

InterDigital Communications Corp. (IDCC-NSDQ)

Current Recommendation	Buy
Prior Recommendation	Hold
Date of Last Change	05/11/2006
Current Price (11/02/06)	\$30.79
Six- Month Target Price	\$42.00

OUTLOOK

InterDigital Communications (IDCC), a leading wireless technology and licensing company, announced third quarter (ended September) results with net income increasing more than three fold year-over-year. This was primarily driven by increased recurring royalties from existing licenses and royalty received from Nokia Corp as previous dispute settlement. The company has a solid licensing program which is further augmented by a substantial \$134 million arbitration award given by International Chamber of Commerce, related to a patent dispute with Samsung Electronics. Moreover, IDCC has a strong pipe-line consisting of a dual-mode 2G/3G HSDPA/HSUPA modem offering. The balance sheet also remains healthy with sequential positive free-cash flow. We continue to rate the stock a Buy based on cash generation, share buy-back initiatives and 3G wireless opportunities.

SUMMARY DATA

52-Week High	\$36.91
52-Week Low	\$17.25
One-Year Return (%)	54.26
Beta	2.23
Average Daily Volume (sh)	908,005

Shares Outstanding (mil)	51.72
Market Capitalization (\$mil)	\$1,592
Short Interest Ratio (days)	4.05
Institutional Ownership (%)	42
Insider Ownership (%)	6

Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00

5-Yr. Historical Growth Rates	
Sales (%)	31.7
Earnings Per Share (%)	66.4
Dividend (%)	N/A

P/E using TTM EPS	8.4
P/E using 2006 Estimate	7.6
P/E using 2007 Estimate	20.4

Zacks Rank	3
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Risk Level	Above Avg.
Type of Stock	Mid-Growth
Industry	Telecomm Equip
Zacks Rank in Industry	19 of 74

ZACKS ESTIMATES

Revenue

(In millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2004	33 A	29 A	7 A	34 A	104 A
2005	35 A	39 A	49 A	40 A	163 A
2006	52 A	297 A	67 A	76 E	491 E
2007	64 E	70 E	78 E	88 E	300 E

Note: Future estimates do not include any arbitration award related to patent license dispute with Samsung.

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2004	\$0.10 A	\$0.01 A	-\$0.12 A	\$0.00 A	\$0.00 A
2005	-\$0.02 A	\$0.07 A	\$0.11 A	\$0.04 A	\$0.21 A
2006	\$0.23 A	\$2.98 A	\$0.40 A	\$0.40 E	\$4.06 E
2007	\$0.33 E	\$0.36 E	\$0.39 E	\$0.43 E	\$1.51 E

Zacks Projected EPS Growth Rate - Next 5 Years %	20
Consensus Projected EPS Growth - Next 5 Years %	23

COMPANY BACKGROUND

InterDigital Communications (Nasdaq: IDCC) designs, develops and licenses innovative protocols and technology for wireless communications. The company has over a thousand patents and patent applications. A majority of IDCC's revenue is a result of licensing agreements, or settlements from past litigations concerning patent infringement or licensing disputes. Most of the intellectual property covers 2G and 2.5G (second-generation) digital wireless technologies incorporating Time Division Multiple Access (TDMA) or Code-Division Multiple Access (CDMA). IDCC has also participated in joint development projects with Nokia. Major licensees include Nokia, Infineon, Sharp, NEC, LG and Matsushita. IDCC's prospects for royalty moving forward will be dependent on the rollout of 3G (third-generation) CDMA networks. The company is a pioneer of WCDMA and holds significant intellectual property on WTDD (Wideband Time Division Duplex) intended to improve efficiency for high-speed wireless data.

KEY POINTS

- As the leading wireless technology and licensing company, InterDigital is benefiting from the wireless sector's recovery and continued deployment of 3G advanced digital cellular infrastructure.
- InterDigital has a strong patent licensing program. Recently, the International Chamber of Commerce awarded the company a substantial \$134 million in past royalties plus interest related to a patent dispute with Samsung Electronics.
- During the first quarter, IDCC concluded a \$285 million patent license agreement with LG Electronics with respect to its 2G and 3G TDMA technology.
- The company has a strong balance sheet with \$304 million of cash & cash equivalent, and only \$6 million of debt at the end of the third quarter of 2006. The company generated nearly \$300 million of free cash during the first three quarters of fiscal 2006.

OVERVIEW

Corporate Profile and Strategy

Based in King of Prussia, Pennsylvania, InterDigital Communications ("IDCC") is a wireless technology company offering an extensive patent portfolio of advanced digital wireless telecommunications systems to the semiconductor manufacturer and wireless equipment manufacturer markets. IDCC has been involved in the wireless market since the company's inception in the early 1970s, and a number of IDCC's patents are used in both Time Division Multiple Access (TDMA) and Code Division Multiple Access (CDMA) based products. Essentially all of IDCC's revenues are in the form of royalties from its patent portfolio. Its customers include manufacturers of mobile phones, personal digital assistants (PDAs), other wireless devices, such as PC cards for notebook computers, cellular base stations and infrastructure equipment, and modules and components for wireless devices. In the third quarter, recurring patent license royalties increased 58% from \$33.8 million in the third quarter of 2005 to \$53.5 million. Licensees that accounted for 10% or more of recurring patent licensing and technology sales were LG (27%), NEC Corporation (17%) and Sharp Corporation (17%).

Investment Thesis

Innovative Strategy: To maintain its technology leadership, IDCC spends a significant portion of its annual revenue on research and development activities as it works closely with various manufacturers and international standard-setting bodies in the wireless industry. In 2004, IDCC filed a total of 858 patent applications and royalties received from its use are usually passed through the income statement without product costs (no Cost of Goods Sold), in effect benefiting the bottom-line without margin.

Future Growth Potential: Most of the company's patent-licensing agreements are multi-year deals with recurring revenue based on the number of units sold. Two recently concluded deals, namely a \$285 million license pact with LG Electronics and a \$50 million agreement with Kyocera Wireless Corp., have already started expanding the company's top line. As it signs agreements with additional wireless industry players, profit margins will continue to expand, and cash flow should improve dramatically. IDCC already has a solid balance sheet, with free cash flow (cash flow from operations less capital expenditures) of approximately \$300 million generated during the first three quarters of fiscal 2006. This should give the company the flexibility to defend its intellectual property rights, invest in new technology solutions and continue to buy back shares.

Strong Patent Licensing Program: During the third quarter, a Tribunal of International Chamber of Commerce (ICC) awarded IDCC a significant amount of \$134 million as past royalties related to a patent dispute with Samsung Electronics Co. Ltd. In addition to this IDCC will also receive interest on Samsung's sale of single mode 2G GSM/TDMA and 2.5G GSM/GPRS/EDGE terminal units through 2005. The Tribunal also settled royalty rates for Samsung's sale of covered products in 2006. IDCC announced that Samsung's royalty obligation for the first half of 2006 will be approximately \$17-\$21 million. In addition to this, Samsung's interest obligation will be around \$11-\$13 million.

Healthy Pipeline: In the second half of this year, the company is expected to increase investments for its WCDMA Release 4 offering and dual mode terminal unit ASIC offering. The company has demonstrated successful interoperability testing of this dual mode 2G/3G HSDPA/HSUPA modem with major wireless infrastructures vendors. IDCC is also moving forward with development of its own HSUPA program, which entails numerous elements of next generation 3G technology.

INDUSTRY OUTLOOK - Favorable

The 2006 outlook for the telecommunications industry has become more favorable. The fundamental downturn may have reached a bottom, as telecommunication companies reduced spending and improved operating performance over the past several quarters. In addition, telecommunications companies continue to be the largest group in terms of Mergers and Acquisitions. Consolidation among the largest telecommunications services-focused companies has created an environment where equipment-focused companies now interact, on a relative basis, with less customers and reduced selling opportunities. This has incubated consolidation among equipment companies as well to enhance marketing value by broadening product offerings for converged wireless and wireline networks. Nevertheless, the economic scale of consolidated telecom service companies is creating pricing pressure and margin erosion potential as equipment companies contend for contracts based on pricing and features. Long-term growth prospects for the sector are not nearly as favorable as in the early part of 2000, but are more attractive than in 2005, with continued consolidation expected.

While telecom carriers have increased capital expenditures in 2006, they will be more selective on technology choices and identify cost savings synergies, such as streamlining purchasing arrangements and limiting the number of preferred vendors. In addition, shareholders continue to foster an environment where executives are held accountable to focus more on balance sheet improvements, financial discipline and improving free cash flow. This promotes greater diligence in investment decisions for long-term growth initiatives. Unfortunately for the equipment vendors, the conservative nature of tightened capital outlay remains the method of choice for improving free cash flow.

In recognition of spending constraints by carriers, telecom equipment vendors have already prepared by slashing expenses also in response to the previous protracted industry downturn. Now that expenses are under control and productivity is at higher levels, profit margins, in general, are expected to respond rapidly even with a modest pickup in demand. Companies that offer the most opportunities are focused on third-generation (3G) wireless technology, broadband (DSL) equipment and fiber-to-the-home/node

gear. There are also a few market leaders that have proven able to survive the sometimes turbulent opportunity swings in the industry.

Presently, the telecommunications equipment industry has a Zacks Industry Rank of 2.94, which places it 92nd out of more than 200 industries.

INDUSTRY POSITION

InterDigital Communications is a leading wireless technology and licensing company and competes with several digital wireless products and solutions based developers. Qualcomm Inc (QCOM) is its closest peer. The company also competes with Sierra Wireless (SWIR) and Novatel Wireless (NVTL), as well as several other digital wireless telecommunications providers. InterDigital has significant relationships with many of the largest equipment manufacturers for wireless infrastructure and systems.

RECENT NEWS

Third Quarter of Fiscal 2006 Highlights

On November 2, InterDigital Communications Corp announced financial results for the third quarter of fiscal 2006. The company reported total revenue of \$67.2 million for the quarter, up from \$48.5 million in the same period last year. This was primarily due to the one-time Nokia settlement payment of \$12.5 million, but also includes higher royalty income from existing and new customers. Net income, on a GAAP basis, during the reported quarter was \$21.7 million or \$0.40 per diluted share, compared with income of \$6.5 million or \$0.11 per share in the prior-year quarter. During the quarter, recurring royalty revenue was \$53.5 million, up 58% year-over-year, and technology solution revenue was \$1.2 million, down 73.3% year-over-year.

Total operating expense in the reported quarter was \$36.8 million, down 4% from the prior-year quarter. This was mainly due to lower patent litigation & arbitration costs, coupled with lower long-term compensation program costs. Patent litigation & arbitration costs decreased to \$5.2 million, compared to \$7.9 million in the prior-year quarter.

Operating margin was approximately 50% and net margin was 32% in the third quarter of 2006. At the end of September 30, IDCC had \$304 million of cash & cash equivalents and \$6.2 million of debt outstanding. Free cash flow during the third quarter was \$5.7 million. During the third quarter, the company repurchased 1.8 million of shares of its common stock.

Management Outlook for Fourth Quarter of 2006

As of now, InterDigital has not provided any revenue or earning guidance for the fourth quarter. The management announced that the revenue guidance will be provided after properly reviewing applicable royalty reports. However, the company is expecting its operating expenses to increase by 7%-12% sequentially in the fourth quarter. Patent arbitration & litigation costs are expected to be within the range of \$5-\$7 million. Fourth quarter book tax rate will be approximately 35%-37%.

VALUATION

InterDigital is trading at 7.6x estimated 2006 earnings which is at a significant discount to both S&P 500 average and industry group average. With respect to all other valuation metrics, the stock is also trading at a discount to its peer group. According to our view, recently owned massive royalty arbitration award in a Tribunal of ICC related to patent dispute with Samsung and the existing deal with LG Electronics and Kyocera Wireless Corp. have improved visibility regarding the future revenue potential of the company and, therefore, we believe the current valuation of IDCC does not adequately reflect its true growth potential. Additionally, IDCC has a healthy pipeline focusing mainly on the lucrative 3G technology business. Our assessment is that the stock should trade closer to S&P 500 average. We maintain our \$42.00 price target which is based on 2006 forward P/E multiple of 10.34x.

Industry Comparables

Company	Ticker	Market Cap	P/E Forward	Price/Sales	Ent. Val/Sales	Ent. Val/EBITDA
InterDigital Corp.	IDCC	1,592	7.6	3.24	2.64	3.68
Peer Group Avg	-	-	20.4	3.64	2.86	16.0
S&P 500	-	-	15.9	-	-	-
Qualcomm	QCOM	60,060	23.6	8.56	6.9	16.4
Sierra Wireless	SWIR	309	30.0	1.59	1.1	27.9
Novatel Wireless	NVTL	241	N/M	1.18	0.8	N/M

EV – Enterprise Value (Market capitalization – net cash)
N/M- Not Meaningful or negative earning per share (EPS)
EBITDA: Earnings before Interest, Taxes and Depreciation

RISKS

- InterDigital is dependent on a handful of large customers, including NEC Corp, LG, and Sharp Corp. If it lost any of these customers, the company's financial performance may be materially impacted.
- Continued or unexpected activity related to patent litigations and arbitrations will increase the expense in the near term to a considerable extent.
- Lack of tangible product sales may create uncertainties regarding company's future earnings potential.
- Market opportunities for the company's telecom products depend on several factors including competition, network coverage and overall growth of economies within different regions. There can be no assurance that the market for such offerings will continue to remain robust in each of their wireless technology areas.

INSIDER TRADING AND OWNERSHIP

According to SEC filings and information posted on Nasdaq, there were no inside buyers and 19 inside seller in the recently concluded six months. For the past 12 months, records indicate that there were 15 inside buyers and 38 inside seller of shares.

QUARTERLY INCOME STATEMENT AND FORECAST

IDCC	LOCAL CURRENCY (Millions)	2003	2004	2005	1Q 2006	2Q 2006	3Q 2006	4Q 2006E	2006E	1Q 2007E	2Q 2007E	3Q 2007E	4Q 2007E	2007E
Revenues		115	104	162	52	297	67	76	491	64	70	78	88	300
Cost of Goods Sold		0	0	0	0	0	0	0	0	0	0	0	0	0
SG&A and R&D		84	104	136	30	33	34	42	140	35	39	43	48	165
EBITDA		31	0	26	21	264	33	34	352	29	32	35	40	135
Depreciation & amort		0	0	0	0	0	0	0	0	0	0	0	0	0
Impairment charges, Other Special charges		0	0	0	0	0	0	0	0	0	0	0	0	0
Interest exp and other income, net		-12	2	-3	-2	-4	-4	-4	-13	-4	-4	-4	-4	-16
Stock option Expenses		1	6	10	3	3	3	3	11	3	3	3	3	10
Income Taxes (benefit)		7	-5	-34	7.34	94.221	12.78	13.5	128	12	13	14	16	54
Zacks Adjusted Income bef NRI		14	0	12	13	170	22	22	227	19	20	23	25	86
Net Income		34	0	55	13	170	22	22	227	19	20	23	25	86
Diluted EPS bef NRI		0.24	0.00	0.21	0.23	2.98	0.40	0.40	4.06	0.33	0.36	0.39	0.43	1.51
Reported EPS		0.58	0.00	0.96	0.23	2.98	0.40	0.40	4.06	0.33	0.36	0.39	0.43	1.51
Avg. Diluted Shares Out		60	59	57	57	57	55	55	56	56	56	58	59	57
Dividend		0.130	0.070											
Cash Flow fr Operations		60	48	34	87	217	13		316					
Capital Expenditures		4	4	5	3	7	7		17					
Free Cash Flow		56	44	28	83	210	6	0	299					0
Cash & Mkt Securities		106	132	106	197	337	304							
PP&E, Net		10	11	11	75	78	82							
Total Assets		205	242	300	531	619	588							
Total Debt		2	2	2	5	5	6							
Shareholder's Equity		97	116	174	202	304	290							

	<----- Input forecast ----->													
Gross Margins	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%
% of sales SG&A and R&D	73.0%	100.2%	84.0%	58.8%	11.1%	51.1%	55.3%	28.4%	54.7%	55.0%	55.1%	55.0%	55.0%	55.0%
EBITDA Margin	27.0%	-0.2%	16.0%	41.2%	88.9%	48.9%	44.7%	71.6%	45.3%	45.0%	44.9%	45.0%	45.0%	45.0%
Income Margin	12.5%	0.1%	7.4%	25.1%	57.4%	32.2%	28.9%	46.2%	28.9%	28.6%	28.8%	28.8%	28.8%	28.8%
Tax Rate	16.9%	243.5%	-118.6%	32.2%	35.2%	34.6%	35.5%	35.0%	35.4%	36.6%	35.9%	35.8%	35.9%	35.9%

Source: InerDigital . – Fiscal Year and Quarterly Reports – SEC Filings

REPORTED BALANCE SHEET & CASH FLOW SUMMARY

InterDigital Communications Corp.			
Condensed Unaudited Consolidated Balance Sheets (In thousands)			
	<u>3Q 2006</u> Sep 30, 2006	<u>FY 2005</u> Dec 31, 2005	<u>FY 2004</u> Dec 31 2004
Assets			
Cash and cash equivalents	\$304,176	105,708	\$131,818
Accounts receivable, net	110,579	19,534	11,612
Current deferred tax assets	26,690	42,103	5,170
Other current assets	22,742	8,370	8,017
Property and equipment and Patents, net	81,953	70,176	51,688
Long-term and non-current assets	42,257	53,646	33,615
Total Assets	588,397	299,537	241,920
Liabilities and Stockholders' Equity			
Current portion of long-term debt	\$ 370	\$ 350	\$ 212
Accounts payable & accrued liabilities	48,433	30,129	21,546
Current deferred revenue	88,059	20,055	28,075
Long-term deferred revenue	156,097	71,193	71,121
Long-term debt and long-term liabilities	5,808	3,496	5,307
Total liabilities	298,767	125,223	126,261
Stockholders' equity	289,630	174,314	115,659
Total Liabilities and Stockholders' Equity	\$ 588,397	299,537	241,920

Source: InterDigital Comm. and SEC Filings –3Q 2006, Full Year 2005 Results reported 08/02/06.

InterDigital Communications CONSOLIDATED STATEMENT OF CASH FLOW – UNAUDITED (\$ in thousands)		
Full Year ENDING March 31 st	FY 2005 ended Dec 31, 2005	FY 2004 ended Dec 31, 2004
Cash Flows from Operating Activities:	\$ 11,330	\$ 31,085
Cash Flows from Investing Activities:	(7,881)	0
Cash Flows from Financing Activities:	(29,559)	(5,194)
CHANGE IN CASH AND CASH EQUIVALENTS:	(26,110)	25,891
Cash & equivalents, Begin of period	131,818	105,927
Cash & equivalents, End of period	\$105,708	\$131,818

Source: InterDigital– Fiscal Year and Quarterly Reports – SEC Filings

PROJECTED INCOME STATEMENT & BALANCE SHEET

InterDigital Communications Corp.

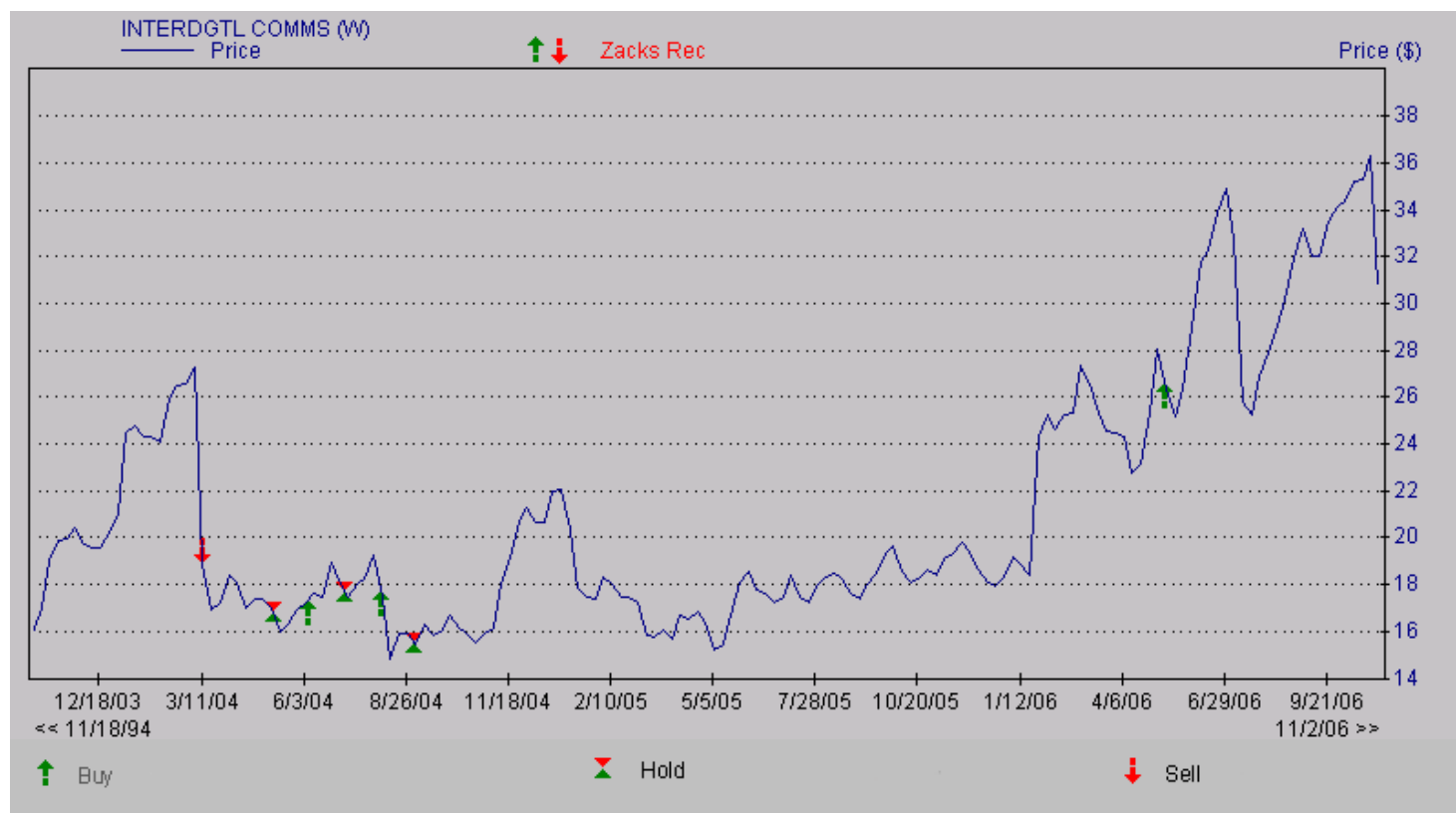
Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

IDCC	LOCAL CURRENCY (Millions)	2003	2004	2005	2006E	2007E
Revenues		115	104	162	491	300
	Cost of Goods Sold	0	0	0	0	0
	SG&A and R&D	<u>84</u>	<u>104</u>	<u>136</u>	<u>140</u>	<u>165</u>
EBITDA		31	0	26	352	135
	Depreciation & Amortization	0	0	0	0	0
	Impairment charges, Other Special charges	0	0	0	0	0
	Interest exp and other income, net	-12	2	-3	-13	-16
	Stock option Expenses	1	6	10	11	10
	Income Taxes (benefit)	7	-5	-34	128	54
Zacks Adjusted Income before NRI		14	0	12	227	86
Net Income		34	0	55	227	86
Diluted EPS before NRI		0.24	0.00	0.21	4.06	1.51
Reported EPS		0.58	0.00	0.96	4.06	1.51
	Avg. Diluted Shares Outstanding	60	59	57	56	57
Dividend		0.130	0.070			
					As of 3Q	
Cash Flow from Operations		60	48	34	316	
Capital Expenditures		<u>4</u>	<u>4</u>	<u>5</u>	<u>17</u>	
Free Cash Flow		56	44	28	299	
					As of 3Q	
Cash & Marketable Securities		106	132	106	304	
PP&E, Net		10	11	11	82	
Total Assets		205	242	300	588	
Total Debt		2	2	2	6	
Shareholder's Equity		97	116	174	290	

Gross Margins	100.0%	100.0%	100.0%	100.0%	100.0%
% of sales SG&A and R&D	73.0%	100.2%	84.0%	28.4%	55.0%
EBITDA Margin	27.0%	-0.2%	16.0%	71.6%	45.0%
Income Margin	12.5%	0.1%	7.4%	46.2%	28.8%
Tax Rate	16.9%	243.5%	-118.6%	35.0%	35.9%

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analysts contributing to this report do not hold any shares of IDCC. Zacks EPS and revenue forecasts are not consensus forecasts. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Buy**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. **Hold**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. **Sell**- Zacks expects the company will under perform the broader U.S. Equity market over the next one to two quarters. The current distribution of Zacks Ratings is as follows on the 1202 companies covered: Buy- 21.0%, Hold- 74.0%, Sell - 4.4%. Data is as of midnight on the business day immediately prior to this publication.