

Casey Ryan
415-402-6037
cryan@ncpi.com

Buy
April 28, 2006

INTERDIGITAL COMMUNICATIONS CORP.
(NASDAQ: IDCC \$27.01)

Nokia Agrees to Pay \$253 Million for 2G; Strong Validation of InterDigital IP; Expect Samsung Resolution Soon; Reiterating Buy Rating and \$37 Price Target

- Yesterday, InterDigital Communications announced that Nokia has agreed to settle the outstanding patent dispute between the two companies. Nokia has agreed to pay \$253 million to InterDigital to cover all 2 and 2.5G handset sales and all 3G unit sales through April 2006. InterDigital will hold a conference call to discuss the impact of the settlement with Nokia and the expected accounting treatment for the associated settlement revenues.
- InterDigital management stated that they expect to recognize the Nokia settlement revenues in 2006 and that the actual cash payment for the full amount will be received by the end of April 2006. The settlement amount indicates to us roughly \$2.78 in EPS to InterDigital, assuming a tax rate of 38% and 100% gross margins. We are leaving our estimates unchanged at the current time until the company has provided more clarity on the conference call at 9:00 a.m. ET this morning.
- We believe the Nokia settlement sets the stage for a quick resolution of the outstanding patent dispute with Samsung. InterDigital is currently waiting for a ruling from an arbitration panel in that case, but we believe Samsung will proactively settle its patent dispute now that Nokia has settled. Samsung's key defense up until this announcement was its desire to be given similar payment terms as Nokia.
- We also believe that this significant agreement with Nokia for 2 and 2.5G suggests that major handset vendors are likely to sign 3G license deals with InterDigital. LG has already signed a major 3G licensing deal with InterDigital. We believe that Sony-Ericsson, Nokia, and Samsung are now more likely to sign 3G deals during 2006.
- We are reiterating our Buy rating on shares of InterDigital and our \$37 price target. We believe the Nokia settlement further validates InterDigital's position and increases the likelihood that more significant licensing deals will be signed. Even at current price levels, using our pre-Nokia estimates, InterDigital shares trade at only 15x our FY07 EPS estimate of \$1.86.

Key Data			FY05A	FY06E	Prv FY06	FY07E	Prv FY07
		EPS					
Ticker	IDCC	1Q	(\$0.02)	\$0.23	–	\$0.31	–
Rating	Buy	2Q	\$0.07	\$0.27	–	\$0.51	–
Price Target	\$37	3Q	\$0.11	\$0.29	–	\$0.52	–
52-Wk Range	\$14–27	4Q	\$0.03	\$0.34	–	\$0.52	–
Shares Out. (MM)	57	Year	\$0.20	\$1.12	–	\$1.86	–
Market Cap (B)	\$1.5	P/E	135x	23x		15x	
Avg. Daily Vol. (MM)	.608						
		Revs (\$MM)					
Net Cash/Share	\$2.00	1Q	\$35.5	\$51.7	–	\$57.7	–
Book Value/Share	\$1.79	2Q	\$38.6	\$55.0	–	\$76.0	–
Price/TTM Sales	7.0	3Q	\$38.3	\$56.2	–	\$76.8	–
Debt/Total Capital	2%	4Q	\$40.5	\$59.9	–	\$77.0	–
FY End	Dec	Year	\$152.9	\$222.7	–	\$287.4	–
		Mkt Cap/Revs	10x	6.9x		5.4x	

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NOKIA SETTLES FOR \$253 MILLION

Yesterday, InterDigital Communications announced that Nokia has agreed to settle the outstanding patent dispute between the two companies. Nokia has agreed to pay \$253 million to InterDigital to cover all 2 and 2.5G handset sales and all 3G unit sales through April 2006. InterDigital will hold a conference call to discuss the impact of the settlement with Nokia and the expected accounting treatment for the associated settlement revenues. InterDigital management stated it expects to recognize all the Nokia settlement revenues in 2006 and that the actual cash payment for the full amount will be received by the end of April 2006. We estimate the settlement amount indicates roughly \$2.78 in EPS, assuming a tax rate of 38% and 100% gross margins. We are leaving our estimates unchanged until the company provides more clarity on its conference call scheduled for 9:00 a.m. ET this morning.

IMPACTS OF NOKIA SETTLEMENT

We believe the Nokia settlement sets the stage for a quick resolution of the outstanding patent dispute InterDigital has with Samsung. InterDigital is currently waiting for a ruling from an arbitration panel on that case, but we believe that Samsung will proactively settle its patent dispute with InterDigital now that Nokia has settled. Samsung's key defense up until this announcement was its desire to be given similar payment terms as Nokia. We also believe that this significant agreement with Nokia for 2 and 2.5G suggests that major handset vendors are likely to sign 3G license deals with InterDigital. LG has already signed a major 3G licensing deal with InterDigital. We believe that Sony-Ericsson, Nokia, and Samsung are now more likely to sign 3G deals during 2006.

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 15x our FY07 EPS estimate of \$1.86 compared to 25x for the peer group (excluding Rambus at a P/E of 114x). Applying a normalized peer group multiple of 20x to our FY07 EPS numbers generates our price target of \$37, a 37% increase over last night's closing price of \$27.01.

RISKS

InterDigital faces risks that may negatively impact the financial performance of the company. These risks include:

- **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.

Prices are as of the close of trading on April 27, 2006.



Nollenberger Capital Partners, Inc.
Casey Ryan 415-402-6037 cryan@nollenbergercapital.com

InterDigital Communications Corp. (IDCC)

Income Statement

(\$ in thousands except per share)

Fiscal year ends 12/31	FY05					FY06					FY07					
	FY04	1Q	2Q	3Q	4QA	FY05E	1QE	2QE	3QE	4QE	FY06E	1QE	2QE	3QE	4QE	FY07E
Net Sales	\$103,685	\$35,497	\$38,601	\$38,338	\$40,489	\$152,925	\$51,650	\$54,975	\$56,200	\$59,900	\$222,725	\$57,675	\$76,025	\$76,750	\$76,955	\$287,405
Sequential Growth %		4.6%	8.7%	-0.7%	5.6%		27.6%	6.4%	2.2%	6.6%		-3.7%	31.8%	1.0%	0.3%	
Yr/Yr Growth %	-9.5%	7.5%	31.4%	421.0%	19.3%	47.5%	45.5%	42.4%	46.6%	47.9%	45.6%	11.7%	38.3%	36.6%	28.5%	29.0%
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	\$54,675	\$55,900	\$59,400	\$221,375	\$57,075	\$75,325	\$75,950	\$76,055	\$284,405
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	\$51,650	\$54,975	\$56,200	\$59,900	\$222,725	\$57,650	\$75,995	\$76,720	\$76,905	\$287,270
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	\$2,200	\$2,300	\$2,400	\$2,500	\$9,400	\$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	\$6,000	\$6,000	\$6,000	\$6,000	\$24,000	\$6,000	\$6,500	\$7,000	\$7,300	\$26,800
Patents Administration and Licensing	\$30,340	\$11,247	\$10,080	\$14,695	\$13,377	\$49,399	\$10,000	\$9,700	\$9,500	\$9,250	\$38,450	\$9,000	\$9,000	\$8,800	\$8,500	\$35,300
Development	\$51,218	\$16,173	\$14,921	\$15,610	\$16,391	\$63,095	\$14,000	\$13,500	\$13,400	\$13,100	\$54,000	\$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	\$32,200	\$31,500	\$31,300	\$30,850	\$125,850	\$30,800	\$31,300	\$31,500	\$31,600	\$125,200
Operating Expenses %																
Sales and Marketing %	6.0%	6.4%	4.0%	4.7%	5.7%	5.2%	4.3%	4.2%	4.3%	4.2%	4.2%	4.0%	3.4%	3.5%	3.6%	3.6%
General and Administrative %	20.9%	18.5%	15.3%	14.1%	15.4%	15.8%	11.6%	10.9%	10.7%	10.0%	10.8%	10.4%	8.5%	9.1%	9.5%	9.3%
Patents Administrations and Licensing %	29.3%	31.7%	26.1%	38.3%	33.0%	32.3%	19.4%	17.6%	16.9%	15.4%	17.3%	15.6%	11.8%	11.5%	11.0%	12.3%
Development %	49.4%	45.6%	38.7%	40.7%	40.5%	41.3%	27.1%	24.6%	23.8%	21.9%	24.2%	23.4%	17.4%	16.9%	16.9%	18.3%
Total Operating Expenses %	106.1%	102.2%	84.1%	100.1%	96.2%	95.5%	62.3%	57.3%	55.7%	51.5%	56.5%	53.4%	41.2%	41.0%	41.1%	43.6%
Operating Income	(\$6,292)	(\$769)	\$6,151	(\$34)	\$1,539	\$6,887	\$19,450	\$23,475	\$24,900	\$29,050	\$96,875	\$26,850	\$44,695	\$45,220	\$45,305	\$162,070
Operating %	-6.1%	-2.2%	15.9%	-0.1%	3.8%	4.5%	37.7%	42.7%	44.3%	48.5%	43.5%	46.6%	58.8%	58.9%	58.9%	56.4%
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	\$900	\$905	\$925	\$1,000	\$3,730	\$1,050	\$1,100	\$1,150	\$1,200	\$4,500
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	\$20,350	\$24,380	\$25,825	\$30,050	\$100,605	\$27,900	\$45,795	\$46,370	\$46,505	\$166,570
Tax Expense	(\$4,704)	\$903	\$2,817	\$4,419	\$909	\$9,048	\$7,530	\$9,021	\$9,555	\$11,119	\$37,224	\$10,323	\$16,944	\$17,157	\$17,207	\$61,631
Tax Rate %	NM	NM	41.3%	40.4%	37.0%	44.7%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income	\$155	(\$882)	\$4,011	\$6,526	\$1,548	\$11,203	\$12,821	\$15,359	\$16,270	\$18,932	\$63,381	\$17,577	\$28,851	\$29,213	\$29,298	\$104,939
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	\$12,821	\$15,359	\$16,270	\$18,932	\$63,381	\$17,577	\$28,851	\$29,213	\$29,298	\$104,939
Diluted EPS	\$0.00	(\$0.02)	\$0.07	\$0.11	\$0.03	\$0.20	\$0.23	\$0.27	\$0.29	\$0.34	\$1.12	\$0.31	\$0.51	\$0.52	\$0.52	\$1.86
Fully Diluted Shares O/S	57,294	55,053	56,790	57,089	56,370	56,370	56,370	56,370	56,370	56,370	56,370	56,380	56,390	56,400	56,410	56,395

Sources: Company reports and Nollenberger Capital Partners Inc.



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415-402-6037 cryan@ncpi.com

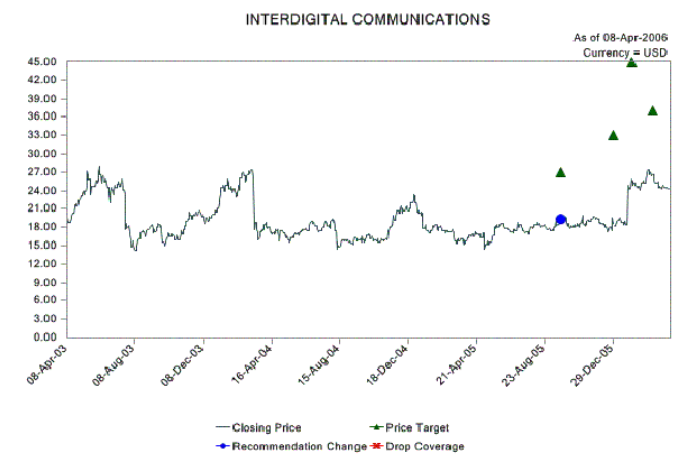
Comparative Valuation of Technology Royalty Companies

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 04/27/06	Cash Per Share										
QUALCOMM	QCOM	\$52.03	\$3.51	\$1.49	\$1.76	\$7,050	\$8,320	\$87,211	34.9	29.6	12.4	10.5	7.8
ARM Holdings	ARMHY	\$7.40	\$0.65	\$0.21	\$0.35	\$448	\$550	\$3,546	35.2	21.1	7.9	6.4	6.3
Monolithic Systems	MOSY	\$8.67	\$1.98	\$0.21	\$0.30	\$26	\$40	\$270	41.3	28.9	10.4	6.7	3.2
Rambus	RMBS	\$40.00	\$3.06	\$0.29	\$0.35	\$170	\$200	\$4,036	137.9	114.3	23.7	20.2	20.2
MIPS Technologies	MIPS	\$7.51	\$2.61	\$0.22	\$0.40	\$64	\$81	\$324	34.1	18.8	5.1	4.0	3.6
Average									56.7	42.5	11.9	9.6	
InterDigital	IDCC	\$27.01	\$1.88	\$1.12	\$1.86	\$223	\$287	\$1,486	24.1	14.5	6.7	5.2	7.9

Sources: Company reports and Nollenberger Capital Partners, Inc.

April 27, 2006 closing prices of publicly traded companies mentioned in this report:

LM Ericsson (ERICY)	\$35.38
Nokia (NOK)	\$23.01
Sony (SNE)	\$51.13



Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
22-Sep-2005	19.29	BUY	10-Mar-2006	25.59	37.00
			31-Jan-2006	25.83	45.00
			29-Dec-2005	18.59	33.00
			22-Sep-2005	19.29	27.00

IMPORTANT DISCLOSURES

Nollenberger Capital Partners is referred to hereinafter as "NCPI."

NCPI Stock Rating System

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.

Ratings Distribution and Investment Banking Services (as of April 26, 2006)

NCPI Rating	Regulatory Equivalent	No. of Companies	% with Rating	Investment Banking Clients	Regulatory Rating	No. of Companies	% of Total	Percent of IB Clients with Rating
Buy	Buy	26	63%	0				
Thematic Opportunity	Buy	1	2%	0	Buy	27	68%	0%
Neutral	Hold	12	29%	0	Hold	12	30%	0%
Sell	Sell	1	2%	0	Sell	1	3%	0%
Under Review	NA	1	2%	0				

Price Target: \$45

Valuation Method Used to Reach Target Price: 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 15x our FY07 EPS estimate of \$2.24 compared to 25x for the peer group (excluding Rambus at a P/E of 114x). Applying a normalized peer group multiple of 20x to our FY07 EPS numbers generates our price target of \$45, a 66% increase over last night's closing price of \$27.01.

Risk Factors:

- **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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Nollenberger Capital Partners Inc 101 California Street, Suite 3100, San Francisco, CA 94111