

InterDigital Communications Corp. (NASDAQ: IDCC \$29.43)

Buy

June 6, 2006

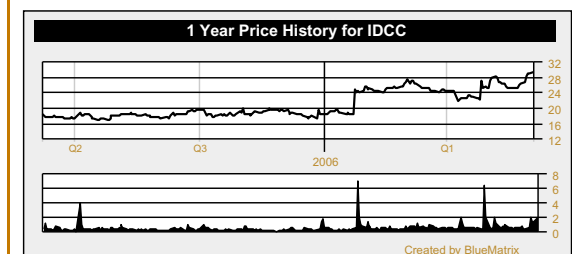
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Stock Data

Ticker	IDCC
Rating	Buy
Price Target	\$44
52-Wk Range	\$29.25 - \$16.67
Market Cap (MM)	1.7B
Avg Daily Volume	806,518
Shares Out. (MM)	56.9
Debt/Total Capital	NM
Book Value/Share	\$7.29
Net Cash/Share	\$3.39
FY End	December

	Prv FY05A	2005	Prv FY06E	2006	Prv FY07E	2007
EPS (\$)						
1Q	(0.02)	—	0.23A	—	0.55	0.49
2Q	0.07	—	2.93	1.20	0.55	0.53
3Q	0.11	—	0.45	1.24	0.55	0.53
4Q	0.03	—	0.50	1.29	0.55	0.53
Year	0.20	—	4.11	3.95	2.20	2.08
Y/Y Chg	NM		NM		(46.5%)	
P/E	NM		7.2x		13.4x	

	Prv FY05A	2005	Prv FY06E	2006	Prv FY07E	2007
Revs (\$MM)						
1Q	35.5	—	51.6A	—	78.9	73.7
2Q	38.6	—	292.8	138.0	79.0	77.0
3Q	38.4	—	70.7	141.2	79.8	77.8
4Q	40.5	—	74.4	144.9	80.0	78.0
Year	152.9	—	489.5	475.7	317.7	306.4
Y/Y Chg	47.4%		NM		(35.1%)	
Mkt Cap/Rev	11.0x		3.4x		5.3x	



Samsung Resolution Pending; New 2Q Guidance; Reiterating Buy Rating

Investment Thesis

We believe that the next near-term catalyst for shares of InterDigital could be a settlement or ruling in the company's arbitration against Samsung. We expect InterDigital to be victorious in this dispute against Samsung. By our estimation, total payment to InterDigital could range from \$80 million to \$140 million for 2G and 2.5G technologies.

Key Points

- In addition, we believe InterDigital may sign a new 3G licensee in the coming months. A deal with Sony-Ericsson for 3G handsets is possible, in our view. This would be the second major handset manufacturer to sign a 3G license after LG, which signed a 3G deal earlier this year.
- Last week, InterDigital management updated 2Q guidance. InterDigital now expects to record revenues of \$291–293 million, driven primarily by recognition of payments from Nokia of \$228 million in the quarter. InterDigital will recognize \$12.5 million in payments from Nokia in 3Q and 4Q.
- We are raising our estimates for FY06 and FY07 based on updated guidance on the company's treatment of Nokia revenues as well as higher than expected payments from Panasonic for past royalties and the potential impact from ongoing Panasonic payments. We now project FY06 results of \$490 million and \$4.11 versus \$475.7 million and \$3.95 previously. Our FY07 estimates now call for \$318 million and \$2.20 versus \$306 million and \$2.08 previously.
- We are raising our price target to \$44 from \$42 as a result of our higher earnings estimates. Our price target of \$44 is 20x our FY07 estimate of \$2.20 compared to \$2.08 previously.

Samsung Resolution; 3G License Deal Potential Near-Term Catalysts

We believe that the next event that could drive InterDigital's share price higher could be a settlement or ruling in the company's arbitration against Samsung. We expect InterDigital to be victorious in this dispute. By our estimation, total payment to InterDigital could range from \$80–140 million for 2G and 2.5G technologies. We also believe that InterDigital could sign a new 3G licensee in the coming months. A deal with Sony-Ericsson for 3G handsets is possible, in our view. This would be the second major handset manufacturer to sign a 3G license after LG, which signed a 3G deal early this year.

Raising Estimates on Updated Company Outlook

We are raising our estimates for FY06 and FY07 based on updated guidance on the company's treatment of Nokia revenues as well as higher than expected payments from Panasonic for past royalties and the potential impact from ongoing Panasonic payments. We now project FY06 results of \$490 million and \$4.11 versus \$475.7 million and \$3.95 previously. Our FY07 estimates now call for \$318 million and \$2.20 versus \$306 million and \$2.08 previously.

Raising Price Target to \$44 from \$42

We are reiterating our Buy rating on shares of InterDigital and continue to believe that the company's shares trade at an unwarranted discount to a peer group of intellectual property peers such as QUALCOMM and ARM Holdings. We are raising our price target to \$44 from \$42 based on 20x our new FY07 estimate of \$2.20 compared to \$2.08 previously.

VALUATION

We believe that at current levels, InterDigital shares are undervalued compared to a peer group of royalty-driven technology companies such as ARM Holdings, MIPS Technologies, and QUALCOMM. InterDigital shares are currently trading at 13x our new FY07 EPS estimate of \$2.20 compared to 21x for the peer group (excluding Rambus at a P/E of 69x). Applying a normalized peer group multiple of 20x to our FY07 EPS numbers generates our price target of \$44, a 50% increase over last night's closing price of \$29.43.

RISKS

- Legal risk. InterDigital's business depends on the company's ability to enforce IP infringement claims against wireless handset manufacturers and wireless equipment manufacturers. Legal setbacks or an inability to enforce court actions could negatively impact revenues and earnings in future periods.
- Technology risk. InterDigital has created a large portfolio of patents that are used in wireless networks around the world today. Changes in future technologies may diminish the need for and value of InterDigital's technology.
- Market risk. InterDigital is paid a fee by the company's customers on a per unit basis. If the global handset market slows or if total unit sales fall, InterDigital could see lower revenues and EPS than we currently expect.

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InterDigital Communications Corp. (IDCC)
Income Statement

(\$ in thousands except per share)

Fiscal year ends 12/31	FY05					FY06					FY07					
	FY04	1Q	2Q	3Q	4Q	FY05	1QA	2QE	3QE	4QE	FY06E	1QE	2QE	3QE	4QE	FY07E
		03/30/05	06/30/05	09/30/05	12/31/05		03/30/06	06/30/06	09/30/06	12/31/06		03/30/07	06/30/07	09/30/07	12/31/07	
Net Sales	\$103,685	\$35,497	\$38,601	\$38,338	\$40,489	\$152,925	\$51,606	\$292,775	\$70,700	\$74,400	\$489,481	\$78,925	\$79,025	\$79,750	\$79,955	\$317,655
Sequential Growth %		4.6%	8.7%	-0.7%	5.6%		27.5%	467.3%	-75.9%	5.2%		6.1%	0.1%	0.9%	0.3%	
Yr/Yr Growth %	-9.5%	7.5%	31.4%	421.0%	19.3%	47.5%	45.4%	658.5%	84.4%	83.8%	220.1%	52.9%	-73.0%	12.8%	7.5%	-35.1%
Product and Other Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$250	\$300	\$300	\$500	\$1,350	\$600	\$700	\$800	\$900	\$3,000
Licensing and Alliance	\$100,553	\$35,497	\$38,601	\$38,338	\$40,489	\$152,925	\$51,400	\$292,475	\$70,400	\$73,900	\$488,175	\$78,325	\$78,325	\$78,950	\$79,055	\$314,655
Cost of Goods Sold	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$30	\$30	\$50	\$135
%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Gross Profit	\$103,685	\$35,497	\$38,601	\$38,338	\$40,489	\$152,925	\$51,606	\$292,775	\$70,700	\$74,400	\$489,481	\$78,900	\$78,995	\$79,720	\$79,905	\$317,520
GM %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%	100.0%
Operating Expenses																
Sales and Marketing	\$6,201	\$2,280	\$1,537	\$1,798	\$2,299	\$7,914	\$1,824	\$2,300	\$2,400	\$2,500	\$9,024	\$2,300	\$2,600	\$2,700	\$2,800	\$10,400
General and Administrative	\$21,622	\$6,566	\$5,912	\$5,420	\$6,252	\$24,150	\$5,021	\$6,000	\$6,000	\$6,000	\$23,021	\$6,250	\$6,500	\$7,000	\$7,300	\$27,050
Patents Administration and Licensing	\$30,340	\$11,247	\$10,080	\$14,695	\$13,377	\$49,399	\$9,982	\$10,000	\$9,500	\$9,250	\$38,732	\$9,000	\$9,000	\$8,800	\$8,500	\$35,300
Development	\$51,218	\$16,173	\$14,921	\$15,610	\$16,391	\$63,095	\$16,010	\$13,500	\$13,400	\$13,100	\$56,010	\$13,500	\$13,200	\$13,000	\$13,000	\$52,700
Repositioning	\$596	\$0	\$0	\$849	\$631	\$1,480	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Operating Expenses	\$109,977	\$36,266	\$32,450	\$38,372	\$38,950	\$146,038	\$32,837	\$31,800	\$31,300	\$30,850	\$126,787	\$31,050	\$31,300	\$31,500	\$31,600	\$125,450
Operating Expenses %																
Sales and Marketing %	6.0%	6.4%	4.0%	4.7%	5.7%	5.2%	3.5%	0.8%	3.4%	3.4%	1.8%	2.9%	3.3%	3.4%	3.5%	3.3%
General and Administrative %	20.9%	18.5%	15.3%	14.1%	15.4%	15.8%	9.7%	2.0%	8.5%	8.1%	4.7%	7.9%	8.2%	8.8%	9.1%	8.5%
Patents Administrations and Licensing %	29.3%	31.7%	26.1%	38.3%	33.0%	32.3%	19.3%	3.4%	13.4%	12.4%	7.9%	11.4%	11.4%	11.0%	10.6%	11.1%
Development %	49.4%	45.6%	38.7%	40.7%	40.5%	41.3%	31.0%	4.6%	19.0%	17.6%	11.4%	17.1%	16.7%	16.3%	16.3%	16.6%
Total Operating Expenses %	106.1%	102.2%	84.1%	100.1%	96.2%	95.5%	63.6%	10.9%	44.3%	41.5%	25.9%	39.3%	39.6%	39.5%	39.5%	39.5%
Operating Income	(\$6,292)	(\$769)	\$6,151	(\$34)	\$1,539	\$6,887	\$18,769	\$260,975	\$39,400	\$43,550	\$362,694	\$47,850	\$47,695	\$48,220	\$48,305	\$192,070
Operating %	-6.1%	-2.2%	15.9%	-0.1%	3.8%	4.5%	36.4%	89.1%	55.7%	58.5%	74.1%	60.6%	60.4%	60.5%	60.4%	60.5%
Other Income (Expense) Net	\$0	\$0	\$0	\$10,200	\$0	\$10,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Income	\$1,863	\$790	\$677	\$779	\$918	\$3,164	\$1,508	\$1,500	\$1,600	\$1,760	\$6,368	\$1,775	\$1,825	\$1,835	\$1,850	\$7,285
Interest and Financing Expenses	(\$120)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income before Taxes	(\$4,549)	\$21	\$6,828	\$10,945	\$2,457	\$20,251	\$20,277	\$262,475	\$41,000	\$45,310	\$369,062	\$49,625	\$49,520	\$50,055	\$50,155	\$199,355
Tax Expense	(\$4,704)	\$903	\$2,817	\$4,419	\$909	\$9,048	\$7,338	\$95,803	\$15,088	\$16,651	\$134,881	\$18,361	\$18,322	\$18,520	\$18,557	\$73,761
Tax Rate %	NM	NM	41.3%	40.4%	37.0%	44.7%	36.2%	36.5%	36.8%	36.8%	36.5%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income	\$155	(\$882)	\$4,011	\$6,526	\$1,548	\$11,203	\$12,939	\$166,672	\$25,912	\$28,659	\$234,181	\$31,264	\$31,198	\$31,535	\$31,598	\$125,594
Preferred Stock Dividends	(\$66)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income (Common Shareholders)	\$89	(\$882)	\$4,011	\$6,526	\$1,548	\$11,203	\$12,939	\$166,672	\$25,912	\$28,659	\$234,181	\$31,264	\$31,198	\$31,535	\$31,598	\$125,594
Diluted EPS	\$0.00	(\$0.02)	\$0.07	\$0.11	\$0.03	\$0.20	\$0.23	\$2.93	\$0.45	\$0.50	\$4.11	\$0.55	\$0.55	\$0.55	\$0.55	\$2.20
Fully Diluted Shares O/S	57,294	55,053	56,790	57,089	56,370	56,370	56,884	56,934	56,984	57,000	56,951	57,010	57,020	57,030	57,040	57,025

Sources: Company reports and Nollenberger Capital Partners, Inc.

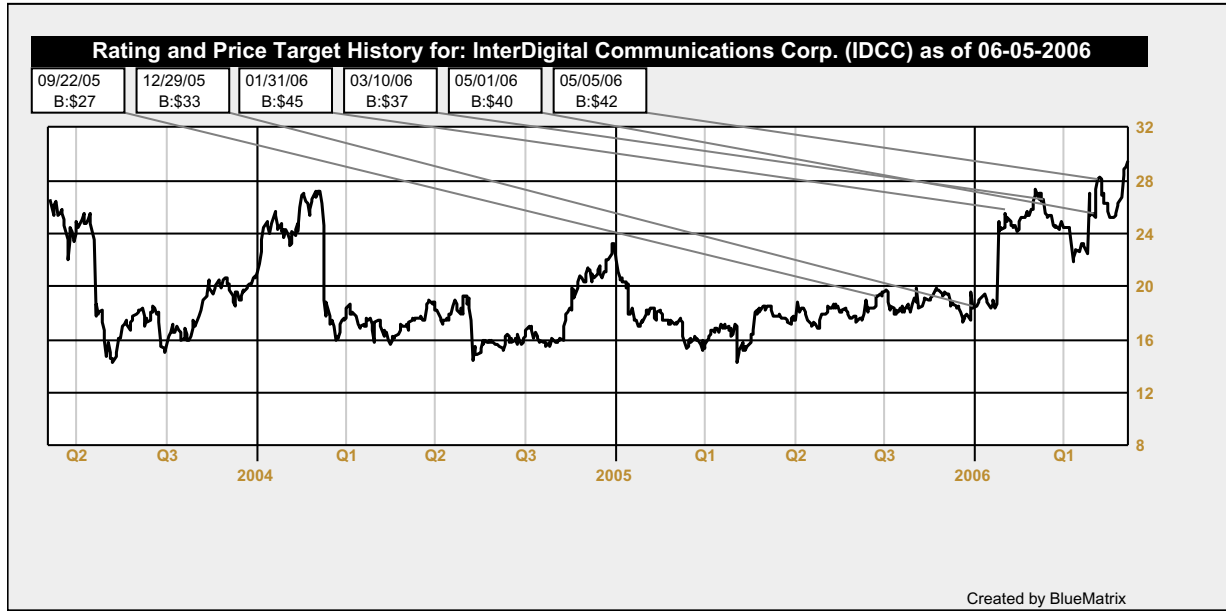
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 06/06/06

Comparative Valuation of Technology Royalty Companies

Company	Symbol	Closing		FY06 EPS	FY07 EPS	FY06 Revs (\$MM)	FY07 Revs (\$MM)	Mkt. Cap (\$MM)	FY06 P/E	FY07 P/E	FY06 Mkt Cap/Rev	FY07 Mkt Cap/Rev	Price to Cash
		Price 06/05/06	Cash Per Share										
QUALCOMM	QCOM	\$45.68	\$3.51	\$1.57	\$1.80	\$7,320	\$8,510	\$76,567	29.1	25.4	10.5	9.0	7.8
ARM Holdings	ARMHY	\$6.43	\$0.65	\$0.28	\$0.36	\$473	\$544	\$3,053	23.0	17.9	6.5	5.6	6.3
Monolithic Systems	MOSY	\$8.67	\$1.98	\$0.13	\$0.31	\$20	\$31	\$271	66.7	28.0	13.5	8.7	3.2
Rambus	RMBS	\$26.32	\$3.06	\$0.26	\$0.38	\$188	\$215	\$2,705	101.2	69.3	14.4	12.6	20.2
MIPS Technologies	MIPS	\$5.75	\$2.61	\$0.28	\$0.40	\$66	\$80	\$250	20.5	14.4	3.8	3.1	3.6
Average									48.1	31.0	9.7	7.8	
InterDigital	IDCC	\$29.43	\$3.39	\$4.11	\$2.20	\$489	\$318	\$1,603	7.2	13.4	3.3	5.0	7.9

Sources: Company reports and Nollenberger Capital Partners, Inc.

Disclosures Appendix



**Distribution of Ratings/IB Services
Nollenberger**

Rating	Count	Percent	IB Serv /Past 12 Mos	
			Count	Percent
BUY [B/TO]	29	70.73	0	0.00
HOLD [N]	11	26.83	0	0.00
SELL [S]	1	2.44	0	0.00

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I, Casey Ryan, certify that the investment views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers at the time of this publication. In addition, I attest that no part of my compensation was, is, or will be, directly or indirectly, related to a specific recommendation or views contained in this research report.

Explanation of Ratings

Buy — We recommend buying at current levels. We expect the share price to appreciate on an absolute basis. **Thematic Opportunity** — We expect the company's share price to appreciate 100% or more within the next two years if the market opportunity the company addresses develops as we expect. The share price could also fall significantly if certain market developments do not occur. These shares should be more volatile than the average stock, should not be expected to correlate with broad market indexes, and are appropriate only for investors with the highest tolerance for risk. **Neutral** — We do not recommend adding to or reducing positions at current levels. **Sell** — We recommend selling at current levels. We expect the share price to decline on an absolute basis. **Under Review** — The stock rating and estimates have been removed and are under review.

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The research analyst principally responsible for preparing this research report received compensation that is based upon various factors, including Nollenberger Capital Partners Inc.'s total revenue, a portion of which is generated by Nollenberger Capital Partners Inc.'s investment banking revenues.

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