

InterDigital Communications Corp.

(IDCC- NASDAQ)

*Announces Lighter Than Expected Q4 Revenue;
Reiterating Market Outperform*Rating: **Market Outperform**

Risk: Moderate

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Company Description: InterDigital Communications Corp. engages in the design, development, and delivery of wireless technologies and platforms. InterDigital Communications is located in King of Prussia, PA and employees 320 people. (www.interdigital.com)**Investment Thesis:** We believe InterDigital is well positioned to grow its recurring royalty revenues by licensing 3G and emerging next generation wireless technologies to mobile handset OEMs. Recurring royalty revenues have grown steadily over the past six quarters and although the timing of future licensing deals and the threat of litigation is a concern, we believe investors should have confidence that these revenue streams will continue to grow.

- We reiterate our **Market Outperform** rating on shares of IDCC. Despite IDCC's weaker than expected 4Q revenue announcement we remain optimistic that the company will have future success in its 3G patent licensing program which in turn will drive recurring royalty revenue higher. The company remains a wise investment choice for those investors looking for a play on growth in the 3G handset market. Our \$39 price target is based on a sum of the parts analysis which can be found on page 2.
- IDCC reported 4Q revenue guidance of \$62m to \$63 that included \$48m to \$48.5m of recurring royalties, \$12.5m from Nokia, and \$1m to \$1.5m of technology solutions revenue. The lighter than anticipated recurring royalty revenue (we had expected \$55m) was a result of 3G handset purchase delays in Japan. The weakness was attributed to the imminent launch of local number portability which caused NTT DoCoMo to hold off on the release of 15 new handset models. OEMs impacted from this delay were most likely Sharp, NEC, and Panasonic (all IDCC licensees). IDCC along with Gartner anticipates strength will resume in 2007.
- As a result of the guidance announcement we are lowering our 4Q06 revenue and EPS estimates to \$62.5m and \$0.31 respectively from \$69.5m and \$0.39. We have not adjusted our Q107 revenue estimates to account for the increased Japanese demand as our recurring royalty estimate of \$55m had already accounted for volume growth. We have also chosen not to include any revenues from the Samsung settlement in our out quarters as we have limited visibility into the timing and amount of those payments. We should point out that the consensus estimate may be skewed as some analysts have decided to include the settlement amount.
- As per our investment thesis we remain confident IDCC will be able to grow its recurring royalty streams through natural growth in volume shipments of 3G handsets and through the addition of new licensees. Granted, after the signing of LG in early 2006 we thought the dominos would fall somewhat faster, but at this point in time have no reason to believe IDCC will fail to sign new 3G licensees. The patent landscape has been difficult to navigate of late with disputes occurring between QCOM, BRCM, and Nokia and the threat of more relaxed patent regulations by the U.S. government. However, we believe IDCC has the intellectual property, financial resources, and strategic partnerships to weather the storm and emerge as one of the premier patent licensing companies.

SHARE DATA		EPS, REVENUE, EBITDA (FY End: Dec.)								
			2005A	-----	2006E	-----	-----	2007E	-----	
				Current	Prior	Consensus		Current	Prior	Consensus
Current Price:	\$30.94									
52 Week Range:	\$17.25-36.91									
12 Month Target:	\$39	Mar.	(\$0.02)	\$0.23		-	A	\$0.28		\$0.72
Market Value (MM):	\$1,628	June	\$0.07	\$2.98		-	A	\$0.24		\$0.26
Shares Outstanding (MM):	52.6	Sept.	\$0.11	\$0.40		-	E	\$0.23		\$0.25
Institutional Holdings:	51%	Dec.	<u>\$0.03</u>	<u>\$0.31</u>		<u>\$0.82</u>	E	<u>\$0.23</u>		<u>\$0.26</u>
Avg Daily Volume:	885,817	Year	\$0.20	\$3.97		\$4.46	E	\$0.97		\$1.35
Est. LT EPS CAGR	25%									
			Revenue	\$163.1	\$477.9			\$520.9		\$236.5
			EBITDA	\$28.5	\$81.4			\$82.5		\$251.4
CAPITALIZATION (\$MM)		VALUATIONS								
Tang. BV/Share	\$5.31	P/E		8x				32x		
Net Cash/Share	\$5.90	Rel. P/E		50%				160%		
Debt / Cap:	0.36	P/Revenue		3.4x				6.9x		
		EV/Ebitda		16x				16x		

PLEASE SEE THE DISCLOSURE APPENDIX FOR RATINGS DEFINITIONS, IMPORTANT DISCLOSURES AND REQUIRED ANALYST CERTIFICATIONS ON PAGES 5 & 6.

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Company Overview

InterDigital Communications Corporation designs, develops, and licenses digital wireless technologies which are incorporated into semiconductors, mobile handsets, and other wireless equipment. With approximately 6,000 patents worldwide the company has developed an expertise in technology development and a licensing program that has generated over \$1B in license fees over the lifetime of these patents. InterDigital has been in the business of developing wireless technologies for over 30 years and was an early participant in the development of the widely used TDMA and CDMA technologies. It holds a number of essential patents pertaining to each of these technologies. The bulk of the company's revenues are generated through licensing its intellectual property, primarily to original equipment manufacturers (OEMs) of 2G, 2.5G, and 3G mobile handsets and infrastructure. Revenue is also generated through specialized engineering services and the licensing of technology solutions including software and physical layer designs.

The company is currently developing a complete 2G/3G modem platform in order to expand its offerings to include more tangible products such as chipless and fabless solutions. By taking an active role in defining widely adopted wireless standards InterDigital is continually pushing the envelope by developing new technologies, rather than relying solely on its existing patents for revenues. The company is currently involved in developing standards for 3G, Next Generation Networks (NGN), and IEEE 802.11x technologies, among others.

InterDigital was incorporated in 1972 and went public in 1981. Corporate headquarters are located in King of Prussia, PA with additional R&D teams in Melville, New York and Montreal, Quebec, Canada. The company currently employs 320 people including 202 engineers, 70% of whom hold advanced degrees, and 30 of whom hold PhDs.

Investment Risks

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target:

- **Ability to enforce patents in a changing and evolving patent landscape.** InterDigital primarily develops and licenses intellectual property and related technology to handset manufacturers and semiconductor companies. There can be no guarantee that InterDigital will be able to enforce its patents and furthermore the threat of increased patent regulations or modifications could stifle the patent licensing process.
- **Threat of litigation and arbitration.** As InterDigital seeks to license its IP there is always the threat that the company may have to invest a considerable amount of resources into defending and enforcing the validity of its patents. The timing, cost, and outcome of legal battles introduce a high degree of uncertainty into the business model.
- **Revenue volatility can be expected.** Revenues are currently concentrated on a small number of licensees and the amount contributed by each licensee can vary depending on product sales. Additionally, the timing of revenues due to prepayment agreements, settlements, and new deals cannot be accurately predicted. Furthermore, 2G patent expirations will result in lost revenue from current licensees.
- **Trying to carve out space in an industry with large established players.** Even though InterDigital has been in the business of developing IP for the wireless industry for 30 years they are still a relatively small player surrounded by well entrenched industry participants who have greater resources and established relationships.
- **Technologies and standards utilized in the wireless industry are subject to rapid change.** As 3G technologies are on the verge of experiencing widespread market adoption, WiMax and the 802 family of standards are beginning to attract considerable attention. The continued success of InterDigital rests on its ability to remain ahead of the curve while anticipating changing industry standards.
- **Technologies developed may not be implemented or may become compromised by competing solutions.** There can be no guarantee that the technologies developed by InterDigital will be adopted and deployed by the mainstream markets.

Sum of the Parts Valuation

A number of valuation techniques have surfaced as analysts have attempted to identify an accurate price target for IDCC. We believe the best approach is a sum-of-the-parts analysis that incorporates four key components: Net Cash, Pending 2G Settlement cash, current licensee cash, and projected 3G cash. We take our analysis one step further and introduce conservative, average, and aggressive 2007 penetration scenarios of the 3G handset market, which is the primary revenue driver in the IDCC story. The corresponding table and charts below summarize our valuation findings. Our per share EPS contributions are calculated as follows:

Net Cash/share = Q406 projected cash balance minus long and short term debt divided by shares outstanding

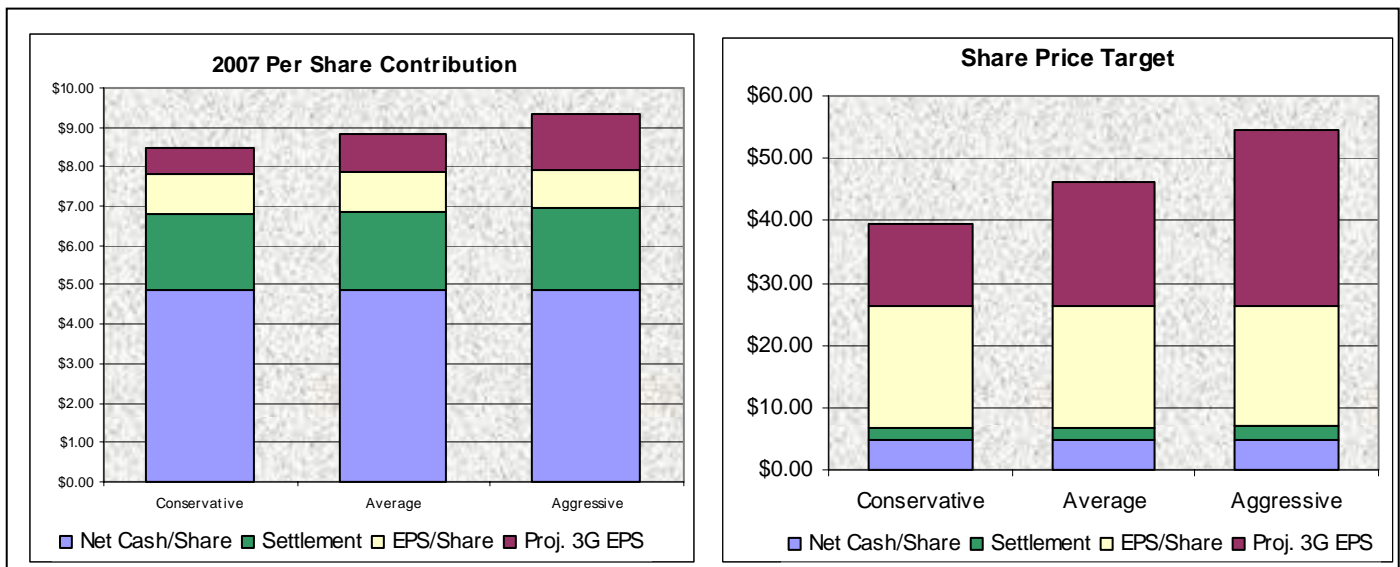
Settlement Cash/share = estimated Samsung award taxed at 36% divided by shares outstanding

EPS = our 2007 EPS estimate which relies only on current licensees and assumed growth

Projected 3G EPS = estimated 2007 EPS, derived from further 3G market penetration and assumed royalty rates, taxed at 36%.

Sum-of-the-Parts Analysis			
	Conservative	Average	Aggressive
Net Cash/Share 2Q06	\$4.85	\$4.85	\$4.85
Expected Settlement Cash/share	\$1.97	\$2.02	\$2.10
2007 EPS estimate	\$0.97	\$0.97	\$0.97
2007 Proj. 3G EPS	\$0.66	\$0.99	\$1.41
2007 Valuation Scenarios			
Net Cash/Share 2Q06	\$4.85	\$4.85	\$4.85
Expected Settlement Cash/share	\$1.97	\$2.02	\$2.10
2007 EPS estimate (18x P/E)	\$19.44	\$19.44	\$19.44
2007 Proj. 3G EPS (18x P/E)	\$13.20	\$19.80	\$28.29
Price Target	\$39.46	\$46.11	\$54.68

We assign a 20x multiple on the 2007 earnings streams, which represents the peer group average.



Income Statement

InterDigital Communications (IDCC)

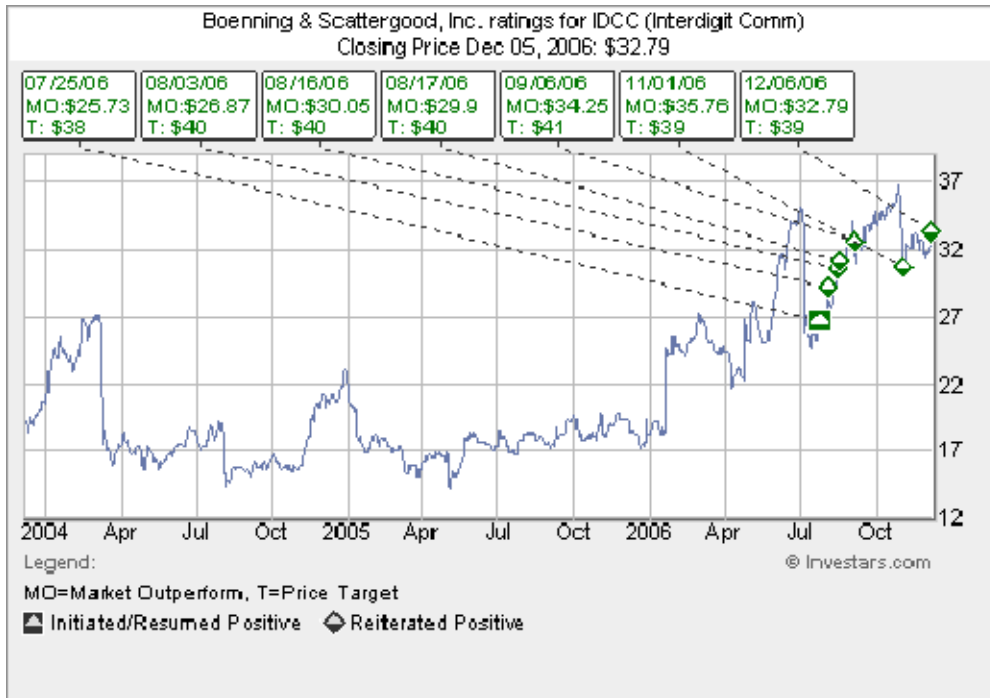
December Fiscal Year (Millions)	F2003		F2004		F2005			F2006					F2007				F2008	
	Year	Year	Mar-05	Jun-05	Sep-05	Dec-05	Year	Mar-06	Jun-06	Sep-06	Dec-06	Year	Dec-07	Mar-07	Jun-07	Sep-07	Year	Year
	(A)	(A)	(A)	(A)	(A)	(A)		(A)	(A)	(A)	(E)		(E)	(E)	(E)			
Total Revenue	114.6	103.7	35.5	38.6	48.5	40.5	163.1	51.6	296.6	67.2	62.5	477.9	60.3	58.3	58.8	59.3	236.5	264.0
COGS	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	0.0	0.0	0.0	0.0
Gross Profit	114.6	103.7	35.5	38.6	48.5	40.5	163.1	51.6	296.6	67.2	62.5	477.9	60.3	58.3	58.8	59.3	236.5	264.0
Operating Expenses																		
Cost of Product	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	0.0	0.0	0.0	0.0
Sales and Marketing	4.9	6.2	2.3	1.5	1.8	2.3	7.9	1.8	1.6	1.7	1.9	6.9	2.3	2.6	2.6	2.7	10.2	11.4
General, and Administrative	18.2	21.6	6.6	5.9	5.4	6.3	24.2	5.0	5.7	5.0	6.9	22.6	7.2	7.3	7.4	7.5	29.4	29.7
Patents Administration and Licensing	16.0	30.3	11.2	10.1	14.7	13.4	49.4	10.0	12.8	13.3	14.0	50.1	11.0	11.0	11.0	11.0	44.0	48.0
Development	45.9	51.2	16.2	14.9	15.6	16.4	63.1	16.0	15.9	16.8	17.7	66.4	19.9	20.4	21.9	22.5	84.7	92.4
Repositioning	0.0	0.6	0.0	0.0	0.8	0.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	85.0	110.0	36.3	32.5	38.4	38.3	146.0	32.8	35.9	36.8	40.4	146.0	40.4	41.3	42.9	43.6	168.3	181.5
Operating Income	29.5	(6.3)	(0.8)	6.2	10.2	2.2	17.1	18.8	260.7	30.4	22.1	331.9	19.8	16.9	15.8	15.6	68.2	82.5
Interest Income	1.8	2.0	0.8	0.7	0.8	0.9	3.2	1.5	3.9	4.1	4.0	13.5	3.8	3.8	4.0	4.0	15.5	15.5
Interest Expense	(0.2)	(0.3)	(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	0.0	0.0
Income before Taxes	41.7	(4.5)	0.0	6.8	10.9	3.1	20.9	20.3	264.6	34.4	26.1	345.4	23.6	20.7	19.8	19.6	83.7	98.0
Income Taxes	(7.3)	4.7	0.9	2.8	4.4	1.1	9.3	7.4	94.2	12.8	9.4	123.8	8.5	7.4	7.1	7.1	30.1	35.3
Net Income	34.5	0.2	(0.9)	4.0	6.5	2.0	11.6	12.9	170.3	21.7	16.7	221.6	15.1	13.2	12.7	12.5	53.6	62.7
Diluted Earnings per Share	\$0.58	\$0.00	(\$0.02)	\$0.07	\$0.11	\$0.03	\$0.20	\$0.23	\$2.98	\$0.40	\$0.31	\$3.97	\$0.28	\$0.24	\$0.23	\$0.23	\$0.97	\$1.12
Diluted Shares Outstanding	59.69	59.08	55.05	56.79	57.09	57.16	57.16	56.88	57.13	54.54	54.60	55.79	54.80	55.00	55.20	55.40	55.10	55.78
Margins																		
Gross Margin	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%	100.0%	100.0%	100.0%	100.0%
Research and Development	40.1%	49.4%	45.6%	38.7%	32.2%	40.5%	38.7%	31.0%	5.4%	25.0%	28.3%	13.9%	33.0%	35.0%	37.3%	38.0%	35.8%	35.0%
Selling, General, and Administrative	4.3%	6.0%	6.4%	4.0%	3.7%	5.7%	4.9%	3.5%	0.5%	2.5%	3.0%	6.2%	3.8%	4.5%	4.5%	4.5%	16.8%	15.6%
Operating Margin	25.8%	-6.1%	-2.2%	15.9%	20.9%	5.4%	10.5%	36.4%	87.9%	45.2%	35.4%	69.4%	32.9%	29.0%	26.9%	26.3%	28.8%	31.3%
Net Margin	30.1%	0.1%	-2.5%	10.4%	13.4%	4.8%	7.1%	25.0%	57.4%	32.2%	26.7%	46.4%	25.1%	22.7%	21.6%	21.2%	22.6%	23.8%
Tax Rate	17.4%	103.4%	4300.0%	41.3%	40.4%	36.6%	0.0%	36.4%	35.6%	37.1%	36.0%	35.8%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Growth Rates																		
Revenue, yr/yr	30.4%	-9.5%	7.5%	31.4%	559.7%	19.3%	57.3%	45.4%	668.4%	38.4%	54.4%	193.0%	16.7%	-80.4%	-12.5%	-5.2%	-50.5%	11.6%
Gross Profit, yr/yr	30.4%	-9.5%	7.5%	31.4%	559.7%	19.3%	57.3%	45.4%	668.4%	38.4%	54.4%	193.0%	16.7%	-80.4%	-12.5%	-5.2%	-50.5%	11.6%
Research and Development, yr/yr	13.6%	26.1%	41.3%	10.1%	28.5%	28.3%	27.6%	-20.0%	1.5%	-7.1%	-18.4%	-12.4%	25.5%	68.0%	58.2%	42.2%	47.5%	11.4%
Selling, General, and Administrative, yr/yr	25.6%	18.9%	21.8%	8.9%	7.4%	8.6%	11.7%	-23.5%	-3.7%	-6.9%	10.0%	-6.3%	44.0%	28.9%	46.7%	8.6%	30.0%	0.9%
Operating Income, yr/yr	219.7%	-121.3%	-109.5%	180.7%	-153.1%	-15.4%	-371.6%	-2540.7%	4137.6%	198.6%	918.1%	1842.2%	5.7%	-93.5%	-47.9%	-29.4%	-79.5%	21.0%
Net Income, yr/yr	1272.6%	-99.6%	-115.1%	351.7%	-201.9%	-1295.1%	7393.5%	-1561.3%	4146.6%	231.9%	752.0%	1807.7%	17.2%	-92.2%	-41.4%	-24.9%	-75.8%	17.1%
Diluted EPS, yr/yr	1258.6%	-99.5%	-116.4%	387.7%	-198.7%	-1335.1%	7644.5%	-1514.3%	4121.5%	247.3%	792.0%	1854.6%	21.6%	-91.9%	-42.1%	-26.0%	-75.5%	15.7%

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Source: IDCC filings, Boenning & Scattergood

Important Disclosures

Rating and Price Target History (IDCC)



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Moderate risk: The security has average fundamental predictability and/or average price volatility.

High risk: The security has lower-than-average fundamental predictability and/or higher-than-average price volatility.

Speculative: The security has very inconsistent fundamental predictability and/or very high relative price volatility.

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<u>Coverage Universe</u>	<u>% of Universe</u>	<u>Investment Banking Clients (a)</u>	<u>% of Rating Group</u>
Market Outperform (Buy)	53.7%	Market Outperform (Buy)	10.3%
Market Perform (Hold)	46.3%	Market Perform (Hold)	4%
Market Underperform (Sell)	0%	Market Underperform (Sell)	0%

(a) Related to services provided within the past 12 months.

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