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Reason for Report:
Company Update

Changes	To (Current)	From (Previous)
Rating	Strong Buy	--
Price Target	\$40.00	--
FY06E EPS	\$3.90	--
FY07E EPS	\$0.97	--
FY06E Rev (M)	\$477.6	--
FY07E Rev (M)	\$215.6	--

Current Price	\$25.89
52 Wk High:	\$35.44
52 Wk Low:	\$16.68
30-Day Avg Daily Vol:	1,127,141
Market Capitalization:	\$1,473.1M
Shares Outstanding:	56.9M
Dividend:	NA
Cash:	\$197.0M
Cash/Share:	\$3.46
Debt/Capital:	1.00%
Book Value:	\$201.84M
Book Value/Share:	\$3.55
Dividend Yield:	NM
3 yr EPS Growth:	NM
Fiscal Year End:	Dec

Earnings Per Share

	2005A	2006E	2007E
Q1	(\$0.02)A	\$0.23A	--
Q2	\$0.07A	\$2.92E	--
Q3	\$0.11A	\$0.38E	--
Q4	\$0.03A	\$0.38E	--
Year	\$0.21A	\$3.90E	\$0.97E
P/E Ratio	123.3x	6.6x	26.7x

Revenue (\$mil)

Q1	\$35.5A	\$51.6A	--
Q2	\$38.6A	\$291.9E	--
Q3	\$48.5A	\$66.9E	--
Q4	\$40.5A	\$67.2E	--
Year	\$163.1A	\$477.6E	\$215.6E
RM	9.0x	3.1x	6.8x

3Q:05E EPS is \$0.02 not including impact of prior period revenues. 2005E EPS is \$0.12 not including impact of prior period revenues.

FY2006 EPS estimate excluding Nokia settlement income would have been \$0.94.

3Q:05E Revenue is \$37.5 million not including impact of prior period revenues. 2005E Revenue is \$151.5 million not including impact of prior period revenues.

InterDigital Communications Corp. (IDCC - \$25.89)
Strong Buy

We Believe IDCC Valuation Is Compelling; Reiterate Strong Buy and \$40 Target

Regulation AC Certification

Each analyst and associate who has participated in the preparation of this report certifies that the views expressed in this publication accurately reflect the personal views of the analyst about the subject company(s) and its(their) securities. The analyst and associate further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

Specific required disclosures with regard to the companies mentioned in this publication can be found beginning on page 3.

Action

We reiterate our Strong Buy rating and our price target of \$40.

Key Points

- IDCC shares sold off almost 20% yesterday following a competitor's downgrade. With the IDCC share price at \$25.89, we are presenting our valuation case for IDCC shares, and we note that IDCC now trades at a discount to its peers in the intellectual property (IP) space.
- Licensing of IP can be lumpy, as it is characterized by "one-time" bookings associated with past infringement and presents some difficulty predicting when future settlements will occur. Given these factors, some investors look at these companies on the basis of EV to trailing 12-month revenues (EV/TTM). On this basis, we note that IDCC shares are valued at 7.8x EV/TTM versus the peer group average of 11.6x.
- Looking at forward revenue multiples gives a similar result. IDCC is valued at 5.9x our 2007 estimated revenue of \$215.6 million, while the group multiple is 7.2x. We calculate the shares would be priced at about \$30.75 if IDCC shares were valued at the peer group multiple.
- We reiterate our Strong Buy rating as we are comfortable that the company will report results in line with its guidance and that it remains positioned for positive estimate revisions before the end of 2006. We believe current estimates could be revised upward due to a favorable settlement with Samsung, as well as from agreements with new licensees.

Valuation

Using share price net of cash, IDCC is currently trading at 23.9x normalized 2006E EPS and 23.1x 2007E EPS. Our year-end \$40 price target is based on our DCF model, which assumes a 3.5% terminal growth rate and a 10% discount rate. In our DCF model we do not assume any new 3G licensees until 2007, and have not raised our assumption that IDCC will capture 35% of the remaining 3G market opportunity from 2007 to 2010 at \$1 per handset. Samsung is included in our DCF at \$115 million. Our DCF model does not include any incremental revenues from the company's technology partners, Infineon (IFX-\$11.34-Not Rated) and Philips (PHG-\$30.27-Not Rated), nor does it assume any revenues from Panasonic beyond the \$12 million the company is expected to book in the June quarter.

Discussion

IDCC shares sold off almost 20% yesterday following a competitor's downgrade. With the IDCC share price at \$25.89 we are presenting our valuation case for IDCC shares and we note that IDCC now trades at a discount to its peers in the Intellectual Property (IP) space.

The companies we look at as comparables to InterDigital are other companies that generate part of revenue from licensing their IP. This group of companies is: Acacia (ACTG-\$14.10-Not Rated), ARM Holdings (ARMHY-\$5.86-Not Rated), Monolithic Systems (MOSY-\$7.44-Not Rated), QUALCOMM (QCOM-\$37.80-Not Rated), Rambus (RMBS-\$22.83-Not Rated) and Tessera (TSRA-\$24.96-Not Rated).

Licensing of IP can be lumpy as it is characterized by "one-time" bookings associated with past infringement and presents some difficulty predicting when future settlements will occur. Given these factors, some investors look at these companies on the basis of what is known, i.e., enterprise value to trailing 12-month (TTM) revenues. On this basis, we note that IDCC shares are valued at 7.8x EV/TTM versus the peer group average of 11.6x.

Looking at forward revenue multiples gives a similar result. IDCC is valued at 5.9x our 2007 estimated revenue of \$215.6 million, while the group multiple is 7.2x. We calculate the shares would be priced at about \$30.75 if IDCC were valued at the peer group multiple.

We continue to believe that our model is a representative model. For the purposes of this discussion we discuss our forecast on a calendar basis but it should be noted that InterDigital bases most of its reported revenue one quarter in arrears. This means that our calendar March 2007 forecast by licensee would be recognized by the company in June of 2007.

Our model is a "bottoms-up" model which takes each licensee and presents our forecast of InterDigital's revenue from these licensees according to how we think they are going to perform at that time. Our forecast consists of 17 licensees plus an "other" line (which has been \$4-\$5 million on a quarterly basis). Of note as it relates to our forecast of 2007 revenues is that current "paying" licensees Toshiba (TOSBF-\$6.50-Not Rated), Matsushita (MC-\$20.73-Not Rated), Nokia (NOK-\$19.40-Not Rated), Ericsson (ERICY-\$32.21-Not Rated) and Sony (SNE-\$43.90-Not Rated)/Ericsson drop to zero in calendar 2007 from a total of \$289.4 million in 2006. Some licensees, such as LG Electronics, Kyocera (KYO-\$77.02-Not Rated), Sharp (SHCAF-\$15.10-Not Rated), Sierra Wireless (SWIR-\$16.53-Not Rated) and Sanyo (SANYF-\$2.60-Not Rated), are flat from 2006 to 2007. We model that HTC will experience a significant increase in revenues in 2007 as it is growing very rapidly, and we model increases for NEC (NIPNY-\$5.30-Not Rated), Quanta, and Arima, although these are not as significant. Net-net, we believe that InterDigital's "normalized" revenue from current licensees will grow from \$212.6 million to \$215.6 million, despite the drop-off from the licensees we mentioned above.

What's not included in our model is revenue from new licensees—this is true for 2006 as well as 2007. At a minimum, we should be adding some Panasonic revenues to our model after the company reports its 2Q:06 results and provides guidance for the upcoming quarter. More significantly, we believe that we could be adding new 3G licensees and new technology solutions revenues to our model as we believe that the company remains well positioned to add new licensees/clients in 2006 and 2007. For 2Q:06, our revenue estimate remains \$291.9 million and our annual estimate remains \$477.7 million. Our EPS estimates for the second quarter and 2006 are \$2.92 and \$3.90, respectively. For 2007, our revenue estimate is \$215.6 million and our EPS estimate is \$0.97.

Our year-end \$40 price target is based on our DCF model, which assumes a 3.5% terminal growth rate and a 10% discount rate. In our DCF model we do not assume any new 3G licensees until 2007, and have not raised our assumption that IDCC will capture 35% of the remaining 3G market opportunity from 2007 to 2010 at \$1 per handset. Samsung is included in our DCF at \$115 million. Our DCF model does not include any incremental revenues from the company's technology partners, Infineon and Philips, nor does it assume any revenues from Panasonic beyond the \$12 million the company is expected to book in the June quarter.

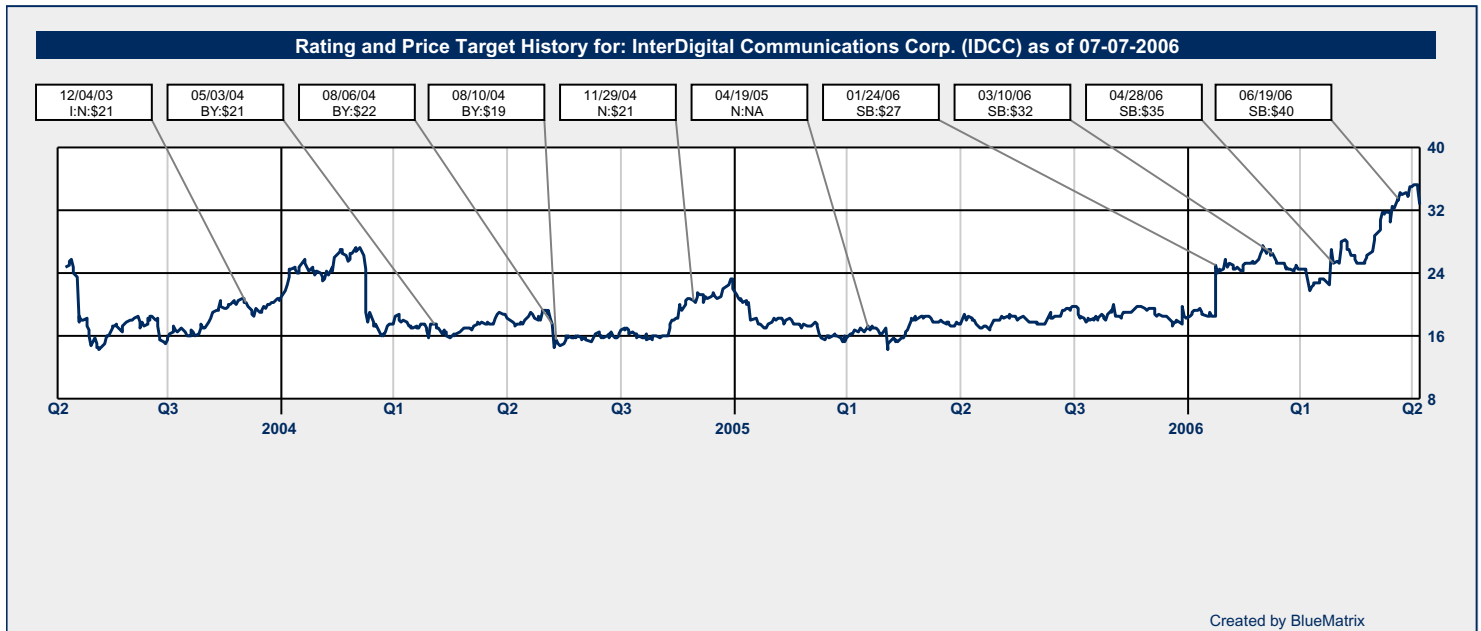
Company Description

InterDigital specializes in the architecture, design, and delivery of digital wireless technology and product platforms, and the invention of advanced wireless technologies. The company develops TDMA and CDMA wireless technologies, two main technologies currently used in digital wireless communication networks, and its inventions are embedded into wireless products, such as mobile phones, PDAs, laptops, PC cards, and base stations and other infrastructure equipment. The company's primary business is to create intellectual property and to then earn revenue by collecting license fees from users of its patented know-how. It is currently earning royalties from NEC (3G handsets and infrastructure), Sharp (2G/2.5G and 3G handsets), Ericsson (2G/2.5G infrastructure), Sony Ericsson (2G/2.5G handsets) and Research In Motion (2G/2.5G devices). The company's agreements for 2G and 2.5G expire in 2006 and InterDigital's goal is for revenue from next-generation (3G) products and technology to drive the business in 2007 and beyond.

Required Disclosures

Price Chart

For our latest pricing chart for any of the companies mentioned in this report for which First Albany has maintained a rating for more than one year, depicting price target and rating revisions, please refer to <http://www.firstalbany.com/download3.asp?categoryID=180>.



Market Maker

First Albany Capital makes a market in the securities of InterDigital Communications Corp.

FAC NB Client

InterDigital Communications Corp. is currently a client of First Albany Capital which provides non-banking services for this company.

FAC Non Bank Services

Within the last 12 months First Albany Capital provided non-banking services for InterDigital Communications Corp.

Non Bank Compensation

First Albany Capital received compensation for non-banking services from InterDigital Communications Corp. within the last 12 months.

First Albany Capital's Rating System

Strong Buy - Potential return of 20% or more.

Buy - Potential return of 10%-20%.

Neutral - Fairly valued.

Underperform - Negative potential return of 10%-20%.

Sell - Negative return of 20% or more.

Restricted - Applicable laws and regulations preclude certain types of communications during the course of First Albany Capital's engagement in investment banking transaction and in certain other circumstances.

Quarterly Report for 7/11/2006

Entire Universe - Total: 231

 Buys: 155(67.1%) Sells: 5(2.1%) Holds: 68(29.4%)

Banking Client Universe - Total: 27

 Buys: 25(92.6%) Sells: 1(3.7%) Holds: 1(3.7%)

Entire Universe By Vertical - Total: 231

Consumer	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Economics	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Energy	Buys: 31(13.4%)	Sells: 1(0.4%)	Holds: 7(3.0%)	Total: 41
Equity Research	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Fixed Income	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Healthcare	Buys: 56(24.2%)	Sells: 3(1.3%)	Holds: 22(9.5%)	Total: 81
Special Situations	Buys: 14(6.1%)	Sells: 0(0.0%)	Holds: 4(1.7%)	Total: 19
Technology	Buys: 54(23.4%)	Sells: 1(0.4%)	Holds: 35(15.2%)	Total: 90

Banking Client Universe By Vertical - Total: 27

Consumer	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Economics	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Energy	Buys: 10(37.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 10
Equity Research	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Fixed Income	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Healthcare	Buys: 14(51.9%)	Sells: 1(3.7%)	Holds: 1(3.7%)	Total: 16
Special Situations	Buys: 0(0.0%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 0
Technology	Buys: 1(3.7%)	Sells: 0(0.0%)	Holds: 0(0.0%)	Total: 1

Other Disclosures and Disclaimers

Although not compensated directly for any banking deals, an analyst may receive income from a bonus pool that may include monies derived from banking revenues.

Blue Sky Exceptions

IDCC:

More information is available on request. The material herein, while not guaranteed, is based on information believed reliable and accurate. It is not to be deemed an offer or solicitation on our part with respect to sale or purchase of any securities. Due to differing disciplines and criteria utilized, our quantitative and fundamental analysts may have differing opinions on these securities. Should you have any specific investment questions, please contact your First Albany Registered Representative. Our main office is located in Albany, NY. First Albany Capital, Member New York Stock Exchange, Inc. and other principal exchanges. Copyright © 2006

InterDigital Communications (IDCC)

QUARTERLY INCOME STATEMENT (\$000's)

ANNUAL (\$000's)

	CFY Ending 2005				CFY Ending 2006E				ANNUAL (\$000's)		
	3/31	6/30	9/30	12/31	3/31A	6/30E	9/30E	12/31E	2005	2006E	2007E
Revenue											
<i>Royalty</i>	\$35,497	\$38,601	\$48,538	\$40,489	\$51,606	\$291,941	\$66,910	\$67,178	\$ 163,125	\$477,635	\$215,593
Total	\$ 35,497	\$ 38,601	\$ 48,538	\$ 40,489	\$ 51,606	\$ 291,941	\$ 66,910	\$ 67,178	\$ 163,125	\$ 477,635	\$ 215,593
Operating Expenses											
<i>Sales & Marketing</i>	2,280	1,537	1,798	2,299	1,824	2,208	2,844	2,855	\$ 7,914	\$ 9,731	\$ 10,217
<i>General & Admin.</i>	6,566	5,912	5,420	6,252	5,021	5,046	5,071	5,096	24,150	20,234	20,436
<i>Patents Admin. & Licensing</i>	11,247	10,080	14,695	13,377	9,982	10,007	10,032	10,082	49,399	40,103	40,000
<i>Development</i>	16,173	14,921	15,610	16,391	16,010	18,251	18,301	18,351	63,095	70,914	72,332
<i>Other</i>	-	-	849	-	-	-	-	-	849	-	-
Total	\$ 36,266	\$ 32,450	\$ 38,372	\$ 38,319	\$ 32,837	\$ 35,512	\$ 36,248	\$ 36,384	\$ 145,407	\$ 140,982	\$ 142,986
Total Operating Profit/(Loss)	\$ (769)	\$ 6,151	\$ 10,166	\$ 2,170	\$ 18,769	\$ 256,428	\$ 30,662	\$ 30,794	\$ 17,718	\$ 336,653	\$ 72,607
<i>Net Interest Income</i>	790	677	779	918	1,508	3,157	3,182	3,207	3,164	11,054	13,908
Pretax Profit/(Loss)	\$ 21	\$ 6,828	\$ 10,945	\$ 3,088	\$ 20,277	\$ 259,585	\$ 33,844	\$ 34,001	\$ 20,882	\$ 347,707	\$ 86,515
<i>Provision for income taxes</i>	(903)	(2,817)	(4,419)	(1,127)	(7,338)	(96,047)	(12,522)	(12,580)	(9,266)	(128,487)	(32,011)
Net Profit/(Loss), cont. ops.	\$ (882)	\$ 4,011	\$ 6,526	\$ 1,961	\$ 12,939	\$ 163,539	\$ 21,322	\$ 21,420	\$ 11,616	\$ 219,220	\$ 54,504
Shares, Fully Diluted	55,053	56,790	57,089	56,370	56,884	56,028	56,028	56,028	55,350	56,242	56,242
EPS, Fully Diluted	\$ (0.02)	\$ 0.07	\$ 0.11	\$ 0.03	\$ 0.23	\$ 2.92	\$ 0.38	\$ 0.38	\$ 0.21	\$ 3.90	\$ 0.97
% of TOTAL REVENUE											
Revenue											
<i>Royalty</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses (does not include all items)											
<i>Sales & Marketing</i>	6.4%	4.0%	3.7%	5.7%	3.5%	0.8%	4.3%	4.3%	4.9%	2.0%	4.7%
<i>General & Admin.</i>	18.5%	15.3%	11.2%	15.4%	9.7%	1.7%	7.6%	7.6%	14.8%	4.2%	9.5%
<i>Patents Admin. & Licensing</i>	31.7%	26.1%	30.3%	33.0%	19.3%	3.4%	15.0%	15.0%	30.3%	8.4%	18.6%
<i>Development</i>	45.6%	38.7%	32.2%	40.5%	31.0%	6.3%	27.4%	27.3%	38.7%	14.8%	33.6%
Total	102.2%	84.1%	79.1%	94.6%	63.6%	12.2%	54.2%	54.2%	89.1%	29.5%	66.3%
Total Operating Profit/(Loss)	-2.2%	15.9%	20.9%	5.4%	36.4%	87.8%	45.8%	45.8%	10.9%	70.5%	33.7%
Net Profit/(Loss), cont. ops.	-2.5%	10.4%	13.4%	4.8%	25.1%	56.0%	31.9%	31.9%	7.1%	45.9%	25.3%
% YEAR OVER YEAR INCREASE											
Revenue											
<i>Royalty</i>	7.5%	31.4%	559.7%	19.3%	45.4%	656.3%	37.9%	65.9%	57%	193%	-55%
Operating Expenses (does not include all items)											
<i>Sales & Marketing</i>	41.3%	10.1%	28.5%	28.3%	-20.0%	43.7%	58.2%	24.2%	28%	23%	5%
<i>General & Admin.</i>	21.8%	8.9%	7.4%	8.6%	-23.5%	-14.6%	-6.4%	-18.5%	12%	-16%	1%
<i>Patents Admin. & Licensing</i>	124.9%	45.5%	90.6%	25.0%	-11.2%	-0.7%	-31.7%	-24.6%	63%	-19%	0%
<i>Development</i>	25.2%	16.3%	26.4%	24.9%	-1.0%	22.3%	17.2%	12.0%	23%	12%	2%
Total Operating Expenses	45.5%	22.1%	44.8%	22.2%	-9.5%	9.4%	-5.5%	-5.0%	33%	-3%	1%
Total Operating Profit/(Loss)	-109.5%	120.1%	-153.1%	-15.4%	-2540.7%	4068.9%	201.6%	1319.1%	-411%	1800%	-78%
Net Profit/(Loss), cont. ops.	-115.2%	174.7%	-201.9%	-1295.7%	-1567.0%	3977.3%	226.7%	992.3%	3092%	1787%	-75%
% SEQUENTIAL % INCREASE											
Revenue											
<i>Royalty</i>	4.6%	8.7%	25.7%	-16.6%	27.5%	465.7%	-77.1%	0.4%			
Operating Expenses (does not include all items)											
<i>Sales & Marketing</i>	27.2%	-32.6%	17.0%	27.9%	-20.7%	21.1%	28.8%	0.4%			
<i>General & Admin.</i>	14.1%	-10.0%	-8.3%	15.4%	-19.7%	0.5%	0.5%	0.5%			
<i>Patents Admin. & Licensing</i>	5.1%	-10.4%	45.8%	-9.0%	-25.4%	0.3%	0.2%	0.5%			
<i>Development</i>	23.2%	-7.7%	4.6%	5.0%	-2.3%	14.0%	0.3%	0.3%			
Operating Expenses	15.6%	-10.5%	18.2%	-0.1%	-14.3%	8.1%	2.1%	0.4%			
Total Operating Profit/(Loss)	-130.0%	-899.9%	65.3%	-78.7%	764.9%	1266.2%	-88.0%	0.4%			
Net Profit/(Loss), cont. ops.	437.8%	-554.8%	62.7%	-70.0%	559.8%	1163.9%	-87.0%	0.5%			

Source: Company reports and First Albany Capital Inc. estimates.