("EIA") and TIA adopted TDMA as a United States cellular technology under the EIA/TIA IS-54 standard in May 1990. In January of 1992, the CTIA voted unanimously to reaffirm its adoption of TDMA as an industry standard technology. Digital cellular equipment based on TDMA is now being manufactured by HNS, Ericsson Inc., and others. TDMA standards have also been adopted under the European GSM and Japanese standards. Motorola Inc. has announced the development of a TDMA digital Special Mobile Radio (SMR) product. The Company has 32 U.S. and many foreign patents covering various aspects of digital wireless TDMA technologies which may apply to these and other developments. See "Intellectual Property Rights".

In October of 1992, the Company acquired SCS Mobilecom and SCS Telecom ("SCS") of Port Washington, NY, a research and development company specializing in digital telecommunications. SCS was a pioneer in spread spectrum technology research and has been engaged in Broadband Code Division Multiple Access (B-CDMA) digital wireless communications research and development. SCS conducted various field tests using B-CDMA prototypes for Millicom, Inc. and Cox Enterprizes, Inc. for use in PCS in 1992. The Company now has 7 U.S. patents covering various aspects of B-CDMA technologies. B-CDMA technology is currently being applied to wireless PBX applications for cordless office telephones under a contract with a third party. United States Cellular, Inc. agreed in December of 1992 to allow the Company to test B-CDMA as an overlay technology to its cellular services. In January of 1993, the TIA voted to evaluate B-CDMA technology in the TR 45.5 working group as a potential cellular telephone industry standard. B-CDMA digital wireless communications provide broad bandwidth signals which offer improved immunity to interference, low cost design, and high communications traffic capacities.

The market for the development, production and sales of digital cellular telephone equipment is comprised of companies that are much larger and have substantially greater resources than the Company. In addition, certain of those companies have established market positions in analog cellular telephony which

[*13] [HARDCOPY PAGE 13]

can result in additional barriers to the Company's attempt to obtain a competitive position in that market. The Company currently has no plans to enter the TDMA digital cellular market directly. The Company has performed, however, certain engineering and marketing services for HNS on a time and materials basis respecting digital cellular technology. The Company recorded revenues of $1,232,000, $2,140,000 and $2,736,000 from HNS for such services during 1992, 1991, and 1990, respectively.

In May 1990, EIA and TIA issued the EIA/TIA IS-54 standard. IS-54 utilizes TDMA as the recognized access standard for digital cellular systems. The Company believes that licenses for certain of its patents may be required in order for third parties to manufacture and sell digital cellular products in compliance with IS-54. The Company has stated in response to a request by the TIA, that it would be willing to license any of its patents necessary to comply with IS-54 on reasonable terms and conditions free of unfair discrimination, including reasonable royalty rates and license fees.

In February 1992, the Company granted to HNS a non-exclusive, non-transferable, worldwide royalty bearing license to the Company's intellectual property for use in the field of wireless local telecommunications. Such license agreement included an up-front, non-refundable, initial payment to the Company by HNS of $2,500,000. Also in February 1992, HNS granted to the Company a non-exclusive, non-transferable, worldwide royalty bearing license to manufacture and sell products based on HNS's Extended TDMA ("E-TDMA") patents.

On September 15, 1992, the Company entered into a series of agreements with Acuity Digital, Inc. ("Acuity"), a recently formed corporation, covering licensing of technology and consulting services. The agreements grant a non-exclusive, non-transferable license to manufacture, market and sell products utilizing the Company's patents and technology in return for a $500,000 non-refundable one-time fee plus a royalty on future product sales and usage. The $500,000 fee, which was recognized as revenue during the third quarter, was payable in two installments of $250,000, one of which was paid on September 15, 1992, and one of which is over 90 days past due as of March 29, 1993. See "Management's Discussion and Analysis - Operating Expenses". The Company has also contracted to provide engineering services to Acuity for the purpose of modifying the UltraPhone product to be suitable for use in Acuity's planned digital mobile communications network. As of

December 31, 1992, $228,000 in consulting revenues were recognized, all of which are over 90 days past due as of March 29, 1993. The ability of the Company to collect amounts due from Acuity may be dependent, in part, upon the ability of Acuity to obtain further capital to pursue its business objectives.

[*14] [HARDCOPY PAGE 14]

In October 1990, the Company granted HNS a non-exclusive worldwide license to use the Company's patents in the field of digital cellular telephony and expects to receive a royalty on the sale of digital cellular equipment by HNS. HNS has developed and is marketing a digital cellular system that complies with the North American digital cellular standard. See "Intellectual Property Rights."

In November 1991, the Company entered into a contract with the U.S. Army to provide it with a modified UltraPhone digital radiotelephone system. Under the contract, which was completed in 1992, the Company and the Army demonstrated the feasibility of employing the UltraPhone technology to enhance the Army's program for tactical digital cellular communications in moving battlefield environments. The Company recorded revenues of $426,000 and $57,000, respectively, in 1992 and 1991 related to the contract.

The International Telecommunications Union ("ITU") World Administrative Radio Conference ("WARC") has supported a global allocation of radio frequencies for PCS at 1.7 to 2.7 GHz in 1992. The United States Federal Communications Commission has evaluated an allocation of radio frequencies for emerging technologies between 1.8 and 2.0 GHz. The allocation of frequencies for PCS may provide significant market opportunities for the application of the TDMA and B-CDMA technologies developed by the Company.

Intellectual Property Rights

The Company, through its 94.24% owned subsidiary, InterDigital Patents Corporation, currently holds 57 U.S. patents, of which 39 relate to digital spectrum-efficient radiotelephony technology and expire at various times between 2004 and 2010. The Company has over 20 other patents pending, and claims copyright protection on certain of the software and firmware used in the UltraPhone system. The Company has also obtained TDMA patents in 28 foreign countries and has applied for additional patents in foreign countries. Although the Company believes that its patents provide a base for UltraPhone technology, and that its patents cover certain aspects of TDMA and B-CDMA spectrum efficient point-to-multipoint digital radiotelephony communications systems, the value of patents in the advanced telecommunications industry is difficult to predict due to rapidly changing technology.

SEL Alcatel, Siemens AG and Phillips Patentverwaltung GmbH have each filed petitions in the German patent office to revoke the issuance of the Company's broad TDMA "system" patent which was granted in Germany. Nokia Cellular Systems Oy has filed a petition in the Finnish patent office to revoke the issuance of the Company's broad TDMA "System" patent which was granted in Finland. If these patents are revoked, the Company's TDMA patent

[*15] [HARDCOPY PAGE 15]

licensing opportunities, if any, in Germany, Finland and other countries could be adversely affected.

Patents Corp is currently in discussions with several major telecommunications equipment manufacturers about the possibility of licenses under its TDMA patents. There are no assurances that the outcome of these discussions will be favorable for the Company.

The status of patents involves complex legal and factual questions and the breadth of patent claims is uncertain. Accordingly, there can be no assurance that patent applications filed by the Company will result in patents being issued or that its patents, and any patents that may be issued to it in the future, will afford protection against competitors with similar technology; nor can there be any assurance that patents issued to the Company will not be infringed upon or designed around by others or that others will not obtain patents that the Company would need to license or design around. The costs required to protect the Company's patents against infringing use or competing claims may be substantial and the resulting uncertainty may adversely affect the Company's ability to achieve its marketing objectives. If existing or future patents containing broad claims are upheld by the courts, the holders of such patents might be in a position to require companies to obtain licenses. There can be no assurance that licenses that might be required for the Company's products would be available on reasonable terms, if at all.

In addition to potential patent protection, the Company relies on the laws of unfair competition protect its proprietary rights. The Company its trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with employees and consultants and other security measures. Although the Company intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

The Company owns registered United States trademarks for "InterDigital", "IMM" "UltraPhone," "UltraPhone 100," "Wireless Digital Loop Carrier" and "Wireless Digital Access" and other trademarks relating to the Company's business. The Company does not believe that these trademarks are a significant factor in its business.

Telco Business

In April 1991, the Company acquired a 50% interest in Rico Telephone Company ("Rico") of Rico, Colorado for a cost of $100,000. Rico has approximately 100 customers.

[*16] [HARDCOPY PAGE 16]

In December 1991, USTC Kansas, Inc. ("USTC Kansas"), a subsidiary of the Company, purchased 100% of the outstanding shares of capital stock of Haviland Telephone Company, Inc. ("Haviland") from 15 individuals. Haviland, a Kansas corporation, was organized in 1952 to provide telephone and communications services, and owns 12 distinct but nearly contiguous local service exchanges located along U.S. Highway 54, stretching from the suburbs of Wichita, Kansas towards the environs of Dodge City, Kansas. It also partially borders Interstate Highway 35, which runs through Wichita northeast to Topeka, Kansas and south to Oklahoma City, Oklahoma. Its plant and equipment is wireline-based and was installed primarily in the 1950s. Haviland has approximately 3,600 basic telephone subscribers, roughly 90 subscribers to an Improved Mobile Telephone Service ("IMTS") analog radiotelephone systems and a small cable television franchise in Haviland, Kansas with approximately 200 subscribers.

Of the $12,000,000 purchase price for Haviland, $254,000 was paid in cash and $11,746,000 was paid in promissory notes (the "Seller Notes"). Seller Notes in the aggregate principal amount of $5,357,000 were paid in January and March 1992 with cash from Haviland and the proceeds of equity offerings by the Company and USTC Kansas. The remaining Seller s, in the aggregate principal amount of $6,389,000, bear interest at
10%, with interest payable quarterly, and mature between December 1994 and December 1996. These outstanding Seller Notes are collateralized by 62% of the outstanding shares of Haviland common stock. USTC Kansas is obligated to cause Haviland not to issue any additional shares of Haviland common stock which would reduce the percentage of outstanding shares of Haviland common stock held in escrow to secure payment of the Seller Notes. See Notes 3 and 9 of the Notes to Consolidated Financial Statements.

The ability of the Company to pursue a strategy of additional acquisitions of rural TELCOs, as part of a plan of future growth and diversification and generation of a recurring revenue stream, will be dependent upon its ability to attract capital for such a program. In turn, the Company's ability to attract such capital may be dependent upon its future consolidated results of operations, although the Company currently believes that its TELCO subsidiaries may have the ability to attract debt or equity capital on an independent basis.

Other Activities

InterDigital has expanded its current product line to include several new products and integrated services. In 1991, InterDigital introduced the UltraData, a wireless digital high-speed data transmission product that has a range of up to 45 km. The Ultradata provides system security, reliability and availability while eliminating costly leased lines. The

[*17] [HARDCOPY PAGE 17]

UltraData is available at data rates from 1.2 kbps to 128 kbps and can be tuned to several frequency ranges. InterDigital purchases the UltraData from a third party manufacturer who manufactures and packages the product with the UltraData label.

InterDigital also offers a digital mapping capability called CARPET (R). Originally developed as a software tool to support radio frequency application engineering for planning the installation of an UltraPhone system, this system can also be used to display demographic data, utility data for power, water and telephone service as well as aiding in frequency planning and other governmental and business requirements.

To date, the Company has received only nominal revenues from sales of the UltraData, and no revenues have been received from sales of CARPET. There can be no assurance that the UltraData or the CARPET will achieve market acceptance or that the Company will realize significant revenues from the sale of these systems and services.

In March 1990, pursuant to a lottery conducted by the FCC, the Company was awarded a construction permit for one of the two cellular radio systems licensed to operate in a six county portion in Indiana. On March 15, 1991, the Company sold the construction permit to Century Indiana Cellular Corp., a wholly owned subsidiary of Centennial Cellular Corp. ("Centennial"), the holder of $7.5 million of the Company's convertible subordinated debt ("Subordinated Note"). Of the negotiated purchase price of $8.5 million plus accrued interest on the Subordinated from and after December 1, 1990 until March 15, 1991, $1,000,000
was paid in cash on contract execution and the remainder was paid by the cancellation of the $7,500,000 principal amount of the Subordinated Note and the cancellation of the interest accrued on the Subordinated Note from December 1, 1990, through March 15, 1991. Interest on the Subordinated Note from December 4, 1989, the date of issuance, through December 1, 1990 was paid by the issuance to Century of 5-year warrants to purchase 900,000 shares of the Company's common stock at an exercise price of $4.00 per share. In March 1991, the Company recognized a gain of approximately $8.1 million on the sale of the construction permit. See Note 10 of the Notes to Consolidated Financial Statements.

Research and Development Expenses

For the years ended December 31, 1992, 1991 and 1990, the Company's research and development expenses were $2,995,000, $2,612,000 and $1,600,000 respectively. Also in 1992, the Company expensed $13,120,000 for purchased research and development in conjunction with the acquisition of SCS. See Note 2 of the Notes to Consolidated Financial Statements.

[*18] [HARDCOPY PAGE 18]

Employees

As of March 29, 1993, the Company had 198 full time employees. In addition, the services of consultants and part-time employees are utilized.

Executive Officers of the Company

The executive officers of the Company are:

Name	Position	Age
William W. Erdman	President and Chief Executive Officer	51
Robert S. Bramsom	President and Chief Executive Officer- InterDigital Patents Corporation	54
Donald L. Schilling, Ph.D.	Executive Vice President	57
Richard A. Guttendorf, Jr.	Vice President - Chief Financial Officer and Treasurer	51
William A. Doyle	Vice President, General Counsel and Secretary	43
E. L. Langley	Chief Executive Officer of Universal Service Telephone Corporation	68
David J. Cade	Vice President - Sales	56
David L. Smith	Vice President - Communications and Administration	52

William W. Erdman joined the Company as President and Chief Operating Officer on June 18, 1992. He became Chief Executive Officer on November

11, 1992. From 1991 to 1992, Mr. Erdman was employed as the Executive Consultant to the Chief Executive Officer of International Marine Holdings, the world's largest supplier of marine accessories. From 1984 to 1988, he was Chief Executive Officer and a founder of Celltech, a provider of cellular billing services for operating cellular companies. From 1982 to 1986, he was President and Chief Executive Officer and a

[*19] [HARDCOPY PAGE 19]

founder of Maxcell Telecom Plus, Inc., a cellular radiotelephone company. Also from 1984 to 1991, he was founder and Chief Executive Officer of US Video, Inc., a computer hardware company holding patents in MultiMedia computer applications and hardware. Mr. Erdman began his career at International Business Machines Corporation, where he held a number of executive, sales, marketing and product development positions including Director of Operations for IBM World Trade Asia Corporation.

Robert S. Bramson was elected to the position of President and Chief Executive Officer of InterDigital Patents Corporation on August 20, 1992. Prior to joining InterDigital, Mr. Bramson was engaged in the private practice of law. From March 1989 to December 1990, he worked for Unisys Corporation as Vice President and General Patent and Technology Counsel, responsible for all intellectual property matters, including patent procurement, licensing and litigation. From July 1968 to March 1989, he was a partner and head of the computer and technology law group for Schnader, Harrison, Segal & Lewis, a major Philadelphia law firm. In addition from 1966 to 1968, he was patent and licensing counsel for Scott Paper Company.

Donald L. Schilling, Ph.D. was elected Executive Vice President in October 1992. Previously, as founder and President of SCS Telecom/Mobilecom, Inc., Dr. Schilling developed and directed programs dealing with the training, research and development aspects of telecommunications for military and commercial clients. In May 1992, Dr. Schilling retired as the Herbert G. Kayser, Distinguished Professor of Electrical Engineering at the City College of the City University of New York, where he had been a Professor since 1969. Prior to that, he was a Professor at the Polytechnic Institute of New York. Dr. Schilling was President of IEEE Communications Society from 1979 to 1981 and a member of the Board of Directors of the IEEE from 1981 to 1983. He was Editor of the Transaction Communications from, 1968 to 1978. He is a Fellow of the IEEE and a member of Sigma Xi.

Richard A. Guttendorf, Jr. was elected Vice President, Chief Financial Officer and Treasurer in September 1990. From May 1982 until September 1990, he served as Executive Vice President and Chief Financial Officer of Atlantic Financial Federal Savings and Loan Association, a savings and loan association based in Bala Cynwyd, Pennsylvania. Mr. Guttendorf has tendered his resignation effective April 9, 1993.

William A. Doyle was elected Vice President, General Counsel and Secretary of the Company in March 1991. From October 1987 to March 1991, Mr. Doyle served as Vice President, General Counsel and Secretary of Environmental Control Group, Inc., a public company involved in the environmental industry. Mr. Doyle was Associate General Counsel of Martin Marietta Corporation from

[*20] [HARDCOPY PAGE 20]

1986 to 1987 and was Assistant General Counsel of Colonial Penn Group, Inc., an insurance holding company, from 1982 to 1986.

Mr. Langley became the Chief Executive Officer of Universal Service Telephone Corporation ("USTC"), a wholly-owned subsidiary of the Company, in January 1991. Mr. Langley served as President of General Telephone Company of Kentucky from July 1974 to July 1978, President of General Telephone of the Southeast from July 1978 to August 1981 and President of General Telephone Company of the Southwest (now GTE Southwest) from August 1981 to September 1989. Since that time and until January 1991, he engaged in consulting activities for telecommunications, economic development and legislative matters.

David J. Cade was appointed Vice President, Sales on October 13, 1992. From November 1990 to September 1992, he was Vice President, Strategic Planning and Business Development and from February 1988 to November 1990, he was Vice President, Marketing and Business Development for the Communications Satellite Corporation (COMSAT). From 1984 to 1988, he was Director, New Business Development of Martin Marietta Corporation.

David L. Smith was appointed Vice President, Communications and administration on July 13, 1992. From 1988 to 1992, Mr. Smith was an independent communications consultant and from 1986 to 1988, he was President of Celltech, Inc., a provider of cellular billing services for operating cellular companies.

The Company's executive officers are elected to the offices set forth above to hold office until their successors are duly elected and have qualified.

The Company has obtained and is the beneficiary under "key-man" life insurance policies in the amount of $2,000,000 on Mr. Hilsman, $1,500,000 on Mr. Erdman, $1,500,000 on Mr. Schilling and $250,000 on Mr. Langley.

During 1992, Richard W. Pryor, the Company's President and Chief Operating Officer and a director; G. James Bracknell, an Executive Vice President (Sales); and Dr. George Calhoun, a Senior Vice President in charge of the Company's Technology Licensing Division, all resigned. In

March 1993, Richard A. Guttendorf, Jr., tendered his resignation effective April 9, 1993.

ITEM 2. PROPERTIES

The Company leases an aggregate of approximately 48,821 square feet of office space and assembly facilities in Gulph Mills, Pennsylvania under two leases, for terms expiring in 1995 and 2000, respectively at an aggregate yearly rent of $516,000, excluding operating expenses of approximately $109,000. The Company also leases 3,471 square feet of office space in Irving,

[*21] [HARDCOPY PAGE 21]

Texas for a term expiring on March 31, 1997, at an annual rent of $50,000. Also, the Company leases 1,213 square feet at an annual cost of approximately $16,000 per annum in Union, New Jersey, and has committed to lease for a term of five years, 15,047 square feet of office space in Great Neck, New York at an annual cost of $351,000. The Company believes its facilities are sufficient for its operations for the foreseeable future. See Note 11 of the Notes to the Company's Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

On February 25, 1993, the Company was served with a Summons and Complaint (the "Complaint") for a federal diversity action now pending in the District of Maryland (Hughes Network Systems, Inc. v. InterDigital Communications Corporation f/k/a International Mobile Machines Corporation), Civil Action No. WN- 93-576 (D. Md.). In the Complaint, HNS alleges that the Company breached certain agreements which were entered into between HNS and the Company on February 29, 1992 and which relate to the termination of prior agreements between the parties. HNS is seeking damages totaling $7,452,318 (plus interest, attorney's fees, and court costs). HNS is also seeking delivery of certain collateral, execution of a lock box agreement, information relating to a Warrant Certificate held by HNS, and an unspecified amount of damages arising from the Company's alleged failure to provide such information to HNS.

The Company must answer, move, or otherwise respond with respect to the Complaint no later than April 26, 1993 and must, no later than April 12, 1993, answer or otherwise respond to HNS's initial discovery requests, which were served simultaneously with the Summons.

Management intends to defend the suit described above. Based on an investigation of the facts presently known, management believes that the Company has certain claims, offsets and defenses, which may result in less than the full amount claimed by HNS to be ultimately payable. However, there can be no assurance that the ultimate determination of the litigation will result in the Company being liable for such lesser amounts. Except for any obligation of the Company to issue additional Common Stock arising out of this litigation and except for any anti-dilutive adjustments underlying the Warrant Certificate, all amounts claimed by HNS are reflected on the Company's Consolidated Balance Sheet at December 31, 1992.

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

None

[*22] [HARDCOPY PAGE 22]

PART II

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

The following table sets forth the range of the high and low closing sales prices of the Company's Stock as reported by NASDAQ (for the period through May 25, 1992) and by AMEX (for the periods thereafter). The Company's Common Stock was traded on the NASDAQ National Market System until May 26, 1992 when it began trading on the American Stock Exchange.

	Closing Sales Prices	
1992	High	Low
First Quarter	10 5/8	5 3/4
Second Quarter	8 1/2	5 1/8
Third Quarter	6 3/4	4 3/4
Fourth Quarter	9 3/4	5 1/8
1991		

First Quarter	9 3/4	3 1/2
Second Quarter	9 1/4	7 1/2
Third Quarter	8 1/2	6 1/4
Fourth Quarter	8 1/4	5 1/2

As of March 30, 1993, there were 3,113 holders of record of the Company's Common Stock.

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

[*23] [HARDCOPY PAGE 23]

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,		
	1992 (4)	1991 (4)	1990
Operating Data:			
Net revenues	$42,621	$33,843	$18,570
Net loss before preferred dividends (1)	(22,625) (3)	(6,239) (3)	(11,952)
Net loss applicable to common shareholders	(22,917)	(7,743)	(13,456)
Net loss per common share	(0.95)	(.39)	(.81)
Weighted average number of common stock outstanding	24,113	19,828	16,655

(TABLE CONTINUED)

	Year Ended December 31,	
	1989	1988
Operating Data:		
Net revenues	$4,471	$4,330
Net loss before preferred dividends (1)	(19,074)	(21,445)
Net loss applicable to common shareholders	(21,976)	(23,545)
Net loss per common share	(1.55)	(1.96)
Weighted average number of common stock outstanding	14,180	12,190

	Year Ended December 31,		
	1992	1991	1990
Balance Sheet Data:			
Working capital (2)	$10,242	$ (5,874)	$2,227
Total assets	46,356	29,974	20,583
Long-term liabilities	8,609	8,232	14,688
Shareholders' equity (deficit)	15,056	1,806	(3,180)

(TABLE CONTINUED)

	Year Ended December 31,	
	1989	1988
Balance Sheet Data:		
Working capital (2)	$6,190	$457
Total assets	24,690	25,256
Long-term liabilities	14,868	7,345

Shareholders' equity (deficit)	2,430	4,104

(1) The Company has incurred significant losses during the last five years, and, as of December 31, 1992, its accumulated deficit was $135,396,000.

(2) See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Financial Position, Liquidity and Capital Resources."

(3) Included in the net loss for 1992 are non-recurring items of ($13,120,000) and ($1,968,000). Non-recurring items in 1991 were $8,125,000 and ($7,200,000). See Notes 2, 7 and 10 of the Notes to Consolidated Financial Statements.

(4) The operating data for 1992 and 1991 include the effect of acquisitions. See Notes 2 and 3 of the Notes to Consolidated Financial Statements.

[*24] [HARDCOPY PAGE 24]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Losses

The Company's net loss in 1992 was $22,625,000 compared to $6,239,000 and $11,952,000 in 1991 and 1990, respectively. The loss before non-recurring items was $6,148,000 in 1992 compared to $6,573,000 and $9,840,000 in 1991 and 1990, respectively. The Company's net losses in 1991 and 1990 resulted primarily from costs associated with operations, development, production, marketing, selling and support of the UltraPhone business and other related costs. In connection with the 1992 acquisition of SCS, a significant portion of the purchase price has been allocated to acquired research and development costs and, accordingly, $13,120,000 was charged off as non-recurring operating expense in 1992 (See Note 2 of the Notes to Consolidated Financial Statements). Also, during 1992, the Company revalued the test equipment which was acquired from HNS in conjunction with the March 1992 cancellation of the subscriber production agreement. This revaluation resulted in a non-recurring charge to operations of $1,968,000 in 1992. (See Note 7 of the Notes to Consolidated Financial Statements). During 1991, the Company's net losses included $757,000 of costs associated with the startup of the Company's TELCO Business. In 1991, the operating results were also impacted by the effects of non-recurring items including an $8,125,000 gain on the sale of the Indiana 4 RSA construction permit to Centennial and the recording of $7,200,000 of contract cancellation costs on the 1987 Production Agreement with HNS. See Notes 3, 7 and 10 of the Notes to Consolidated Financial Statements.

The Company has experienced substantial losses since inception and, as of December 31, 1992, its accumulated deficit was $135,396,000. Significant amounts of additional funds will be required by the Company to continue to produce and market the UltraPhone, to continue TDMA and B-CDMA product research and development, to maintain and exploit its patent position and technology, and for any further acquisitions of rural TELCOs in which the Company may engage. There is no assurance that such funds and any additional financing will be available when needed, that the products, patents or technology of the Company will receive a sufficient level of commercial acceptance, or that the Company will achieve a profitable level of operations. Notwithstanding the foregoing, management currently believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1993. See "Financial Position, Liquidity and Capital Requirements".

Revenues

Revenues in 1992 were $42,621,000 as compared to $33,843,000 and $18,570,000 in 1991 and 1990, respectively. UltraPhone sales

[*25] [HARDCOPY PAGE 25]

in 1992 were $34,348,000 as compared to $31,482,000 and $15,834,000 in 1991 and 1990, respectively. Increases in UltraPhone sales were due principally to increased shipments of the UltraPhone system to international customers, which accounted for $24,584,000, or 71.6% of UltraPhone sales in 1992, $16,238,000, or 51.6% of UltraPhone sales in 1991 and $6,904,000 or 43.6% of UltraPhone sales in 1990.

During 1992, the Company continued its strategy of seeking UltraPhone sales in foreign markets. Non-domestic sales in 1992 were made to customers or distributors in Mexico, Kuwait, Indonesia, the Philippines, China, the Ukraine, Belize and Venezuela. Non-domestic sales efforts were intensified in 1991 compared to prior years and resulted in initial sales to customers in Kuwait, Indonesia and the Philippines, in addition to continued sales to Mexico. During 1990, all non-domestic sales were made to customers in Mexico. While the Company offers its products for sale to customers in foreign countries, the Company does not maintain any significant presence or conduct any significant operations outside the United States. See Notes 4 and 16 of the Notes to Consolidated Financial Statements.

It is anticipated that international sales will represent a majority of the UltraPhone sales for 1993 and future years. The expansion of telephone service in both Mexico and Indonesia is expected to be significant in 1993 and future years, and the Company anticipates that it will be a participant in the telecommunication expansion programs in both of these countries. However, there can be no assurances that significant international orders will be received or that the telecommunication programs in Mexico and Indonesia will be consistent with the Company's expectations. Notwithstanding the above, management believes that significant international sales will be recorded in 1993. The failure to receive continuing significant international orders could have a material adverse effect on the Company. However, future international orders are likely to require the Company to provide systems which operate at frequencies other than those currently supported by the existing product. The Company may have to expend resources for non-recurring engineering and other developmental costs to obtain the necessary hardware components and to modify and test certain software modules to adapt to the applicable frequencies. These development requirements could result in a delay of, or reduction in, anticipated orders in 1993 and future years and could adversely affect the Company's liquidity. Future sales are also dependent on the customers' ability to arrange financing under terms and conditions acceptable to the Company, especially in countries whose currency has not been stable enough to permit financing through traditional means.

The Company currently obtains broadband power amplifiers for the UltraPhone from a sole source supplier. During 1992 and continuing into 1993, the Company has experienced supply and

[*26] [HARDCOPY PAGE 26]

quality problems relating to the broadband power amplifiers from this supplier. This supplier has also announced to the Company that it intends to sell its business segment which supplies this component. During the fourth quarter of 1992, the Company experienced additional supply and quality problems relating to T-1/E-1 converters which are purchased from a different sole source supplier. The Company and both suppliers have worked closely together to remedy the quality issues which are not expected to have continuing adverse effects to the Company. The Company also is developing alternative sources of critical components to reduce its dependence on sole source suppliers in the future. Failure of these suppliers to meet delivery schedules and to satisfactorily address the quality problems has resulted in production inefficiency (and resultant increased product costs) and delays in shipping orders. The Company did not receive certain follow-on orders from two major customers which had internally allocated funds for additional wireless communications systems in 1992. In each case, the failure to receive such orders was due in part to shortages in critical components which delayed the installation and acceptance of previously delivered systems. The Company is currently negotiating with both customers with regard to the potential orders.

The Company generally requires a confirmed U.S. dollar irrevocable letter of credit for the full amount of significant international sales to be in place at the time of shipment except in cases where, based on previous experience, credit risk is considered to be acceptable. The Company's non-domestic sales are, however, subject to certain risks attendant to doing business outside the United States, including trade and tariff policies of the foreign country in which customers are located and international monetary conditions.

In 1992, the Company had $3,015,000 of license fees paid or payable for upfront initial license fees related to the Company's patents. Of this revenue, $2,500,000 was received from HNS and $500,000 relates to Acuity of which $250,000 has been paid. The remaining amount due from Acuity is contractually delinquent and, accordingly, has been reserved. See "Operating Expenses".

The Company had contract revenue from certain digital cellular telephony research, development and marketing efforts for HNS of $1,232,000 in 1992, $2,140,000 in 1991 and $2,736,000 in 1990. No revenues from these activities are anticipated after 1992.

The Company's acquisition of SCS on October 15, 1992 was accounted for under the purchase method of accounting. Accordingly, only the revenues and costs for the period subsequent to acquisition are included in the 1992 financial statements. The Company recorded $462,000 of revenue from SCS's commercial and government contract services during the 2-1/2

[*27] [HARDCOPY PAGE 27]

month period ended December 31, 1992. It is anticipated that revenues will continue during 1993 but they will not be sufficient to cover the full amount of the direct and indirect cost of the SCS operations during 1993. See also "Business - SCS Activities". The Company had an additional $653,000 of government and commercial contract services revenue during 1992 not related to SCS.

With the Company's acquisitions of Rico in April 1991 and Haviland in December 1991, the Company entered the business of owning and operating rural TELCOs. During 1992, the Company had $2,911,000 of revenues from the TELCO Business, as compared to $221,000 in 1991. The Company expects that substantially all of the cash flow of Haviland during 1993 and future years will be used for the payment of interest on the remaining Seller Notes and dividends on convertible preferred stock of USTC Kansas. As available resources permit and opportunities arise, the Company intends to consider expansion of its TELCO Business through additional acquisitions of rural TELCOs. Such acquisitions would require significant third party funding. No assurances can be made that any additional TELCO acquisitions will occur.

Cost of Sales

The cost of UltraPhone sales was $27,494,000 in 1992, $24,546,000 in 1991 and $12,997,000 in 1990. Included in cost of sales are costs of product assembly, integration and testing, distributor commissions, freight and tariffs on international sales and expenses related to the installation and support services and warranty of the UltraPhone systems. The gross margin on UltraPhone sales was 20.0%, 22.0% and 17.9% in 1992, 1991 and 1990, respectively. Gross margin percentages are affected by the relative proportions of direct and distributor sales, by the average number of subscribers per system sold and by the field service costs for installation, warranty, training and post-sale support. Consistent with industry practices, distributor commissions have been included in both revenues and cost of sales. If these commissions were excluded, the gross margins would be 22.1%, 24.7% and 19.5% for 1992, 1991 and 1990, respectively. Overall UltraPhone margins in 1992 were adversely affected primarily by lower margins on field service operations (which generated margins of approximately 16% in 1992, as compared to 17% in 1991 and losses in 1990) and production inefficiency caused by vendor quality problems and shipping delays. In addition, in 1992, the Company recorded a charge of $308,000 representing the anticipated costs to complete the installations in excess of the remaining revenues, as of December 31, 1992, related to certain fixed price contracts for equipment and installation services.

During 1991, the Company commenced a cost reduction program which it believes will ultimately result in significantly lower costs of the assembled UltraPhone product. These cost reductions

[*28] [HARDCOPY PAGE 28]

are anticipated to result from product redesign, more competitive pricing from suppliers and more efficient assembly and test procedures. Some of these cost reductions, attributable to the base station, were realized in 1991 and 1992 (which however in 1992 were offset by the previously described production inefficiencies) and additional reductions are expected to be realized in future years. During the third quarter of 1992, the Company commenced the in-house assembly, integration and testing of subscriber units in lieu of purchasing assembled units from HNS. Costs of subscriber units charged to Cost of Sales during the first nine months of 1992 reflect primarily the higher cost attributed to subscriber units produced by HNS. As of September

30, 1992, all of the units produced by HNS have been sold. The direct performance of the assembly, integration and testing of the subscriber units has resulted in an approximate 30% reduction in cost of the subscriber units as compared to the purchase cost from HNS. During the fourth quarter of 1992, the UltraPhone gross margin was 26% as compared to 16% for the nine months ended September 30, 1992.

Costs of contract revenues and digital cellular contract costs reflect expenses related to revenue sources from SCS activities, other government and commercial service contracts, other government service contracts and the HNS contract, respectively. Telephone network service costs, which represent the operating costs of Haviland, amounted to $2,361,000 in 1992. Management expects that the telephone network revenues and telephone network service costs will continue at approximately the same levels in 1993, but may be impacted by future acquisitions, if any.

Operating Expenses

Following is a comparative table of major operating expenses, (in thousands):

	1992	1991	1990
Sales & Marketing	$5,740	$4,712	$3,965
General & Administrative	6,848	5,155	6,101
Research & Development	2,995	2,612	1,600
Total	15,583	12,479	11,666
UltraPhone Revenues	34,348	31,482	15,834
Cost as % of Revenue	45.4%	39.6%	73.7%

[*29] [HARDCOPY PAGE 29]

Sales and marketing expenses of $5,740,000, $4,712,000 and $3,965,000 for 1992, 1991 and 1990, respectively, represent expenses related primarily to the domestic and international marketing of UltraPhone equipment and services. The expense increases in 1992 and 1991 are attributable to commissions on increased revenues, sales support costs and costs incurred for development of new international markets.

Late in 1992, the Company began to restructure its domestic and international direct sales force and its international distribution network. The restructuring is intended to provide greater sales coverage and to focus the Company's sales efforts on large scale, multi-year programs which it believes will ultimately prove to be more profitable and will contribute to a more stable revenue base. There is no assurance that such sales efforts will be successful to the extent necessary to realize the Company's objectives. In addition, the restructuring process has had in the first quarter, and will likely have in the second quarter a negative impact on short-term sales order generation and revenues.

General and administrative expenses in 1992 were $6,848,000, as compared to $5,155,000 and $6,101,000 in 1991 and 1990, respectively. Expenses in 1992 include a provision of $384,000 related to uncollected license and engineering services fees and product sales to Acuity. Acuity is in the process of seeking funding to replace commitments which were not realized, without which the Company's receivables will not be collectable. Amortization of goodwill related to the Haviland and Rico acquisitions was $194,000 in 1992 compared to $13,000 in 1991. Severance costs of $436,000 and $78,000 of costs related to the Company's listing on the American Stock Exchange were recorded in 1992. In addition, approximately $75,000 of overhead costs previously covered under the HNS digital cellular contract and reported as digital cellular costs were reported as general and administrative expenses in 1992. The increase in 1992 also reflects increased efforts directed to the financial, investment and digital technology standards communities and costs of business development efforts aggregating approximately $245,000 for the year. These various costs caused general and administrative expenses, as a percentage of UltraPhone revenues, to increase from 16.4% in 1991 to 19.9% in 1992.

In 1990, general and administrative expenses included a $500,000 charge for the cancellation of the Company's engineering services contract with HNS and included an incremental patent amortization provision of $537,000. Also included in general and administrative expenses in 1990 were charges of $545,000 for write-downs of UltraPhone inventory. There were no comparable charges included in general and administrative expense in 1991 or 1992.

[*30] [HARDCOPY PAGE 30]

Research and development expenses were $2,995,000, $2,612,000 and $1,600,000 for 1992, 1991 and 1990, respectively. The Company expects to continue to incur increased amounts of research and development costs for the enhancement and modification of the UltraPhone system to meet the requirements of existing and new customers and for the development of its B-CDMA technology. During 1992, the Company incurred $699,000 of expenses related to B-CDMA development efforts. The Company anticipates that the expenditures for B-CDMA development will continue to be significant and that such expenses are likely to exceed revenues related to such activities for the foreseeable future. See also "Business - Technology Development".

The amortization of the Company's deferred product costs was $1,677,000 in 1992 and $1,829,000 in both 1991 and 1990. All of the deferred product costs represent that portion of the costs incurred under the Company's commercialization agreement with a subsidiary of M/A-COM (which later became HNS) executed in January 1986, subsequent to the establishment of the preproduction prototype of the UltraPhone system. All remaining deferred product costs were fully amortized in November 1992. See Note 7 of the Notes to Consolidated Financial Statements.

Non-Recurring Items and Other Income and Expenses

In October 1992, the Company acquired SCS in a transaction recorded under the purchase method of accounting. Accordingly, the purchase price and acquisition costs were allocated, based upon the fair value of net assets acquired, to the tangible and patent assets of SCS, and to acquired research and development costs. In accordance with Generally Accepted Accounting Principles, research and development costs must be expensed as incurred, therefore, $13,120,000 of acquired research and development cost was expensed as a non-recurring cost of operations.

In 1991, the Company sold its Indiana 4 RSA construction permit to Centennial and realized a gain of $8.1 million, net of disposition costs. See Note 10 of the Notes to Consolidated Financial Statements. Also during 1991, cancellation costs amounting to $7.2 million were recorded in connection with the cancellation of the Company's 1987 Production Agreement with HNS. See Note 7 of the Notes to Consolidated Financial Statements.

As described in Note 3 of the Notes to the Consolidated Financial Statements, the Company issued 60 Common Stock Units for $3,000,000 subsequent to the acquisition of Haviland, which are potentially convertible into a 36% interest in Haviland. Accordingly, the Company has recorded as minority interest, $156,000 representing 36% of the net income of Haviland and has recorded the $3,000,000 as Exchangeable Common Stock outside of stockholder's equity. If any of the warrants are exercised or if one or both of the exchange rights expire in January 1994, the

[*31] [HARDCOPY PAGE 31]

applicable minority interest liability will be reduced and taken to retained earnings and a pro-rata portion of the Exchangeable Common Stock will be reclassified as Common Stock and additional paid-in-capital. Should the exchange rights be exercised, in whole or in part, the applicable portion of the $3,000,000 would be reclassified to Minority Interest and as a reduction of Goodwill.

Interest expense for 1992 amounted to $1,263,000 as compared to $751,000 in 1991 and $2,368,000 in 1990. Interest expense in 1992 includes

$829,000 related to Haviland for equipment financing and interest on purchase money financing to the sellers of Haviland. In 1992, interest expense also included interest on certain liabilities to HNS, and interest on a secured bank loan which has subsequently been repaid. The decrease in 1991 as compared to 1990 reflects the elimination of the Company's liability to M/A-COM which occurred as a result of the conversion of this liability into Common Stock and the cancellation of the Subordinated Note payable to Centennial in connection with the sale of the Indiana 4 construction permit, both of which took place during the first quarter of 1991. See Notes 7 and 10 of the Notes to the Company's Consolidated Financial Statements.

Financial Position, Liquidity and Capital Requirements

At December 31, 1992, the Company had unrestricted cash resources of approximately $3,043,000. Included in this amount is $606,000 of cash of Haviland which is subject to the restrictions on withdrawal described at Note 4 of the Notes to Consolidated Financial Statements. The Company has incurred losses since inception. There is no assurance that the Company will generate sufficient revenues in the future to attain and maintain profitable operations. However, management believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1993.

The Company has historically experienced substantial quarterly fluctuations in its operating cash flow, with first quarter operating revenues being below that of preceding fiscal quarters. Historical trends continued into 1993. Accordingly, the Company's cash position and working capital has significantly reduced since December 31, 1992. Operations since December 31, 1992 have been funded in substantial part from the proceeds of private offerings of securities. Continued current funding from such sources is required for the Company to sustain its operations.

[*32] [HARDCOPY PAGE 32]

Historically, the Company experienced liquidity problems due to its lack of significant revenues and permanent financing, and has addressed such problems primarily by public and private offerings of its debt and equity securities. In addition, when the Company builds to specification to complete an order, it traditionally experiences negative cash flows from inception of its production ordering through customer payment at the time of, or subsequent to, order shipment. If the Company were to experience a sudden and significant increase in build to specification orders, it would create the need for significant short-term financing arrangements. In 1992 and 1991, the Company engaged in short-term borrowings on an unsecured basis as well as borrowings secured by the Company's investments or accounts receivable and, in conjunction with certain of such borrowings, granted warrants to purchase Common Stock of the Company at the market price of the Common Stock on the date of grant. As of December 31, 1992, no such short-term borrowings were outstanding. The Company is currently seeking additional working capital to sustain its operations. Although management believes that such additional working capital will be obtained, there can be no assurance that sufficient funds will be received as required.

In February 1992, the Company received gross proceeds of $3,000,000 from the sale of 510,660 shares of Common Stock and warrants to purchase 766,020 shares of Common Stock. See Note 3 of the Notes to Consolidated Financial Statements. During the first quarter of 1992, USTC Kansas received proceeds of $585,000 from the sale of 5,850 shares of convertible preferred stock of USTC Kansas and warrants to purchase 13,440 shares of Common Stock of the Company. The proceeds of these equity offerings of the Company and USTC Kansas were used for payment of certain of the Seller Notes issued in connection with the acquisition of Haviland.

The Company received $3,229,000 from the exercise of options and warrants during 1992. During the three months ended June 30, 1992, the Company engaged in a private placement offering consisting of units of one share of common stock and one warrant to purchase one share of common stock. The purchase price of a unit was fixed at 65% of the market value of the common stock on the date the proceeds were received or committed. The Company sold 2,043,360 units for consideration of approximately $9.0 million.

During 1992 and also 1993, the Company engaged in additional private placements of Common Stock to foreign investors in offshore transactions pursuant to the safe harbor provisions of Regulation S of the Securities Act of 1933 to provide funds for working capital and to sustain its operations. These offerings, which were priced at discounts ranging from 30% to 35% of the relevant fair market value at the time of negotiation, generated approximately $4,771,000 and $7,453,000 of net proceeds to the

[*33] [HARDCOPY PAGE 33]

1992 and 1993 to date, respectively. The weighted average of actual discounts from fair market value at the respective closing dates was 40%.

In December 1992, the Company sold 5.76% of the common shares of InterDigital Patents Corporation, which had, prior thereto, been a wholly-owned subsidiary of the Company, and received net proceeds of $5,187,000, net of offering costs. InterDigital Patents Corporation owns 100% of the common shares of InterDigital Technology Corporation which holds all of the Company's patents and patent applications on TDMA and CDMA technology. The terms of the offering document require that the funds be used exclusively for development, maintenance, exploitation and assertion of the Company's patent portfolio.

At March 30, 1993, the Company had 50 million authorized common shares of which 29,379,623 were issued and outstanding. In addition, options and warrants to purchase 14,004,000 shares of Common Stock under qualified, non-qualified and other plans were outstanding at March 30,1993. The Company will require an increase in the number of authorized shares to enable the Company to have sufficient shares to fund anticipated growth.

The Company had working capital, including restricted assets, of $10,242,000 at December 31, 1992, compared to $1,709,000 at September 30, 1992 and a deficit of $5,874,000 at December 31, 1991. The improvement since December 1991 is due to the receipt of proceeds from the private placements and exercise of options and warrants discussed above, as the Company continues to operate at a deficit. Since December 31, 1992, however, the Company's working capital position has substantially decreased, and the Company will require, during 1993 and beyond, additional funds to continue to produce and market the UltraPhone, continue product development, develop and commercialize the B-CDMA technology, maintain and exploit its patent position and technology, continue the TELCO Business and for other corporate purposes, including satisfaction of certain obligations to HNS (See Note 7 to Consolidated Financial Statements). Approximately $475,000 will be required to discharge judgments from certain recently concluded litigation or to bond an appeal of the judicial decision. The amount of funds needed for such purposes may be obtained, in part, by revenues, as to the timing and amount of which there can be no assurances. Management believes that additional financing sources for the Company include private and public financings, long-term and short-term borrowings, and financing provided by strategic business relationships, such as joint ventures, licensing arrangements and partnership or distribution arrangements. There can be no assurances that such financings and arrangements will be available when and if needed. However, the Company currently believes that sufficient funds will be available through operating revenues and other funding sources to sustain operations through 1993.

[*34] [HARDCOPY PAGE 34]

The Company believes that its profitability depends on the successful commercialization of its technology and its ability to continue to realize cost reductions and design enhancements which will enable the Company to penetrate more densely populated markets where wireline and other competing technologies are more price competitive. In spite of its history of losses, the Company believes that its investment in non-current assets are stated on its December 31, 1992 balance sheet at realizable values. The inventories and related deposits are recorded at realizable values based on the expected selling prices. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no write-downs are required at this time due to lack of use or technical obsolescence, having recorded an expense of $1,968,000 relating to the revaluation of the test equipment from HNS. With respect to other assets, the Company believes that its investment in capitalized software development costs, which relate to the UltraPhone, is realizable through future sales of UltraPhone systems and that the value of its patents is at least equal to the value included in the December 31, 1992 balance sheet. The Company believes that the goodwill relating to the Company's acquisition of operating telephone companies is realizable through the operations of these acquired companies.

Changes in Financial Condition:

Cash, cash equivalents and short-term investments of $9,953,000 include $1,333,000 of cash and short maturity marketable securities which are pledged to secure surety bonds and letters of credit for customers and suppliers and includes $5,377,000 dedicated to InterDigital Patents Corporation (the "Patents Corp"). The accounts receivable of $9,734,000 at December 31, 1992 reflect amounts due from normal trade receivables, including non-domestic open accounts, as well as funds to be remitted under letters of credit, primarily from sales to Indonesia. Of the outstanding receivables as of December 31, 1992, $3,742,000 has been collected through March 23, 1992.

Inventory levels have increased at December 31, 1992 reflecting purchases of system components required for known and anticipated sales. Inventories at December 31, 1992 and 1991 are stated net of $867,000 and $823,000 of valuation reserves, respectively.

Included in other accrued expenses at December 31, 1992 are professional fees, consulting and other accruals and deferred rent relating to the corporate headquarters and manufacturing facilities.

[*35] [HARDCOPY PAGE 35]

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENT DATA

The List of Financial Statements and Schedules and the Financial Statements begin on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information concerning directors, appearing under the caption "Election of Directors" in the Company's Proxy Statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on May 25, 1993, and information concerning executive officers, appearing under the caption "Item 1. Business - Executive Officers of The Company" in Part I of this Form 10-K, are incorporated herein by reference in response to this item 10.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the section titled "Executive Compensation" in the Proxy Statement, with respect to executive compensation, and the information contained in the sections entitled "Committees and Meetings of the Board of Directors", "Stock Option Plans" and "Proposed Amendments to the Company's Non-Qualified Stock Option Plan" in the Proxy Statement, with respect to the Company's Incentive Stock Option Plan and Non-Qualified Stock Option Plan and with respect to director compensation, are incorporated herein by reference in response to this item 11.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the section titled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the section titled "Certain Relationships and Transactions" of the Proxy Statement, with respect to certain relationships and related transactions, is incorporated herein by reference in response to this item 13.

[*36] [HARDCOPY PAGE 36]

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES, AND REPORTS ON FORM 8-K

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

(1) Financial Statements.

(2) Financial Statement Schedules.

The List of Financial Statements and Schedules and the Financial Statements begin on page F-1.

(3) Exhibits.

(*) 2.1 Acquisition Agreement dated October 6, 1992 by and among International Mobile Machines Corporation Mobilecom Acquisition Corp., Telecom Acquisition Corp., SCS Mobilecom, Inc. SCS Telecom, Inc., Donald L. Schilling and Annette Schilling. (Exhibit 2.1 to Form 8-K filed on October 21, 1993.)

(*) 3.1 Articles of Incorporation of the Company, as amended. (Exhibit 3.1 to the Company's Registration Statement No. 33-12913 filed on March 26, 1987 (the "1987 Registration Statement").)

(*) 3.2 Resolution designating the Rights and Preferences of the $2.50 Cumulative Convertible Preferred Stock. (Exhibit 4.1 to the 1987 Registration Statement.)

(*) 3.3 Statement Affecting Class or Series of Shares of the Company filed with the Pennsylvania Department of State on July 24, 1989. (Exhibit 3.3 to the Company's Registration Statement No. 33-32888 filed on January 8, 1990 (the

"1990 Registration Statement").)

(*) 3.4 By-Laws of the Company, as amended. (Exhibit 3.2 to the Company's Registration Statement No. 2-92867 filed on August 20, 1984.)

(*) 3.5 Amendments to By-Laws of the Company, effective July 18, 1990. (Exhibit 3.4 to the Company's Registration Statement No. 33-38247 filed on December 18, 1990 (the "December 1990 Registration Statement").)

(*) 3.6 Amendments to By-Laws of the Company, effective February 20, 1991. (Exhibit 3.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (the "1990 Form 10-K").)

3.7 Amendment to By-Laws of the Company effective November 11, 1992.

(*) 10.1 Warrant Agreement dated May 29, 1987, between the Company and Drexel Burnham Lambert Incorporated (Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987 (the "1987 Form 10-K").)

[*37] [HARDCOPY PAGE 37]

(*) 10.2 Form of Amendment to Common Stock Purchase Warrant Agreement dated July 7, 1988. (Exhibit 4.7 to the Company's Post-Effective Amendment No. 1 to Registration Statement No. 33-15931 filed on May 13, 1988 (the "1988 Registration Statement").)

(*) 10.3 Incentive Stock Option Plan, as amended (Exhibit 10.1 to the 1988 Registration Statement).

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

(*) 10.5 Amended and Restated Lease, dated December 20, 1983, and First Amendment to the Restated Lease, dated December 8, 1986. (Exhibit 10.4 to the 1987 Registration Statement.)

(*) 10.6 Cross Technology License Agreement effective as of October 31, 1984, among the Company, T.A.C.T. Technology, Inc., and ComputerSentry Partners, Ltd. (Exhibit 10.11 to the Company's Post-Effective Amendment No. 1 to the 1987 Registration Statement.)

(*) 10.7 Purchase Agreement and Option Agreement dated March 28, 1985, between the Company and W.W. Keen Butcher. (Exhibit 10.31 to the Company's Registration Statement No. 2-98267 filed on June 7, 1985 (the "1985 Registration Statement").)

(*) 10.8 Option Agreement dated September 11, 1985, between the Company and Great Circle Traders, Ltd. Bda. (Exhibit 10.39 to the Company's Registration Statement No. 33-301 filed on September 16, 1985.)

(*) 10.9 Commercialization Phase and Beta Equipment Agreement made as of January 23, 1986, between the Company and M/A-COM Linkabit, Inc. (with financial exhibits included) and form of Purchase Money Promissory Note, dated January 23, 1986, in the principal amount of $7,700,000. (Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1985 (the "1985 Form 10-K).)

(*) 10.10 Warrant Agreement dated February 12, 1986 between the Company and W.W. Keen Butcher. (Identical Warrant Agreements, except as to the grantee of the warrants, were entered into with Lyman C. Hamilton, Jr., Peter F. Erb and Robert B. Liepold.) (Exhibit 10.33 to 1985 Form 10-K.)

(*) 10.11 Original Equipment Manufacturer Agreement between the Company and ITT Telecom Products Corporation. (Exhibit 10.37 to the Company's Registration Statement No. 33-4570 filed on April 4, 1986 (the "1986 Registration Statement").)

(*) 10.12 Amendment No. 1 to Commercialization and Beta Equipment Agreement, dated September 5, 1986, between the Company and M/A-COM Government Systems, Inc. (not including technical exhibits). (Exhibit 10.38 to the Company's Registration Statement No. 33-9355 filed on October 8, 1986.)

[*38] [HARDCOPY PAGE 38]

(*) 10.13 Employment Agreement dated October 14, 1987, between the Company and William J. Hilsman, as amended. (Exhibit 10.15 to the 1990 Form 10-K.)

(*) 10.14 Agreement of Lease between MSK Associates and the Company dated June 26, 1986 (Exhibit 10.34 to the 1987 Form 10-K).

(*) 10.15 Warrant dated November 19, 1987, issued to W.W. Keen Butcher. (Exhibit 10.35 to the 1987 Form 10-K.)

(*) 10.16 Warrant dated September 8, 1987, issued to W.W. Keen Butcher. (Exhibit 10.36 to the 1987 Form 10-K.)

(*) 10.17 Agreement in Principle dated July 23, 1986, between the Company and Marubeni Corporation. (Exhibit 10.31 to the 1987 Registration Statement.)

(*) 10.18 Production Agreement dated January 26, 1988, between the Company and Hughes Network Systems, Inc. (Exhibit 10.40 to the 1987 Form 10-K.)

(*) 10.19 General Purchase Agreement dated September 23, 1988, between the Company and BellSouth Services, Inc. (Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988 (the "1988 Form 10-K").)

(*) 10.20 Original Equipment Manufacturer (OEM) Agreement-ITT Telecom Products Corporation and International Mobile Machines Corporation dated May 8, 1986 (not including exhibits) (Exhibit 10.35 to the Company's Registration Statement No. 33-28253 filed on April 19, 1989 (the "1989 Registration Statement").)

(*) 10.21 Consulting Agreement between the Company and W.W. Keen Butcher dated September 8, 1987. (Exhibit 10.37 to the 1989 Registration Statement.)

(*) 10.22 Basic Ordering Agreement dated April 13, 1989, between the Company and Consoricio Industrial Electronico S.A. de C.V., not including certain exhibits. (Exhibit 10.38 to the 1989 Registration Statement.)

(*) 10.23 Basic Ordering Agreement dated May 8, 1989, between the Company and Pacific Telecom, Inc., not including certain exhibits. (Exhibits 10.39 to the 1989 Registration Statement.)

(*) 10.24 Employment Agreement dated May 24, 1989, between the Company and Richard W. Pryor (Exhibit 10.40 to the 1989 Registration Statement).

(*) 10.25 Intellectual Property License Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.34 to the 1990 Registration Statement

[*39] [HARDCOPY PAGE 39]

(*) 10.26 Engineering Services and Development Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.35 to the 1990 Registration Statement).

(*) 10.27 Market Development Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.36 to the 1990 Registration Statement.)

(*) 10.28 1989 Cumulative Convertible Preferred Stock and Warrant Purchase Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.37 to the 1990 Registration Statement.)

(*) 10.29 Warrant Certificate representing warrants to purchase 200,000 shares of Company's convertible preferred stock issued to Hughes Network Systems, Inc. (Exhibit 10.38 to the 1990 Registration Statement.)

(*) 10.30 Agreement of Lease for Building A between Swedeland Road Corporation and the Company dated October 25, 1989. (Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (the "1989 Form 10-K").)

(*) 10.31 Agreement of Lease for Building F between Swedeland Road Corporation and the Company dated October 25, 1989. (Exhibit 10.48 to the 1989 Form 10-K.)

(*) 10.32 Warrant Agreement dated December 1, 1989, between the Company and W. W. Keen Butcher. (Identical Warrant Agreements, except as to the grantee of the warrants, were entered into between the Company and each of D. Ridgely Bolgiano, William J. Hilsman, V. Louise McCarren and Robert B. Liepold.) (Exhibit 10.49 to the 1989 10-K.)

(*) 10.33 Letter Agreement dated June 27, 1990, between the Company and M/A- COM, Inc. (Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 1990).

(*) 10.34 Subcontract Agreement dated as of August 1, 1990, between the Company and Hughes Network Systems, Inc. (Exhibit 10.36 to the December 1990 Registration Statement.)

(*) 10.35 RSA Asset Purchase Agreement dated December 6, 1990, between the Company and Century Indiana Cellular, Inc. (Exhibit 10.37 to the December 1990 Registration Statement.)

(*) 10.36 Basic Ordering Agreement dated April 16, 1990, between the Company and Rolm Telecomunicaciones S.A. de C.V. (Exhibit 10.38 to the December 1990 Registration Statement).

(*) 10.37 Employment Agreement effective as of January 1, 1991 between the Company and E. L. Langley. (Exhibit 10.43 to the 1990 Form 10-K.)

(*) 10.38 Employment Agreement effective as of January 1, 1991, between the Company and Richard W. Pryor. (Exhibit 10.44 to the 1990 Form 10-K.)

[*40] [HARDCOPY PAGE 40]

(*) 10.39 Stock Purchase Agreement dated as of August 29, 1991, among Universal Service Telephone Corporation and the shareholders of Haviland Telephone Company, Inc., as amended. (Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 6, 1991 ("December 1991 Form 8-K").)

(*) 10.40 Escrow Agreement dated as of August 29, 1991, among Texas Commerce Bank, N.A., Universal Service Telephone Corporation and the shareholders of Haviland Telephone Company, Inc., as amended. (Exhibit 2.2 to the December 1991 Form 8-K.)

(*) 10.41 Master Agreement dated February 29, 1992, between the Company and Hughes Network Systems, Inc. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 29, 1992 (the "February 1992 Form 8-K").)

(*) 10.42 Asset Purchase and Secured Financing Agreement dated February 29, 1992, between the Company and Hughes Network Systems, Inc. (Exhibit 10.2 to the February 1992 Form 8-K.)

(*) 10.43 1992 License Agreement dated February 29, 1992, between the Company and Hughes Network Systems, Inc. (Exhibit 10.3 to the February 1992 Form 8-K.)

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

(*) 10.45 Warrant Agreement dated March 9, 1992, between the Company and William J. Hilsman and Emily J. Hilsman

(Identical Warrant Agreements, except as to the grantee of the warrants and the number of shares subject thereto, were entered into with D. Ridgely Bolgiano (1,400), G. James Bracknell (420), E.L. Langley (2,800) and Great Circle Communications Ltd. Bda. (1,400).) (Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (the "1991 Form 10-K").)

(*) 10.46 Subscription Agreement dated March 9, 1992, between USTC Kansas, Inc. and William J. Hilsman and Emily J. Hilsman. (Identical Subscription Agreements, except as to the subscriber and the number of units being purchased, were entered into with Richard W. Pryor (10 units), D. Ridgely Bolgiano (10 units), G. James Bracknell (3 units), E. L. Langley (20 units), Great Circle Communications Ltd. Bda. (10 units), Robert B. Liepold (10 units and Rodney L. Joyce (1 unit).) (Exhibit 10.46 to the 1991 Form 10-K.)

(*) 10.47 Promissory Notes issued from December 1991 to January 1992, and repaid in March 1992, to William J. Hilsman, Richard W. Pryor, D. Ridgely Bolgiano, E.L. Langley, Great Circle Communications Ltd. Bda., Robert B. Liepold, Rodney L. Joyce, G. James Bracknell and Lyman C. Hamilton, Jr., together with extension agreements. (Exhibit 10.47 to the 1991 Form 10-K.)

[*41] [HARDCOPY PAGE 41]

(*) 10.48 Common Stock Warrant Certificate dated September 30, 1991, between the Company and William J. Burns Defined Benefit Keogh Plan and Trust. (Exhibit 10.48 to the 1991 Form 10-K.)

(*) 10.49 Common Stock Warrant Certificate dated January 7, 1992, between the Company and William J. Hilsman. (Exhibit 10.49 to the 1991 Form 10-K.)

(*) 10.50 Common Stock Warrant Certificates dated January 9, 1992, and March 6, 1992, between the Company and D. Ridgely Bolgiano. (Exhibit 10.50 to the 1991 Form 10-K.)

(*) 10.51 Employment Agreement dated January 1, 1991, between the Company and G. James Bracknell. (Exhibit 10.51 to the 1991 Form 10-K.)

(*) 10.52 Employment Agreement dated January 1, 1991, between the

Company and Richard A. Guttendorf, Jr. (Exhibit 10.52 to the 1991 Form 10-K.)

(*) 10.54 Employment Agreement dated January 1, 1991, between the Company and William A. Doyle. (Exhibit 10.54 to the 1991 Form 10-K.)

(*) 10.55 Promissory Note dated January 6, 1992, issued by Richard W. Pryor to the Company. (Exhibit 10.55 to the 1991 Form 10-K.)

(*) 10.56 Promissory Note dated January 6, 1992, issued by G. James Bracknell to the Company. (Exhibit 10.56 to the 1991 Form 10-K.)

(*) 10.57 Promissory Note dated January 9, 1992, issued by the Company to D. Ridgely Bolgiano. (Exhibit 10.57 to the 1991 Form 10-K.)

(*) 10.58 Promissory Note dated January 7, 1992, issued by the Company to William J. Hilsman. (Exhibit 10.58 to the 1991 Form 10-K.)

(*) 10.59 1991 Non-Qualified Stock Option Plan. (Exhibit 10.1 to the Form 8-K dated October 21, 1992.)

(*) 10.60 Registration Rights and Restriction Agreement dated October 15, 1992, by and among International Mobile Machines Corporation, Donald L. Schilling and Annette Schilling (Exhibit 10.2 to Form 8-K dated October 21, 1992.)

(*) 10.61 Stock Pledge Agreement by and among International Mobile Machines Corporation; Donald L. Schilling; Annette Schilling; Pepper, Hamilton & Scheetz; and Wilson, Sonsini, Goodrich and Rosati (Exhibit 10.3 to Form 8-K dated October 21, 1992.)

(*) 10.62 Employment Agreement dated October 15, 1992, between Donald L. Schilling and International Mobile Machines Corporation (Exhibit 10.4 to Form 8-K dated October 21, 1992.)

[*42] [HARDCOPY PAGE 42]

(*) 10.63 Stock Option Agreement for 500,000 shares of Common Stock dated October 15, 1992, between International Mobile Machines Corporation to Donald L. Schilling (Exhibit 10.5 to Form 8-K dated October 21, 1992.)

(*) 10.64 Stock Option Agreement for 500,000 shares of Common Stock dated October 15, 1992, between International Mobile Machines Corporation to Annette Schilling (Exhibit 10.6 to Form 8-K dated October 21, 1992.)

10.65 Offer Letter dated June 15, 1992, from the Company to William W. Erdman.

10.66 Offer Letter dated August 26, 1992, as amended on December 29, 1992, from the Company to Robert S. Bramson.

10.67 Option Agreement dated November 17, 1992, between the Company and William W. Erdman.

10.68 Amendment to Employment Agreement dated November 17, 1992, between the Company and William J. Hilsman.

10.69 Distribution Agreement dated January 1, 1993, between the Company and P. T. Amalgam Indocorpora.

10.70 1992 Incentive Stock Option Plan.

10.71 1992 Employee Stock Option Plan.

(*) 22 Subsidiaries of the Company. (Exhibit 22 to the 1990 Form 10-K.)

24 Consent of Arthur Andersen & Co. (*)

(b) Reports filed on Form 8-K during the last quarter of 1992:

During the last quarter of 1992, the Company filed the following Reports on Form 8-K:

Form 8-K dated October 6, 1992, related to the execution of an Acquisition Agreement pursuant to which the Company acquired SCS Telecom, Inc. and SCS Mobilecom, Inc.

Form 8-K dated October 21, 1992, as amended on December 28, 1992, disclosing the closing and the terms and conditions of the acquisition of SCS Telecom, Inc. and SCS Mobilecom, Inc., by the Company, together with the announcement of the change of the name of the Company.

Form 8-K dated November 30, 1992, disclosing the Company's commencement of a private offering of Common Stock pursuant to Regulation S of the Securities Act of 1993.

(*) Incorporated by reference.

[*43] [HARDCOPY PAGE F-1]

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

List of Financial Statements and Schedules

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

[*44] [HARDCOPY PAGE F-2]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To InterDigital Communications Corporation
(formerly International Mobile Machines Corporation):

We have audited the accompanying consolidated balance sheets of InterDigital Communications Corporation (a Pennsylvania corporation) and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1992. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InterDigital Communications Corporation and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

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

ARTHUR ANDERSEN & CO.
PHILADELPHIA, PA.
MARCH 26, 1993

[*45] [HARDCOPY PAGE F-3]

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 1992 AND 1991
(in thousands)

	1992	1991

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of $6,710 and $1,430	$9,753	$5,506
Short term investments	200	2,637
Accounts receivable, net of allowance for uncollectible accounts of $613 and $96	9,734	2,609
Inventories	6,978	2,487
Deposits on inventory purchases	1,329	---
Other current assets	775	823
Total current assets	28,769	14,062
PROPERTY PLANT AND EQUIPMENT:		
Telephone plant	4,256	2,744
Machinery and equipment	3,079	1,680
Computer equipment	2,580	2,067
Furniture and fixtures	942	847
Leasehold improvements	434	254
	11,291	7,592
Less-Accumulated depreciation and amortization	(4,864)	(3,566)
Net property and equipment	6,427	4,026
OTHER ASSETS:		
Goodwill, net of accumulated amortization of $207 and $13	8,119	7,671
Patents, net of accumulated amortization of $1,980 and $1,560	2,362	1,879
Deferred product costs, net of accumulated amortization of $9,146 and $7,469	---	1,677
Other	679	659
Total other assets	11,160	11,886
	$46,356	$29,974

The accompanying notes are an integral part of these statements.

[*46] [HARDCOPY PAGE F-4]

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 1992 AND 1991 (CONTINUED)
(in thousands)

	1992	1991
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	---	$1,000
Current portion of long-term debt	284	5,669
Due to Hughes Network Systems, Inc.	5,691	4,498
Accounts payable	5,722	5,022
Accrued compensation	1,553	1,005
Accrued distributor commissions	1,299	51
Accrued warranty costs	647	523
Other accrued expenses	3,331	2,168
Total current liabilities	18,527	19,936
LONG-TERM DEBT	8,125	8,232
OTHER LIABILITIES	484	---
MINORITY INTEREST	579	---
PREFERRED STOCK OF SUBSIDIARY	585	---
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
EXCHANGEABLE COMMON STOCK	3,000	---
SHAREHOLDERS' EQUITY:		
Preferred stock, $ .10 par value, 14,399 shares authorized- $2.50 Convertible Preferred, 113 and 122 shares issued and outstanding (liquidation value of $2,832 at December 31, 1992)	11	12
$3.00 Convertible Preferred, 400 shares issued and outstanding at December 31, 1991	---	40

Common Stock, $ .01 par value, 50,000 shares authorized, 27,821 shares and 20,166 shares issued and outstanding	278	202
Additional paid-in capital	150,620	109,656
Accumulated deficit	(135,396)	(112,479)
	15,513	(2,569)
Common stock to be issued to Hughes Network Systems, Inc.	---	4,700
Receivables on Common Stock sold	---	(44)
Deferred compensation	(457)	(281)
Total shareholders' equity	15,056	1,806
	$46,356	$29,974

The accompanying notes are an integral part of these statements.

[*47] [HARDCOPY PAGE F-5]

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	For the Year Ended December 31,		
	1992	1991	1990
REVENUES:			
Ultraphone sales	$34,348	$31,482	$15,834
Licensing revenue	3,015	---	---
Contracted services	2,347	2,140	2,736
Telephone network services	2,911	221	---
	42,621	33,843	18,570
OPERATING EXPENSES:			
Cost of Ultraphone sales	27,494	24,546	12,997
Contracted services costs	1,654	1,434	1,918
Telephone network services			

costs	2,361	128	---
Sales and marketing	5,740	4,712	3,965
General and administrative	6,848	5,155	6,101
Research and development	2,995	2,612	1,600
Amortization of deferred product costs	1,677	1,829	1,829
	48,769	40,416	28,410
NON-RECURRING ITEMS:			
Purchased research & development	(13,120)	---	---
Gain on sale of cellular license	---	8,125	---
Loss on purchase commitment cancellation and equipment revaluation	(1,968)	(7,200)	---
Loss from operations	(21,236)	(5,648)	(9,840)
OTHER INCOME (EXPENSE):			
Interest income	171	160	256
Interest expense	(1,263)	(751)	(2,368)
Loss before income taxes	(22,328)	(6,239)	(11,952)
PROVISION FOR STATE INCOME TAXES	(79)	---	---
Loss before minority interest	(22,407)	(6,239)	(11,952)
MINORITY INTEREST IN INCOME OF SUBSIDIARY	(218)	---	---
Net Loss	(22,625)	(6,239)	(11,952)
PREFERRED STOCK DIVIDENDS	(292)	(1,504)	(1,504)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	($22,917)	($7,743)	($13,456)
NET LOSS PER COMMON SHARE	($0.95)	($0.39)	($0.81)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,113	19,828	16,655

The accompanying notes are an integral part of these statements.

[*48] [HARDCOPY PAGE F-6]

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Convertible Preferred Stock $2.50	Convertible Preferred Stock $3.00	Common Stock
BALANCE, DECEMBER 31, 1989	$100	$40	$149
Sale of restricted Common Stock	---	---	5
Exercise of Common Stock options	---	---	---
Exercise of Common Stock warrants	---	---	1
Grants of Common Stock and options below fair market value	---	---	---
Amortization of deferred compensation	---	---	---
Conversion of $2.50 Preferred Stock into Common Stock	(88)	---	25
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	---
Dividend of Common Stock to $3.00 Preferred shareholder	---	---	3
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses	---	---	7
Net loss	---	---	---
BALANCE, DECEMBER 31, 1990	12	40	190
Exercise of Common Stock options	---	---	1
Exercise of Common Stock warrants	---	---	---
Grants of Common Stock and options below fair market value	---	---	---
Amortization of deferred compensation	---	---	---
Dividend of Common Stock and cash to $2.50 Preferred			

shareholders	---	---	---
Dividend of Common Stock to $3.00 Preferred shareholder	---	---	2
Conversion of amount due to M/A Com, Inc. into Common Stock, net of expenses	---	---	9
Issuance of warrants in payment of interest	---	---	---
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge	---	---	---
Net Loss	---	---	---
BALANCE, DECEMBER 31, 1991	$12	$40	$202

(TABLE CONTINUED)

	Additional Paid-In Capital	Accumulated Deficit	Common Stock to be issued to HNS
BALANCE, DECEMBER 31, 1989	$93,821	(91,280)	---
Sale of restricted Common Stock	2,064	---	---
Exercise of Common Stock options	30	---	---
Exercise of Common Stock warrants	174	---	---
Grants of Common Stock and options below fair market value	3	---	---
Amortization of deferred compensation	---	---	---
Conversion of $2.50 Preferred Stock into Common Stock	63	---	---
Dividend of Common Stock and cash to $2.50 Preferred shareholders	138	(304)	---
Dividend of Common Stock to $3.00 Preferred shareholder	1,197	(1,200)	---
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses	3,959	---	---
Net loss	---	(11,952)	---
BALANCE, DECEMBER 31, 1990	101,449	(104,736)	---

Exercise of Common Stock options	670	---	---
Exercise of Common Stock warrants	36	---	---
Grants of Common Stock and options below fair market value	468	---	---
Amortization of deferred compensation	---	---	---
Dividend of Common Stock and cash to $2.50 Preferred shareholders	72	(304)	---
Dividend of Common Stock to $3.00 Preferred shareholder	1,198	(1,200)	---
Conversion of amount due to M/A Com, Inc. into Common Stock, net of expenses	4,863	---	---
Issuance of warrants in payment of interest	900	---	---
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge	---	---	4,700
Net Loss	---	(6,239)	---
BALANCE, DECEMBER 31, 1991	$109,656	($112,479)	$4,700

(TABLE CONTINUED)

	Receivables on Common Stock Sold	Deferred Compensation	Total
BALANCE, DECEMBER 31, 1989	($351)	($49)	$2,430
Sale of restricted Common Stock	90	---	2,159
Exercise of Common Stock options	164	---	194
Exercise of Common Stock warrants	---	---	175
Grants of Common Stock and options below fair market value	---	(3)	---
Amortization of deferred compensation	---	14	14
Conversion of $2.50 Preferred Stock into Common Stock	---	---	---
Dividend of Common Stock and			

cash to $2.50 Preferred shareholders	---	---	(166)
Dividend of Common Stock to $3.00 Preferred shareholder	---	---	---
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses	---	---	3,966
Net loss	---	---	(11,952)
BALANCE, DECEMBER 31, 1990	(97)	(38)	(3,180)
Exercise of Common Stock options	53	---	724
Exercise of Common Stock warrants	---	---	36
Grants of Common Stock and options below fair market value	---	(399)	69
Amortization of deferred compensation	---	156	156
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	(232)
Dividend of Common Stock to $3.00 Preferred shareholder	---	---	---
Conversion of amount due to M/A Com, Inc. into Common Stock, net of expenses	---	---	4,872
Issuance of warrants in payment of interest	---	---	900
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge	---	---	4,700
Net Loss	---	---	(6,239)
BALANCE, DECEMBER 31, 1991	($44)	($281)	$1,806

The accompanying notes are an integral part of these statements

[*49] [HARDCOPY PAGE F-7]

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)
(In thousands)

	Convertible Preferred Stock		
			Common
	$2.50	$3.00	Stock

BALANCE, DECEMBER 31, 1991	$12	$40	$202
Sale of restricted Common Stock	---	---	36
Exercise of Common Stock options	---	---	4
Exercise of Common Stock warrants	---	---	4
Grants of Common Stock and options below fair market value	---	---	---
Amortization of deferred compensation	---	---	---
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	---
Conversion of amounts due to vendors into Common Stock	---	---	1
Conversion of $2.50 Preferred Stock into Common Stock	(1)	---	---
Issuance of warrants in payment of Interest	---	---	---
Common Stock Issued to Hughes Network Systems, Inc. to settle cancellation charge	---	---	15
Common Stock Issued to acquire SCS	---	---	15
Gain on sale of Interest in subsidiary	---	---	---
Net Loss	---	---	---
BALANCE, DECEMBER 31, 1992	$11	$0	$278

(TABLE CONTINUED)

	Additional Paid-In Capital	Accumulated Deficit	Common Stock to be issued to HNS
BALANCE, DECEMBER 31, 1991	$109,656	($112,479)	$4,700
Sale of restricted Common Stock	13,488	---	---
Exercise of Common Stock options	1,876	---	---
Exercise of Common Stock warrants	1,409	---	---
Grants of Common Stock and			

options below fair market value	574	---	---
Amortization of deferred compensation	---	---	---
Dividend of Common Stock and cash to $2.50 Preferred shareholders	99	(292)	---
Conversion of amounts due to vendors into Common Stock	738	---	---
Conversion of $2.50 Preferred Stock into Common Stock	1	---	---
Issuance of warrants in payment of Interest	82	---	---
Common Stock Issued to Hughes Network Systems, Inc. to settle cancellation charge	13,200	---	(4,700)
Common Stock Issued to acquire SCS	13,200	---	---
Gain on sale of Interest in subsidiary	4,773	---	---
Net Loss	---	(22,625)	---
BALANCE, DECEMBER 31, 1992	$150,620	($135,396)	$0

(TABLE CONTINUED)

	Receivables on Common Stock Sold	Deferred Compensation	Total
BALANCE, DECEMBER 31, 1991	($44)	($281)	$1,806
Sale of restricted Common Stock	---	---	13,524
Exercise of Common Stock options	44	---	1,924
Exercise of Common Stock warrants	---	---	1,413
Grants of Common Stock and options below fair market value	---	(326)	248
Amortization of deferred compensation	---	150	150
Dividend of Common Stock and cash to $2.50 Preferred shareholders	---	---	(193)
Conversion of amounts due to			

vendors into Common stock	---	---	739
Conversion of $2.50 Preferred Stock into Common Stock	---	---	---
Issuance of warrants in payment of Interest	---	---	82
Common Stock Issued to Hughes Network Systems, Inc. to settle cancellation charge	---	---	---
Common Stock Issued to acquire SCS	---	---	13,215
Gain on sale of Interest in subsidiary	---	---	4,773
Net Loss	---	---	(22,625)
BALANCE, DECEMBER 31, 1992	$0	($457)	$15,056

The accompanying notes are an integral part of these statements

[*50] [HARDCOPY PAGE F-8]

INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31,		
	1992	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	($22,625)	($6,239)	($11,952)
Adjustment to reconcile net loss to net cash used for operating activities-			
Purchased research and development	13,120	---	---
Loss on equipment revaluation	1,968	---	---
Gain on sale of cellular license	---	(8,125)	---
Minority interest in subsidiary	156	---	---
Depreciation and amortization	3,624	3,092	3,394

Cancellation charged to be paid in common stock	---	4,700	---
Compensation on stock issued and stock options granted	524	225	152
Interest expense paid by issuance of options and warrants	82	---	---
Write-down of inventory	---	---	545
Other	(57)	(313)	63
Change in assets and liabilities net of effect of business acquisitions-			
Decrease (increase) in assets-			
Receivables	(6,411)	44	(1,046)
Inventories	(4,491)	858	556
Deposits on inventory purchases	(1,329)	53	84
Prepaid engineering expense	---	84	350
Other current assets	(87)	(421)	155
Increase (decrease) in liabilities-			
Accounts payable	998	2,850	1,320
Due to Hughes Network Systems, Inc.	(1,507)	2,601	1,871
Due to M/A-Com, Inc.	---	56	710
Due to Century Cellular Corp.	---	160	921
Other accrued expenses	2,174	21	386
Net cash used for operating activities	($13,861)	($354)	($2,491)

The accompanying notes are an integral part of these statements.

[*51] [HARDCOPY PAGE F-9]

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	For the Year Ended December 31,		
	1992	1991	1990
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from short-term investments	$2,437	---	---
Additions to property and equipment, net of amounts acquired under capital			

leases of $67, $46 and $344, respectively	(2,764)	(247)	(498)
Other non-current assets	(390)	(406)	(813)
Net cash acquired from business acquisition	36	1,385	---
Net cash provided by (used for) investing activities	(681)	732	(1,311)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from sales of Common Stock and exercises of stock options and warrants	16,849	703	2,356
Net proceeds from sale of common stock of subsidiary	5,187	---	---
Proceeds from sale of preferred stock of subsidiary	585	---	---
Proceeds from sale of exchangeable common stock	3,000	---	---
Payments of short-term borrowings, net	(1,000)	---	(1,000)
Payments on long-term debt	(5,639)	(239)	(187)
Cash dividends on preferred stock	(193)	(232)	(166)
Proceeds from amounts due to Century Cellular Corp.	---	---	1,000
Net cash provided by financing activities	18,789	232	2,003
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,247	610	(1,799)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,506	4,896	6,695
CASH AND CASH EQUIVALENTS, END OF YEAR	$9,753	$5,506	$4,896

The accompanying notes are an integral part of these statements.

[*52] [HARDCOPY PAGE F-10]

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	For the Year Ended December 31,		
	1992	1991	1990
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$939	$574	$405
Income taxes paid	$691	---	---
NONCASH FINANCING ACTIVITIES:			
Issuance of Note Payable to Hughes Network Systems, Inc. related to equipment purchase	$2,700	---	---
Conversion of M/A Com debt and interest into Common Stock	---	$4,929	$4,000
Offset of prepaid engineering and deposits on inventory purchase commitments against long-term payables due to Hughes Network Systems, Inc.	---	$2,156	---
Conversion of interest due to Century Cellular Corp. into warrants to purchase Common Stock	---	$900	---

The following table presents the noncash assets, charges and liabilities that were consolidated in 1992 and 1991 as a result of the SCS and Haviland acquisitions (see Notes 2 and 3) (in thousands):

	1992	1991
Noncash assets, charges and (liabilities):		
Short-term investments	---	$2,637
Accounts receivable	714	598
Other current assets	20	140
Property, plant and equipment	91	2,758

Goodwill	---	7,584
Purchased research and development costs	13,120	---
Patents	500	---
Other assets	43	446
Accounts payable and accrued expenses	(1,229)	(1,981)
Long-term debt	(80)	(1,821)
Net noncash assets and charges consolidated	13,179	10,361
Less-Issuance of Common Stock	13,215	---
Less-Issuance of Promissory s	---	11,746
Net cash acquired from business acquisition	$36	$1,385

The accompanying notes are an integral part of these statements.

[*53] [HARDCOPY PAGE F-11]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1992

1. Background And Liquidity:

InterDigital Communications Corporation, formerly International Mobile Machines Corporation, (the Company) was incorporated in 1972 and is engaged primarily in the development and commercialization of the UltraPhone Digital Loop Carrier (the UltraPhone), a digital radiotelephone system. The Company sells the UltraPhone primarily to telephone operating companies in the United States and to distributors in and governments of foreign countries. The Company also provides certain engineering and marketing services related to wireless digital communications, is involved in the protection and exploitation of its intellectual property, and provides technical training courses and contract engineering services to the federal government. The Company is also engaged in the acquisition and management of rural telephone operating companies. The acquisition of Haviland Telephone Company, Inc. ("Haviland") in 1991 (see Note 3) is the Company's first substantial acquisition in this program.

The Company has experienced significant losses since inception and, as of December 31, 1992, its accumulated deficit was $135,396,000. Additional funds will be required by the Company to continue to produce and market the UltraPhone, continue product development, maintain and exploit the Company's patent position and technology and continue its telephone operating company acquisition program. Management believes that sufficient funds will be available from both operating revenues and additional issuances of debt or equity securities, to sustain its operations through 1993. Through March 25, 1993, the Company has received net proceeds of $7,453,000 from the issuance of Common Stock in private placement transactions in calendar 1993.

2. Acquisition of SCS:

On October 15, 1992, the Company acquired 100% of the Capital Stock of SCS Telecom, Inc. and SCS Mobilecom, Inc. (collectively referred to as "SCS") which are primarily engaged in the research and development of a digital technology for wireless communications known as Broadband Code Division Multiple Access ("B-CDMA"). As of the date of acquisition, SCS had 30 patents granted and/or pending relating to B-CDMA technology.

[*54] [HARDCOPY PAGE F-12]

In payment of the purchase price, the Company issued 1,554,400 shares of restricted common stock of the Company to SCS shareholders ("Sellers"). The Company also granted an option to purchase a total of 445,600 shares of common stock at an exercise price of $ .60 per share to certain key executives and employees of SCS in exchange for previously held options to purchase the common stock of SCS. In conjunction with employment agreements, the Company also granted options to the Sellers to purchase 1,150,000 shares of common stock at an exercise price of $6.75 per share, the closing price on October 14, 1992. One of the sellers also received an additional option to purchase 20,000 shares of common stock at an exercise price of $3.00 per share. In conjunction with three year employment agreements, certain executives received options to purchase 420,000 shares of common stock at an exercise price of $6.75 per share.

The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price of $13,941,000, including transaction costs of $726,000, was allocated to the net tangible and patent assets of SCS ($321,000 and $500,000, respectively) and to acquired research and development costs based upon the fair value of net assets and research and development acquired. Generally accepted accounting principles require that research and development costs must be expensed as incurred, therefore, $13,120,000 of purchased research and development cost was expensed as a non-recurring cost of operations in connection with this transaction.

The operating results of SCS have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the unaudited consolidated pro forma results of operations of the Company for the years ended December 31, 1992 and 1991, assuming the acquisition had occurred on January 1, 1991 (in thousands, except per share amounts):

	1992	1991
Revenues	$45,293	$39,263
Net loss	(9,941)	(5,943)
Net loss applicable to common shareholders	(10,233)	(7,447)
Net loss per common share	(0.40)	(0.35)

The pro forma financial information presented above does not include $13,120,000 of acquired research and development costs expensed in connection with this transaction. The pro forma financial information presented above is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place on January 1, 1991 or of future results of operations.

[*55] [HARDCOPY PAGE F-13]

3. Acquisition of Haviland:

In December 1991, the Company, through a wholly-owned subsidiary, purchased 100% of the outstanding capital stock of Haviland for approximately $12,000,000, plus transaction costs of $827,000. The purchase price was paid with $254,000 of cash from Haviland and the issuance of $11,746,000 of promissory notes (see Note 9). Haviland is located in Kansas and was organized in 1952 to provide telephone and communications services to the area from Wichita to Dodge City.

The acquisition has been accounted for using the purchase method, whereby the purchase price is allocated to the assets and liabilities of Haviland based on their fair market value at the acquisition date. During 1992, the preliminary allocation of the purchase price as of December 31, 1991 was revised, resulting in an increase in the excess of total acquisition costs over the fair value of net assets acquired of $655,000. This increase relates principally to recognition to $500,000 of additional liabilities for certain lifetime health benefits to be provided to the former owners of Haviland. The $7,584,000 recorded as of December 31, 1991 and the $655,000 recorded during 1992 of excess of acquisition costs over fair value of net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. Amortization expense was $189,000 and $13,000, respectively, in 1992 and 1991.

In 1992, $5,357,000 of the promissory notes discussed above plus accrued interest were repaid with $1,941,000 of cash from Haviland, the proceeds from the issuance of 5,850 shares of $100 par value redeemable preferred stock ("Subsidiary Preferred") for $585,000 by the wholly-owned subsidiary which purchased Haviland and the proceeds from the issuance by the Company of 60 Common Stock units ("Units") for $3,000,000 of proceeds.

The Subsidiary Preferred is classified outside of the Equity section on the Consolidated Balance Sheet because of the mandatory redemption feature, similar to minority interest. The Subsidiary Preferred has a 14% compounded cumulative dividend payable as declared. Dividends of $62,000 were reported in minority interest in 1992. In addition, upon maturity (the earlier of the sale of Haviland or April 15, 1997), the Company must redeem all outstanding shares of the Subsidiary unpaid dividends and a contingent payment, as defined. The contingent payment is based on the deemed appreciation in the value of Haviland. As of December 31, 1992, there has been no such appreciation. At any time after December 31, 1994, the Company, at its option may redeem any or all of the outstanding Subsidiary Preferred at par value plus unpaid cumulative dividends. Subsidiary Preferred shares were issued with warrants to purchase 13,440 shares of the Company's Common Stock at $6.53 per share. Of the shares of Subsidiary Preferred issued, 3,700 shares were sold to various Company officers and members of the Board of Directors.

[*56] [HARDCOPY PAGE F-14]

Each Unit included approximately 8,500 shares of Common Stock and warrants to purchase an additional 12,700 shares of Common Stock at the then fair market value of $5.875 per share. Through January 19, 1994, each Unit holder has the right to exchange one-half of the Common Stock and warrants for 20% of the capital stock of Haviland on a prorata basis. In addition, the Unit holders have a second exchange right, exercisable for the 30-day period from December 20, 1993 through January 19, 1994. This right permits each Unit holder to exchange one-half of the Common Stock and warrants for an additional 16% of the capital stock of Haviland on a prorata basis. At the option of the Company it can preempt the above exchange rights by redeeming the Common Stock and warrants for $5.875 per share plus a 15% return per annum from the original date of issuance of the Unit. These exchange rights expire on January 19, 1994; however, these rights will expire earlier under certain conditions.

In 1992, the Company recorded $156,000 in the accompanying statement of operations as minority interest to 1992 representing a reduction of 36% of Haviland's 1992 net income to reflect the potential ownership of the Unit holders. In addition, the 510,660 shares of InterDigital common stock ($3,000,000 of proceeds) which were issued in conjunction with this transaction has been classified in the Consolidated Balance Sheet as "Exchangeable Common Stock". Upon exercise of the warrants or expiration of the conversion rights in January 1994, this $3,000,000 will be reclassified and included in shareholder's equity. Should the conversion rights be exercised, in whole or in part, the applicable portion of the $3,000,000 would be reclassified to minority interest and a reduction of Goodwill.

The operating results of Haviland have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the unaudited consolidated pro forma results of operations of the Company for the years ended December 31, 1991 and 1990, assuming the acquisition had occurred on January 1, 1990 (in thousands, except per share amounts):

	1991	1990
Revenues	$36,213	$20,856
Net loss	(4,222)	(12,452)
Net loss applicable to common shareholders	(5,726)	(13,956)
Net loss per common share	(.29)	(.84)

The pro forma financial information presented above is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place on January 1, 1990 or of future results of operations.

[*57] [HARDCOPY PAGE F-15]

4. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation, except as described below - see "Basis of Accounting for Rate-Regulated Subsidiary".

Cash, Cash Equivalents and Short-Term Investments

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

	December 31	
	1992	1991
Cash, money market and demand deposits	$762	$2,913
U.S. Treasury bills and notes	-	1,737
Certificates of deposit	891	1,330
Commercial paper	-	1,200
Repurchase agreements	8,300	963
	$9,953	$8,143

The repurchase agreements matured on January 4, 1993 and were fully collateralized by U.S. Government securities. The short-term investments are carried at cost which approximates market.

All of the cash and cash equivalents of InterDigital Patents Corporation ("Patents Corp"), which amounted to $5,377,000 at December 31, 1992, is restricted for exclusive use by Patents Corp, to fund its operations (see Note 5).

As of December 31, 1992 and 1991, Haviland accounted for $806,000 and $3,548,000, respectively, of the Company's cash, cash equivalents and short-term investments. In January 1992, $1,941,000 of this balance was used to repay a portion of the promissory notes, including accrued interest, related to the acquisition of Haviland (see Note 9).

Restricted Assets

The Company is limited as to its ability to withdraw the net assets of Haviland due to certain covenants of Haviland's long-term debt and other local utility commission regulations (see Note 9). As of December 31,1992, the historical net assets of

[*58] [HARDCOPY PAGE F-16]

Haviland were $3,159,000 of which $2,700,000 was restricted from withdrawal.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis and market based on net realizable value.

Deposits on Inventory Purchases

The Company purchases certain inventory components under terms which provide for partial payment in advance of delivery of inventory. As of December 31, 1992, $1,329,000 of such payments, principally to one vendor, are included in deposits on inventory. Upon delivery of inventory under these payment arrangements, the Company is obligated to fund an additional amount of $306,000 over a four month period commencing in January 1993.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization of property, plant and equipment except for telephone plant are provided using the straight-line method. The estimated useful lives for computer equipment, machinery and equipment and furniture and fixtures are generally three to five years. Leasehold improvements are being amortized over their lease term, generally five to ten years.

Depreciation of telephone plant is provided using straight-line composite rates. This composite rate was approximately 5% in both 1992 and 1991.

Deferred Product Costs

Deferred product costs are described in Note 7 and were amortized over five years from December 1987, which was the date revenue was first recognized on UltraPhone product sales.

Patents

The costs to obtain certain patents for the Company's Time Division Multiple Access ("TDMA") and B-CDMA technologies have been capitalized and are being amortized on a straight-line basis over their estimated useful lives, generally 10 years. Amortization was $420,000, $420,000, and $727,000 in 1992, 1991 and 1990, respectively.

Revenue Recognition

UltraPhone revenues are recognized upon shipment of systems and upon completion of services.

The Company provided certain marketing and engineering services in the field of digital cellular nodes on a time and material basis to Hughes Network Systems, Inc. ("HNS"). The Company has

recorded revenue as earned pursuant to the contract. Also, the Company through its wholly-owned subsidiary, InterDigital Telecom Inc. (see Note2), provides training and contract engineering services for the United States Government. Revenues on these contracts are recognized as the services are provided.

License revenues in 1992 consist entirely of upfront fees which were recognized at the time of the applicable agreement. Recurring revenues may be recognized in the future according to the terms of the agreement.

Revenues from the Company's telephone network services are recorded as services are provided.

Major Customers

In each of 1992, 1991 and 1990, two customers accounted for approximately 65%, 62%, and 60% of the Company's UltraPhone sales, respectively. In 1992, the Company's largest UltraPhone customers were P.T. Amalgam, Indonesia and Telefonos de Mexico ("Telmex") which represented 54% and 11% of UltraPhone sales, respectively. In 1991 and 1990, the Company's largest customer was Telmex, which accounted for approximately 40% and 43% of UltraPhone sales, respectively (see Note 16).

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable. By policy, the Company places its cash equivalents and short-term investments only with high quality financial institutions and in U.S. Government obligations. Substantially all of the Company's trade accounts receivable are derived from sales of UltraPhone products. Approximately 72% of the Company's UltraPhone product sales are export sales (see Note 16). To reduce credit risk, the Company generally requires foreign customers to furnish letters of credit.

Basis of Accounting for Rate-Regulated Subsidiary

Statement of Financial Accounting Standards No. 71 (SFAS No. 71) provides that rate-regulated public utilities account for and report assets and liabilities consistent with the economic effect of the way in which regulations establish rates, if the rates established are designed to recover the costs of providing the regulated service, and if the competitive environment makes it reasonable to assume that such rates can be charged and collected. Haviland follows the accounting and reporting requirements of SFAS No. 71.

During 1992, Haviland purchased UltraPhone equipment for use in its service area as part of an overall plant upgrade that also includes installation of digital switching equipment. The consolidated financial statements include revenues, accounts receivable, accounts payable and telephone plant of $887,000

[*60] [HARDCOPY PAGE F-18]

related to this transaction. The sale of equipment to Haviland was priced at levels which are consistent with other comparable third party domestic sales.

Reclassification

The financial statements for prior years have been reclassified to conform with the current year presentation.

Net Loss Per Common Share

The net loss per common share is based on the weighted average number of shares of Common Stock outstanding during each year. Common Stock equivalents have not been considered in any year presented since their effect is antidilutive in each year.

5. Patents Corporations:

During the fourth quarter of 1992, the Company formed Patents Corp and contributed to Patents Corp its entire ownership interest in InterDigital Technology Corporation ("Technology Corp") in return for 100% of its common stock. The Company had previously contributed all of its past, present and future (conceived on or before February 2002) patent rights to Technology Corp. Subsequently, Patents Corp issue twenty two (22) Units in a private placement at $250,000 per Unit, receiving net proceeds of $5,187,000 in return for 5.76% of the ownership interest in Patents Corp. Each Unit consists of 62,500 shares of Patents Corp Common Stock and warrants to purchase 62,500 shares of the Company's Common Stock at an exercise price of $5.50 per share.

The net proceeds from the sale of the Units will be used in the development, acquisition, maintenance and exploitation of the patent portfolio, and to finance, in part, if necessary, enforcement of its patents (see Note 4). The proceeds from the exercise of the warrants, if any, will be available to be used as working capital by the Company.

The Securities and Exchange Commission Staff Accounting Bulletins Nos. 51 and 84 preclude the recognition of gain on the sale of a subsidiary's stock under certain circumstances. Accordingly, a gain of $4,773,000 has been recorded in Additional Paid-in Capital related to this transaction. The results of operations of Technology Corp and of Patents Corp are included in consolidated results of operations for 1992.

[*61] [HARDCOPY PAGE F-19]

6. Inventories

	December 31	
	1992	1991
	(in thousands)	
Component parts and work-in-progress	$4,502	$1,824
Finished goods	2,476	663
	$6,978	$2,487

7. Ultraphone Development and Production Agreements:

In 1986, the Company entered into a commercialization agreement with M/A-COM, Inc. and its subsidiaries (M/A-COM) to design, fabricate, test and manufacture equipment for the fixed application of the UltraPhone system. In September 1987, the M/A-COM subsidiary, with which the Company had its contractual relationship, was acquired by Hughes Aircraft Corporation and renamed Hughes Network Systems, Inc. (HNS). The costs of this agreement were expensed until the technological feasibility of the fixed application of the UltraPhone system was established and the working model and its design had been completed.

The remaining costs of the agreement were capitalized as deferred product costs (see Note 4). All of these costs have been amortized as of December 31, 1992.

In February 1987, the Company entered into a production agreement with HNS to manufacture certain UltraPhone products. As required under the agreement, a $2,000,000 down payment was made and was to be credited against inventory purchases over the life of the agreement. In 1989, the Company cancelled a portion of this agreement at a cost of $1,850,000. The cancellation charge was funded with the application of the remaining $600,000 of the inventory deposit, a credit from HNS of $118,000 for the value of scrapped material and $1,132,000 paid in 1991 (see below). As of December 31, 1991, the Company had no future commitments under this agreement.

In December 1987, the Company entered into a second production agreement with HNS to engineer and manufacture certain UltraPhone products. The agreement required a deposit, which was to be credited ratably against product purchases over the life of the agreement. In September 1991, the remaining deposit of $1,658,000 was applied against the first production agreement cancellation charge (see above) and other commercialization agreement liabilities.

In February 1992, the Company finalized an agreement to cancel this second production agreement. The cancellation charge, subject to adjustment, was approximately $7,200,000 and was expensed in 1991 as a nonrecurring item. This liability was settled in March 1992, with $2,500,000 in cash and the issuance of 499,787 shares of the Company's Common Stock valued at

[*62] [HARDCOPY PAGE F-20]

$4,700,000. At December 31, 1991, the March 1992 issuance of Common Stock has been presented as a component of shareholders' equity. Upon issuance in 1992, this amount was reclassified to Paid-in-Capital. The agreement also provided that if, at any time during the five years after the issuance of this Common Stock, the aggregate net proceeds received by HNS from the sale of this Common Stock is less than $4,700,000, the Company would then be obligated to pay HNS the difference, either in cash or by the issuance of additional shares of Common Stock.

During 1992, HNS sold the 499,787 shares of Common Stock, realizing net proceeds of $2,894,000. The difference amounting to $1,806,000, plus interest, is asserted by HNS to be payable by the Company and is the subject of litigation filed by HNS in early 1993 (see Note 11).

To the extent such payable is satisfied by the issuance of additional shares, such issuance would be accounted for as an adjustment to the February 1992 settlement and would not result in any additional charge to earnings. Also, in March 1992, in connection with the cancellation of the second production agreement, the Company purchased from HNS certain equipment with an agreed value of $2,700,000 to be used by the Company to manufacture all future UltraPhone subscriber unit needs. This equipment was paid for by issuing a note due in three equal installments in May, August and November 1992 and bears interest at prime plus 2%. The Company has not made any payments to HNS for this equipment and intends to litigate this matter as well other amounts asserted by HNS to be payable by the Company (see Note 11). With the initiation of volume production of subscriber units in the fourth quarter of 1992, the Company was able to assess the quality and throughput capacity of the equipment. Based on this assessment, the Company has revalued the equipment, resulting in a non-recurring charge to operations of $1,968,000 in 1992. In addition, as of December 31, 1992, the Company believes that this equipment has a remaining useful life of twelve months. In addition, the Company purchased from HNS certain materials and supplies to be used in the subscriber unit production for approximately $330,000. These materials and supplies were paid for by issuing a promissory note which was paid April 1992. The Company also purchased certain UltraPhone inventory in 1992 at a cost of approximately $3,800,000. Of these amounts, $2,806,000 is included in the liability amounts due to HNS which is subject to litigation.

In July 1989, the Company engaged HNS to provide engineering services related to enhancements of the UltraPhone for a minimum cost of $2,000,000 of which $1,000,000 was prepaid. HNS had provided $84,000, $350,000 and $68,000 in engineering services to the Company in 1991, 1990 and 1989, respectively. In 1991, the Company cancellation the remaining portion of the agreement, incurring a cancellation charge of $500,000, which was expended in 1990. In September 1991, the remaining unused prepaid balance of $498,000 was offset against this cancellation liability.

[*63] [HARDCOPY PAGE F-21]

Certain of the balances HNS bore interest at an average annual rate of 8.2% in 1992 and 15% in 1991 and 1990. Interest expense on these balances was $174,000, $230,000 and $317,000 in 1992, 1991 and 1990, respectively.

Also, in July 1989, the Company granted to HNS a non-exclusive, worldwide license to use certain of the Company's patented technology in the field of digital cellular telephony in the United States and certain other countries. The Company earns a royalty based on sales of HNS digital cellular products. No royalties have been recorded to date pursuant to this agreement, although the Company believes that HNS is marketing and has orders for equipment, which is subject to this agreement.

In February 1992, the Company granted to HNS an additional non-exclusive, worldwide license to manufacture and sell products based on the Company's TDMA patented technology. The Company earns a royalty based on sales by HNS of such TDMA products. HNS has paid in 1992 an initial nonrefundable royalty payment of $2,500,000 related to this license.

In December 1990, M/A-COM, Inc. converted $4,000,000 of the amount then due into 730,000 shares of Common Stock. In February and March 1991, M/A-COM, Inc. converted $4,929,000 of principal and accrued interest on the notes into 898,000 shares of Common Stock. Interest expense on the amount due to M/A-COM was $56,000 in 1991 and $922,000 in 1990.

8. Short-Term Borrowings:

The Company had a $2,000,000 bank line of credit, with interest at prime. The outstanding balance on the line at December 31, 1991 was fully secured by an assignment of the Company's investment in commercial paper (see Note 4) which was held in trust by the bank. The line of credit expired on July 31, 1992 and the outstanding balance was repaid. The interest rate was 6.5% and 10.0% at December 31, 1991 and 1990, respectively. The average balance outstanding on the line during 1992, 1991 and 1990 was $287,000, $1,000,000 and $1,403,000, at weighted average interest rates of 6.5%, 8.6% and 10.2%, respectively. The maximum balance outstanding on the line during 1992, 1991 and 1990 was $1,000,000, $1,000,000 and $2,000,000, respectively. Interest expense was $19,000 in 1992, $86,000 in 1991 and $142,000 in 1990.

During 1992 and 1991, the Company had certain short-term borrowing arrangements collateralized by specific accounts receivable invoices. The interest rate on these borrowings ranged from 8% to 24%. The average balance outstanding during 1992 and 1991 was $162,000 and $88,000 with the maximum balances outstanding being $1,144,000 and $550,000, respectively. Interest expense for 1992 and 1991 was $113,000, and $21,000, respectively. No such borrowings are outstanding as of December 31, 1992.

[*64] [HARDCOPY PAGE F-22]

9. Long-Term Debt:

	December 31	
	1992	1991
	(in thousands)	
Mortgage notes:		
2% Rural Electrification Authority notes, due through March 2008	$497	$552
due through March 2008	$497	$552
7% and 7-1/2% Rural Telephone Bank notes, due through October 2011	1,370	1,427
Promissory notes (see Note 3)	6,389	11,746
Capital lease obligations	224	352
Bank notes	80	-
Bank notes	80	-
	8,560	14,077
Less-Discount on mortgage notes	(151)	(176)
	8,409	13,901
Less-Current portion	(284)	(5,669)
	$8,125	$8,232

The mortgage notes were acquired in December 1991 in connection with Haviland transaction (see Note 3). In connection with its purchase its accounting, the Company has recorded a discount on these notes related to their below market stated rate of interest. This discount is being amortized over the remaining terms of the notes using the effective interest method.

These notes are payable in equal quarterly installments of approximately $62,000 of principal and interest. Interest expense for the periods ended December 31, 1992 and 1991 was $142,000 and $10,000, respectively. These notes have restrictive covenants, which among other things, require Haviland to maintain a specified level of net worth and restricts the payment of dividends based on this level of net worth and working capital (see Note 4).

In connection with an upgrade of its telephone plant, Haviland expects to close a secured financing facility provided by the principal equipment vendor (the "vendor facility"). If completed, Haviland intends to retire the mortgage notes currently outstanding. The proposed vendor financing provides for borrowings up to $1,900,000 to refinance existing debt and $1,100,000 for new equipment with interest and principal payable

[*65] [HARDCOPY PAGE F-23]

in sixty (60) consecutive quarterly installments beginning the quarter following the initial borrowing. Interest would be calculated at a rate equal to the yield on 7-year U.S. Treasury issues as of the date of the borrowing, plus 3.12% per annum. The financing would be secured by a first-priority security interest in and lien on the personal and real property of Haviland.

In connection with its acquisition of Haviland, the Company issued promissory notes of $11,746,000 to the sellers. These notes were issued in four series, three of which bear interest at 10% per annum. The notes in the first series, totaling $1,771,000 of principal were non-interest bearing and paid in January 1992 from the cash of Haviland. The notes in the second series, totaling $3,586,000 of principal, were paid in January and March 1992, plus accrued interest from the cash of Haviland and the proceeds of the financing transaction discussed in Note 3. The notes in the third and fourth series, totaling $1,479,000 and $4,910,000, mature in December 1994 and 1996, respectively Interest on these notes is payable quarterly. Interest expense for the periods ended December 31, 1992 and 1991 on all of the above promissory notes was $672,000 and $68,000, respectively. The third and fourth series notes are collateralized by the escrow of approximately 62% of the outstanding common stock of Haviland.

Capitalized lease obligations are payable in monthly installments at various interest rates through 1995.

As of December 31, 1992, maturities of principal of long-term debt are as follows: $284,000 in 1993, $1,721,000 in 1994, $134,000 in 1995, $5,005,000 in 1996, $98,000 in 1997 and $1,318,000 in 1998 and thereafter.

10. Gain on Sale of Cellular License:

On December 4, 1989, the Company issued a $7,500,000 convertible subordinated note (the) to Century cellular Corp. ("Century") with interest at 12% In connection with the issuance of the Note. Century received a warrant to purchase 770,000 shares of Common Stock at $5.07 per share, as adjusted. The warrant is exercisable until December 4, 1994. The accrued interest on the Note through December 1, 1990 of $900,000 was paid by the issuance in March 1991 of a to warrant to purchase 900,000 shares of Common Stock at $4.00 per share. The warrant is exercisable until March 1996.

In March 1990, pursuant to a lottery conducted by the Federal Communications Commission, the Company was awarded a construction permit for a cellular radio system to operate in certain areas of Indiana. In December 1990, the Company signed a contract for the sale of the construction permit to a subsidiary of Century. The purchase price for the permit was $8,500,000 plus accrued interest on the Note from December 1, 1990 until closing. The Company was paid a $1,000,000 refundable deposit on contract execution. The sale closed in March 1991 and the Note and

[*66] [HARDCOPY PAGE F-24]

accrued interest of $246,000 was forgiven. The Company recorded a gain of $8,125,000, net of $621,000 in transaction costs, in the first quarter of 1991.

During the fourth quarter of 1992, the Company made a provision of $475,000 resulting from an adverse judgment rendered in the first quarter of 1993 related to investment banking fees on this transaction. The Company may appeal the judgment.

11. Commitments and Contingencies:

The Company has entered into various lease agreements, primarily for office and assembly space. Total rent expense was $835,000, $708,000 and $929,000 for the years ended December 31, 1992, 1991 and 1990, respectively. Minimum future rental payments for operating leases are as follows (in thousands):

1993	$1,149
1994	1,224
1995	985
1996	734
1997	710
1998 and thereafter	893
	5,695

The Company has contracts with certain key employees which provide for minimum annual compensation of $2,062,000 in 1993, $935,000 in 1994, $663,000 in 1995, $175,000 in 1996 and $139,000 in 1997. In connection with these contracts and the hiring of certain other employees, restricted shares of Common Stock and non-qualified stock options were issued at prices below fair market value. The aggregate differences between the fair market value of the Common Stock on the dates of issuance and the issue price were $326,000, $399,000 and $3,000 in 1992, 1991 and 1990, respectively, and have been classified as deferred compensation in the accompanying balance sheets. These amounts are being amortized over the vesting periods. The amortization for the years ended December 31, 1992, 1991 and 1990 was $150,000, $156,000 and $14,000, respectively.

On February 25, 1993, the Company was served with a Summons and Complaint (the "Complaint") for a federal diversity action now pending in the District of Maryland. In the Complaint, HNS alleges that the Company breached certain agreements which were entered into between HNS and the Company on February 29, 1992 and which relate to the termination of prior agreements between the parties. HNS is seeking damages totaling $7,452,318 (plus interest, attorney's fees, and court costs). HNS is also seeking delivery of certain collateral, execution of a lock box agreement, information relating to a Warrant Certificate held by HNS, and an unspecified amount of damages arising from the Company's alleged failure to provide such information to HNS.

[*67] [HARDCOPY PAGE F-25]

The Company must answer, move, or otherwise respond with respect to the Complaint no later than April 26, 1993 and must, no later than April 12, 1993, answer or otherwise respond to HNS's initial discovery requests, which were served simultaneously with the Summons.

12. Preferred Stock:

In 1989, HNS purchased 400,000 shares of the Company's $3.00 Convertible Preferred Stock (the $3.00 Preferred) for $9,986,000, net of $14,000 in expenses. Of this amount, $4,811,000 was used to repay a portion of the amount due to HNS (see Note 7). In connection with this transaction HNS received a warrant exercisable for four years, commencing July 1, 1990, to purchase 200,000 shares of Common Stock at $10.77 per share. In March 1992, HNS converted the $3.00 Preferred into 1,064,000 shares of Common Stock. In connection with this conversion, the Company reduced the conversion price from $10.34 per share to $9.40 per share and accelerated the expiration date of the above warrants to 90 days from the date the Common Stock and warrants were registered. The warrants were not exercised and have expired.

In 1991 and 1990, the Company declared and paid dividends on the $3.00 Preferred of $1,200,000 in each year. These dividends were paid by the issuance of 158,480 and 256,000 shares of Common Stock.

The holders of the $2.50 Convertible Preferred Stock ($2.50 Preferred) are entitled to receive, when and as declared by the Company's Board of Directors, cumulative annual dividends of $2.50 per share payable in cash or Common Stock (as defined) at the election of the Company (subject to a cash election right of the holder), if legally available. Such dividends are payable semiannually on June 1 and December 1. In the event the Company fails to pay two consecutive semiannual dividends within the required time period, certain penalties may be imposed. The $2.50 Preferred is convertible into Common Stock at any time prior to redemption at a conversion price of $12 per share (subject to adjustment under certain conditions). The Company temporarily reduced the conversion price on its $2.50 Preferred from $12 per share of Common Stock to $8.93 per share for the period from May 11, 1990 to June 1, 1990. During this period, 878,438 shares of $2.50 Preferred were converted into 2,459,628 shares of Common Stock. In 1992, 1991 and 1990, the Company declared and paid dividends on the $2.50 Preferred of $292,000, $304,000 and $304,000, respectively. These dividends, were paid with cash of $193,000, $232,000 and $166,000 and 12,375, 9,816 and 29,049 shares of Common Stock, respectively.

Upon any liquidation, dissolution or winding up of the Company, the holders of the $2.50 will be entitled to receive, from the Company's assets available for distributions to shareholders, $25 per share plus all dividends accrued, before any distribution is made to the Common shareholders. After such payment, the holders of the Preferred would not be entitled to any other payments.

[*68] [HARDCOPY PAGE F-26]

The redemption price for each share of $2.50 Preferred was $26.25 per share through May 31, 1993, plus all accrued and unpaid dividends. The redemption price of $26.25 per share will decrease $ .25 per share for each succeeding 12-month period until the redemption price is fixed at $25 per share on June 1, 1997, and thereafter.

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

13. Common Stock Option Plans and Warrants:

Common Stock Option Plans

The Company has incentive and non-qualified stock option plans for officers and key employees of the Company and others. Under these plans, options may be granted for the purchase of up to 6,738,000 shares of Common Stock. The number of options to be granted and the option prices are determined by a committee of the Board of Directors in accordance with the terms of the plans. Under the terms of the incentive stock option plan, the option price cannot be less than 100% of the fair market value of the Common Stock at date of grant. Incentive stock options granted become exercisable at 20% per year beginning one year after date of grant and generally remain exercisable for 10 years. Under the non-qualified option plan, options are exercisable for a period of 10 years from the date of grant and normally vest on the grant date.

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

[*69] [HARDCOPY PAGE F-27]

	Available for Grant	Outstanding Options	
		Number	Price Range
BALANCE AT DECEMBER 31, 1989	148	1,792	$ .01 - $17.625
Additional authorized	300	-	-
Granted	(234)	234	$3.875 - $10.00
Cancelled	162	(162)	$5.75 - $16.375
Exercised		(12)	$ .01 - $3.00
BALANCE AT DECEMBER 31, 1990	376	1,852	$ .01 - $17.625
Additional authorized	2,350	-	-
Granted	(1,082)	1,082	$ .01 - $8.375
Cancelled	121	(121)	$3.875 - $17.62
Exercised	-	(130)	$3.00 - $6.875
BALANCE AT DECEMBER 31, 1991	1,765	2,683	$ .01 - $16.375
Additional authorized	3,136	-	-
Granted	(3,933)	3,933	$ .01 - $10.00
Cancelled	121	(121)	$4.00 - $16.375
Exercised	-	(477)	$ .01 - $8.71
Plan Expiration	(406)	-	-
BALANCE AT DECEMBER 31, 1992	683	6,018	$ .01 - $14.875

WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS AT DECEMBER 31, 1992	-	$6.31	-
EXERCISABLE AT DECEMBER 31, 1992	-	3,372	-
WEIGHTED AVERAGE EXERCISE PRICE OF EXERCISABLE OPTIONS AT DECEMBER 31, 1992	-	$6.37	-

Common Stock Warrants and Other Options

As of December 31, 1992, in addition to the option plans discussed above, the Company has various warrants and options outstanding to purchase 7,973,000 shares of Common Stock at exercise prices ranging from $2.50 to $11.85 per share, with a weighted average exercise price of $5.64 per share. As of December 31, 1992, 6,973,000 of these warrants and other options are currently exercisable. These warrants and other options expire in various years through 2002. The exercise price and number of shares of Common Stock to be obtained upon exercise of

[*70] [HARDCOPY PAGE F-28]

certain of these warrants are subject to adjustment under certain conditions.

14. Related - Party Transactions:

All warrants and options granted to related parties, as described below, are included in the number of warrants and options disclosed as outstanding in Note 13.

In 1990, the Company granted 10-year warrants to purchase a total of 110,000 shares of Common Stock to the members of the Board of Directors. The exercise price of these warrants is $5.75 per share.

In 1990, 10,000 shares of restricted Common Stock were granted at $ .01 per share to an officer.

In 1991, the Company granted options pursuant to the non-qualified stock option plan to the members of the Board of Directors for 56,000 shares of Common Stock exercisable at $7.75 per share.

In 1991, the Company granted options pursuant to the non-qualified stock option plan to an officer for 10,000 shares of Common Stock exercisable at $ .01 per share.

In 1991, the Company paid legal fees of $54,000 to a firm with one of its partners being on the Board of Directors.

In 1991, the Company paid consulting fees of $148,000 to two members of the Board of Directors.

In 1992, the Company granted options pursuant to the non-qualified stock option plan to officers and directors for 1,776,325 shares of Common Stock at prices ranging from $ .01 to $7.00 per share, with a weighted average exercise price of $6.32 per share.

In 1992, the Company granted options pursuant to the non-qualified stock option plan to a firm with one of its partners being on the Board of Directors at an exercise price of $ .01 per share in payment of 289,000 in legal fees incurred or to be incurred with the firm.

In 1992, the Company borrowed funds from certain officers and Directors and other individuals. Interest payments on these loans were $63,000. All of the loans were repaid in 1992.

15. Income Taxes:

Effective January 1, 1991, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The effect of adopting this statement had no impact on the Company's results of operations or financial position.

[*71] [HARDCOPY PAGE F-29]

At December 31, 1992, the Company had net operating loss carryforwards of approximately $108,000,000 which began to expire in 1992. The Company also has approximately $1,500,000 of tax credit carryforwards which begin to expire in 1998. Since realization of the tax benefits associated with these carryforwards is not assured, a valuation allowance of 100% of the potential tax benefit was recorded as of December 31, 1992. The 1992 provision for income taxes of $79,000 relates primarily to state income taxes payable by Haviland. Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% has occurred within a three-year period. The Company believes, however, that such limitation would not have a material impact on the utilization of the carryforwards.

16. Ultraphone Sales Geographic Data:

Net Ultraphone sales by geographic area are as follows (in thousands):

	1992	1991	1990
Domestic	$9,764	$15,244	$8,930
Foreign	24,584	16,238	6,904
	$34,348	$31,482	$15,834

[*72] [HARDCOPY PAGE S-1]

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March, 1993.

INTERDIGITAL COMMUNICATIONS CORPORATION

BY: /S/ WILLIAM W. ERDMAN
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
THE PRINCIPAL EXECUTIVE OFFICER
MARCH 30, 1993

BY: /S/ RICHARD A. GUTTENDORF, JR.
VICE PRESIDENT
CHIEF FINANCIAL OFFICER AND TREASURER
THE PRINCIPAL FINANCIAL OFFICER AND

PRINCIPAL ACCOUNTING OFFICER
MARCH 30, 1993

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

[*73] [HARDCOPY PAGE S-2]

/S/ D. RIDGELY BOLGIANO
DIRECTOR
MARCH 30, 1993

/S/ WILLIAM J. BURNS
DIRECTOR
MARCH 30, 1993

/S/ W. W. KEEN BUTCHER
DIRECTOR
MARCH 30, 1993

/S/ DIANA LADY DOUGAN
DIRECTOR
MARCH 30, 1993

/S/ PETER F. ERB
DIRECTOR
MARCH 30, 1993

/S/ LYMAN C. HAMILTON
DIRECTOR
MARCH 30, 1993

/S/ WILLIAM J. HILSMAN
DIRECTOR
MARCH 30, 1993

/S/ DAVID E. KAPLAN
DIRECTOR
MARCH 30, 1993

/S/ ROBERT B. LIEPOLD
DIRECTOR
MARCH 30, 1993

/S/ DONALD L. SCHILLING
DIRECTOR
MARCH 30, 1993

/S/ HARLEY L. SIMS
DIRECTOR
MARCH 30, 1993

[*74]

SEC ONLINE INC.
SCHEDULE INDEX

[*75] [HARDCOPY PAGE F-30]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 1992 AND 1991
(in thousands)

	1992	1991
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of $1,333 and $1,430	$3,766	$4,595
Accounts receivable, (net)	9,252	2,051
Inventories	6,978	2,487
Deposits on inventory purchases	1,329	---
Due from unconsolidated subsidiaries	---	1,630
Other current assets	598	686
Total current assets	21,923	11,449

PROPERTY PLANT AND EQUIPMENT:		
Machinery and equipment	3,079	1,680
Computer equipment	2,580	2,067
Furniture and fixtures	942	847
Leasehold improvements	434	254
	7,035	4,848
Less-Accumulated depreciation and amortization	(4,563)	(3,550)
Net property and equipment	2,472	1,298
OTHER ASSETS:		
Goodwill, net of accumulated amortization of $207 and $13	8,119	7,671
Patents, net of accumulated amortization of zero and $1,560	---	1,879
Investment in unconsolidated subsidiaries	10,174	3,147
Deferred product costs, net of accumulated amortization of $9,146 and $7,469	---	1,677
Other	309	225
Total other assets	18,602	14,599
	$42,997	$27,346

The accompanying notes are an integral part of these statements.

[*76] [HARDCOPY PAGE F-31]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 1992 AND 1991 (CONTINUED) (in thousands)

	1992	1991
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Short-term borrowings	---	$1,000
Current portion of long-term debt	154	5,551
Due to Hughes Network Systems, Inc	5,691	4,498
Accounts payable	4,628	4,878
Due to unconsolidated subsidiaries	339	---
Other accrued expenses	6,521	3,066
Total current liabilities	17,333	18,993
LONG-TERM DEBT	6,539	6,547
OTHER LIABILITIES	484	---
PREFERRED STOCK OF SUBSIDIARY	585	---
COMMITMENTS AND CONTINGENCIES (Note 11)		
EXCHANGEABLE COMMON STOCK	3,000	---
SHAREHOLDERS' EQUITY		
Preferred stock, $ .10 par value, 14,399 shares authorized - $2.50 Convertible Preferred,113 shares and 122 issued and outstanding (liquidation value of $2,832 at December 31, 1992	11	12
$3.00 Convertible Preferred, 400 shares issued and outstanding at December 31, 1991	---	40
Common Stock, $0.01 par value, 50,000 shares authorized, 27,821 shares and 20,166 shares issued and outstanding	278	202
Additional paid-in capital	150,620	109,656
Accumulated deficit	(135,396)	(112,479)
	15,513	(2,569)
Common stock to be issued to Hughes Network Systems, Inc.	---	4,700
Receivables on Common Stock sold	---	(44)
Deferred compensation	(457)	(281)

Total shareholders' equity	15,056	1,806
	$42,997	$27,346

The accompanying notes are an integral part of these statements.

[*77] [HARDCOPY PAGE F-32]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the year ended December 31,	
	1992	1991
REVENUES:		
Ultraphone sales	$34,348	$31,482
Contracted services	2,347	2,140
	36,695	33,622
OPERATING EXPENSES:		
Cost of Ultraphone sales	27,494	24,546
Contracted services costs	1,654	1,434
Sales and marketing	5,740	4,712
General and administrative	6,783	5,168
Research and development	2,995	2,612
Amortization of deferred product costs	1,677	1,829
	46,343	40,301
NON-RECURRING ITEMS:		
Purchased research & development	(13,120)	---
Gain on sale of cellular license	---	8,125

Loss on purchase commitment cancellation and equipment revaluation	(1,968)	(7,200)
Loss from operations	(24,736)	(5,754)
OTHER INCOME (EXPENSE):		
Interest income	96	142
Interest expense	(1,118)	(741)
Equity in earnings of unconsolidated subsidiaries	3,133	114
Net loss	(22,625)	(6,239)
PREFERRED STOCK DIVIDENDS	(292)	(1,504)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (22,917)	$ (7,743)
NET LOSS PER COMMON SHARE	$ (0.95)	$ (0.39)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,113	19,828

The accompanying notes are an integral part of these statements.

[*78] [HARDCOPY PAGE F-33]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year ended December 31,	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net loss	$ (22,625)	$ (6,239)
Adjustments to reconcile net loss to net cash provided by (used) for operating activities-		
Purchased research and development	13,120	---
Loss on equipment revaluation	1,968	---
Gain on sale of cellular license	---	(8,125)
Equity in earnings of subsidiaries	(3,133)	(114)
Depreciation and amortization	2,846	3,073
Cancellation charge to be paid in common stock	---	4,700
Compensation on stock issued and stock options granted	524	225
Interest expense paid by issuance of options and warrants	82	---
Write-down of inventory	---	---
Other	196	(325)
Decrease (increase) in assets-		
Receivables	(6,487)	4
Inventories	(4,491)	858
Deposits on inventory purchase commitments	(1,329)	53
Receivable from unconsolidated subsidiaries	1,969	(146)
Other current assets	(47)	(340)
Increase (decrease) in liabilities-		
Accounts payable	(586)	2,954
Due to Hughes Network Systems, Inc.	(1,507)	2,601
Due to M/A-Com, Inc.	---	56
Due to Century Cellular Corp.	---	160
Other accrued expenses	3,180	718
Net cash provided by (used for) operating activities	$ (16,320)	$113

The accompanying notes are an integral part of these statements.

[*79] [HARDCOPY PAGE F-34]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(CONTINUED)

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	For the Year ended December 31,	
	1992	1991
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment, net of amounts acquired under capital leases of $67, $46 respectively	(1,179)	(258)
Patents	---	(406)
Net cash acquired from business acquisition	36	---
Net cash provided by (used for) investing activities	(1,143)	(664)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sales of Common Stock and exercises of and warrants	16,840	703
Net proceeds from sales of Common Stock		
Payments of short-term borrowings, net	(1,000)	---
Payments on long-term debt	(5,552)	(221)
Proceeds from sale of preferred stock of subsidiary	585	---
Proceeds from sale of convertible common stock	3,000	---
Cash dividends on preferred stock	(193)	(232)
Cash dividends received from unconsolidated subsidiaries	2,954	---
Net cash provided by financing activities	16,634	250
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(829)	(301)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,595	4,896
CASH AND CASH EQUIVALENTS, END OF YEAR	$3,766	$4,595

The accompanying notes are an integral part of these statements.

[*80] [HARDCOPY PAGE F-35]

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

INTERDIGITAL COMMUNICATIONS CORPORATION AND CERTAIN SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL INFORMATION OF REGISTRANT
(in thousands)

1. These statements include the accounts of the Company and certain subsidiaries whose assets are not subject to restriction. These statements should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto.

2. Long-Term Debt:

	December 31	
	1992	1991
	(In thousands)	
Promissory notes (see Note 3)	6,389	11,746
Capital lease obligations	224	352
Bank notes	80	-
	6,693	12,098
Less-Current portion	(154)	(5,551)
	$6,539	$6,547

In connection with its acquisition of Haviland, the Company issued promissory notes of $11,746,000 to the sellers. These notes were issued in four series, three of which bear interest at 10% per annum. The notes in the first series, totaling $1,771,000 of principal were non-interest bearing and paid in January 1992 from the cash of Haviland. The notes in the second series, totaling $3,586,000 of principal, were paid in January and March 1992, plus accrued interest from the cash of Haviland and the proceeds of the financing transaction discussed in Note 3. The notes in the third and fourth series, totaling $1,479,000 and $4,910,000, mature in December 1994 and 1996, respectively. Interest on these notes is payable quarterly. Interest expense for the periods ended December 31, 1992 and 1991 on all of the above promissory notes was $672,000 and $68,000, respectively.

[*81] [HARDCOPY PAGE F-36]

The third and fourth series notes are collateralized by the escrow of approximately 62% of the outstanding common stock of Haviland.

Capitalized lease obligations are payable in monthly installments at various interest rates through 1995.

As of December 31, 1992, maturities of principal of long-term debt are as follows: $154,000 in 1993, $1,587,000 in 1994, $42,000 in 1995 and $4,910,000 in 1996.

[*82] [HARDCOPY PAGE F-37]

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts
1990			
Allowance for uncollectible accounts	$16	$66	-
1991			
Allowance for uncollectible accounts	$80	$86	-
1992			
Allowance for uncollectible accounts	$96	$569	$40 (2)

(TABLE CONTINUED)

Description	Deductions	Balance at End of of Period
1990		
Allowance for uncollectible accounts	$2 (1)	$80
1991		
Allowance for uncollectible accounts	$70 (1)	$96
1992		
Allowance for uncollectible accounts	$92 (1)	$631

s: (1) Write-off of amounts reserved in prior periods.

(2) Allowance for uncollectible accounts of SCS at date of acquisition. See Note 2 of the Consolidated Financial Statements.

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