NOLLENBERGER CAPITAL PARTNERS

Company Update
Wireless Communications

InterDigital Communications Corp. (NASDAQ: IDCC $25.71)

Buy

July 14, 2006

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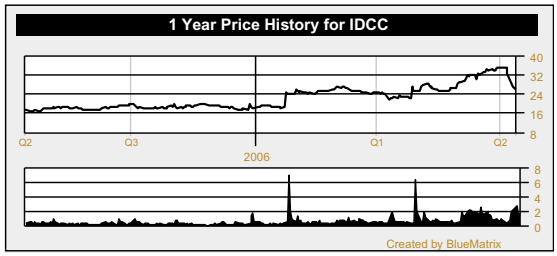
Stock Data

Ticker	IDCC
Rating	Buy
Price Target	$44
52-Wk Range	$35.44 - $16.68
Market Cap (MM)	1.5B
Avg Daily Volume	1.30M
Shares Out. (MM)	56.9
Debt/Total Capital	NM
Book Value/Share	$7.29
Net Cash/Share	$3.39
FY End	December

	FY05A	Prv 2005	FY06E	Prv 2006	FY07E	Prv 2007
EPS ($)						
1Q	(0.02)	—	0.23A	—	0.55	—
2Q	0.07	—	2.93	—	0.55	—
3Q	0.11	—	0.45	—	0.55	—
4Q	0.03	—	0.50	—	0.55	—
Year	0.20	—	4.11	—	2.20	—
Y/Y Chg	NM		NM		(46.5%)	
P/E	NM		6.3x		11.7x	

	FY05A	Prv 2005	FY06E	Prv 2006	FY07E	Prv 2007
Revs ($MM)						
1Q	35.5	—	51.6A	—	78.9	—
2Q	38.6	—	292.8	—	79.0	—
3Q	38.4	—	70.7	—	79.8	—
4Q	40.5	—	74.4	—	80.0	—
Year	152.9	—	489.5	—	317.7	—
Y/Y Chg	47.4%		NM		(35.1%)	
Mkt Cap/Rev	10.0x		3.1x		4.8x	



Expect Samsung Settlement to Be Broader than 2G; Upside to Estimates Possible

Investment Thesis

We expect that InterDigital Communications will agree to a settlement with Samsung over past-due 2G and 2.5G royalty payments during 3Q. We believe that, given the length of time since the completion of the arbitration hearing with Samsung (completed in January), a broader agreement could be in the works between the two companies.

Key Points

- We expect InterDigital to reach an agreement with Samsung in 3Q for 2G and 2.5G royalties. The length of time between the completion of the arbitration hearing between the companies, concluded in January of this year, and a decision by the arbitration panel or a settlement suggests to us that a broader agreement is being considered.
- We believe Samsung and InterDigital may be working on a deal that includes past payments for 2G and 2.5G royalties, a 3G license, and potentially a product deal that would give Samsung Semiconductor access to InterDigital's baseband technology products.
- A deal that included a 3G license and some product sales could resemble the $295 million deal that LG signed with InterDigital earlier this year. A deal such as this could result in significant upside to our current estimates, which anticipate only a 2G and 2.5G license deal from Samsung worth roughly $100 million.
- In addition to the potential upside from a Samsung deal, we are encouraged by 2Q results from Sony-Ericsson of a 33% year-over-year increase to 15.7 million handsets shipped, which we expect should boost InterDigital's 3Q results. Sony-Ericsson also raised its forecast for total cell phone industry shipments in 2006 to 950 million from 900 million previously, which, if correct, would also be a positive for InterDigital.
- We reiterate our Buy rating and $44 price target and believe that the recent sharp pullback in the company's share price represents an attractive opportunity for investors. Our price target of $44 is 20x our FY07 estimate of $2.20.

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Samsung Resolution Could Be Broader than 2G

We expect InterDigital to reach an agreement with Samsung in 3Q for 2G and 2.5G royalties. The length of time between the completion of the arbitration hearing between the companies, concluded in January of this year, and a decision by the arbitration panel or a settlement suggests to us that a broader agreement is being considered. We believe that Samsung and InterDigital may be working on a deal that includes past payments for 2G and 2.5G royalties, a 3G license, and potentially a product deal that would give Samsung Semiconductor access to InterDigital's baseband technology products. A deal that included a 3G license and some product sales could resemble the $295 million deal that LG signed with InterDigital earlier this year. A deal such as this could result in significant upside to our current estimates, which anticipate only a 2G and 2.5G license deal from Samsung worth roughly $100 million.

Key Customer Shows Strong Unit Growth; Raises Forecasts for Year

We are encouraged by 2Q results from Sony-Ericsson of a 33% year-over-year increase to 15.7 million handsets shipped, which we expect should boost InterDigital's 3Q results. Sony-Ericsson has been InterDigital's second largest customer prior to the recent Nokia and LG deals. Sony-Ericsson also raised its forecast for total cell phone industry shipments in 2006 to 950 million from 900 million previously, which, if correct, would also be positive for InterDigital.

Reiterating Buy Rating and Price Target of $44

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 continue to believe that our $44 price target is achievable by assigning a peer multiple of 20x to our FY07 EPS estimate of $2.20.

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 12x our FY07 EPS estimate of $2.20 compared to 18x for the peer group (excluding Rambus at a P/E of 60x). Applying a normalized peer group multiple of 20x to our FY07 EPS numbers generates our price target of $44, a 70% increase over last night's closing price of $25.71.

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)

		FY05					FY06					FY07				
Fiscal year ends 12/31	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 Amdministration 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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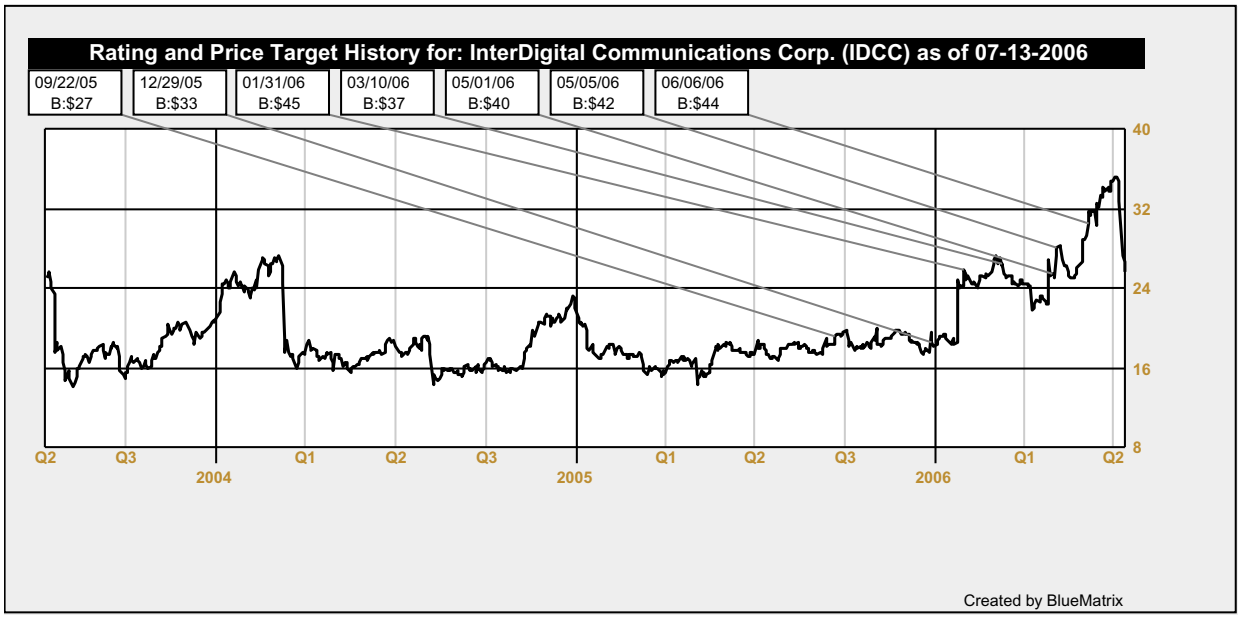
07/14/06

Comparative Valuation of Technology Royalty Companies

Company	Symbol	Closing Price 07/13/06	Cash Per Share	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
QUALCOMM	QCOM	$36.56	$3.51	$1.57	$1.80	$7,320	$8,510	$61,281	23.3	20.3	8.4	7.2	7.8
ARM Holdings	ARMHY	$5.60	$0.65	$0.28	$0.36	$473	$544	$2,659	20.0	15.6	5.6	4.9	6.3
Monolithic Systems	MOSY	$7.18	$1.98	$0.13	$0.31	$20	$31	$224	55.2	23.2	11.2	7.2	3.2
Rambus	RMBS	$22.15	$3.06	$0.26	$0.38	$188	$215	$2,276	85.2	58.3	12.1	10.6	20.2
MIPS Technologies	MIPS	$5.45	$2.61	$0.28	$0.40	$66	$80	$237	19.5	13.6	3.6	3.0	3.6
Average									**40.6**	**26.2**	**8.2**	**6.6**	
InterDigital	IDCC	$25.72	$3.39	$4.11	$2.20	$489	$318	$1,401	6.3	11.7	2.9	4.4	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	IB Serv./Past 12 Mos. Percent
BUY [B/TO]	27	65.85	0	0.00
HOLD [N]	12	29.27	0	0.00
SELL [S]	2	4.88	0	0.00

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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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