

InterDigital Communications Corp.**(IDCC-NASDAQ)***Initiating Coverage - Digital Wireless Technologies*Rating: **Market Outperform**

Risk: Moderate

Michael F. Ciarmoli
610.684.5413**Bradley L. Mook, CFA**
610.832.5308

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Key Points

- **Thirty years of digital wireless experience, \$400+m in cash, and more than 6,000 patents are tough to ignore.** InterDigital Communications Corp. has been quietly making a name for itself in the world of wireless technologies and we believe the inflection point for 3G royalties is imminent. The company has recently resolved several 2G/3G disputes, signed up five new 3G licensees in the past year, and has multiple IP license agreements in place with key industry players. The company's licensing program has generated nearly \$1.5B and we are optimistic that its key patents relating to 3G technologies will drive cash flows in the near term.
- **Five year \$285m 3G license agreement with LG Electronics is a "signal" to the investment community.** IDCC's goal of collecting revenues on every 3G handset sold received a shot in the arm thanks in large part to the signing of this Tier 1 OEM. InterDigital believes revenue collected from its fifteen 3G licensees, including LG accounts for approximately 35% of all 3G devices sold. LG not only represents its largest licensee to date, with approximately 14m 3G handsets sold in 2005, but more importantly this signing adds validity and credibility and should spur license agreements by the other major OEMs.
- **Growth in the mobile handset market and convergence will drive royalty revenues.** The mobile handset market is expected to grow at a compound annual rate of 11% through 2010, with a 3G CAGR in excess of 32% over the same period. With over 575 million 3G units predicted to ship in 2009, extracting license fees from even a small percentage of those units will translate into a significant increase in revenues for InterDigital. Additionally, device convergence will eliminate the need to carry multiple devices such as PDAs and MP3 players, driving sales of capable 3G units as consumers look to lighten their pockets.
- **We are initiating coverage of InterDigital Communications Corp. with a Market Outperform rating and \$38 price target.** We believe IDCC will be able to capture significant royalty revenues from the rapidly expanding 3G mobile handset market. The company is already collecting royalty revenue on 35% of the 3G market, and we believe the LG signing should create a domino effect among the other major OEMs. Furthermore, the company's foray into product development provides additional potential revenue channels from the wireless marketplace. Our \$38 price target is based on a sum-of-the-parts analysis using our 2007 EPS estimate of \$0.64, projected balance sheet cash, and projected increased 3G market penetration.

SHARE DATA		EPS, REVENUE, EBITDA (FY End: Dec.)							
		2005A		2006E			2007E		
			Current	Prior	Consensus		Current	Prior	Consensus
Current Price:	\$25.28	Mar.	(\$0.02)	\$0.23	-	A	\$0.18		\$0.30
52 Week Range:	\$16.68-35.44	June	\$0.07	\$2.95	\$2.93	E	\$0.15		\$0.30
12 Month Target:	\$38	Sept.	\$0.11	\$0.30	\$0.38	E	\$0.15		\$0.30
Market Value (MM):	\$1,391	Dec.	<u>\$0.03</u>	\$0.31	<u>\$0.58</u>	E	\$0.15		<u>\$0.31</u>
Shares Outstanding (MM):	55.0	Year	\$0.20	\$3.78	\$4.12	E	\$0.64		\$1.13
Institutional Holdings:	36%								
Avg Daily Volume:	1,662,937								
Est. LT EPS CAGR	25%								
		Revenue	\$163.1	\$470.5	\$490.7		\$194.3		\$234.0
		EBITDA	\$28.5	\$54.6			\$112.0		
CAPITALIZATION (\$MM)		VALUATIONS							
Tang. BV/Share	\$3.55	P/E		7x			40x		
Net Cash/Share	\$3.46	Rel. P/E		40%			160%		
Debt / Cap:	0.52	P/Revenue		3.0x			7.2x		
		EV/Ebitda		22x			11x		

Company Description: InterDigital Communications Corp. engages in the design, development, and delivery of wireless technologies and platforms. The company has over 30 years of experience in developing wireless technologies and along the way has amassed more than 6,000 patents. InterDigital Communications is located in King of Prussia, PA and employees 320 people. (www.interdigital.com)

PLEASE SEE THE DISCLOSURE APPENDIX FOR RATINGS DEFINITIONS, IMPORTANT DISCLOSURES AND REQUIRED ANALYST CERTIFICATIONS ON PAGES 11 & 12.

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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 Thesis

- **Thirty years of digital wireless experience, \$400+m in cash, and more than 6,000 patents are tough to ignore.** InterDigital Communications Corp. has been quietly making a name for itself in the world of wireless technologies and we believe the inflection point for 3G royalties is imminent. The company has recently resolved several 2G/3G disputes, signed up five new 3G licensees in the past year, and has multiple IP license agreements in place with key industry players. The company's licensing program has generated nearly \$1.5B and we are optimistic that its key patents relating to 3G technologies will drive cash flows in the near term.
- **Five year \$285m 3G license agreement with LG Electronics is a "signal" to the investment community.** IDCC's goal of collecting revenues on every 3G handset sold received a shot in the arm thanks in large part to the signing of this Tier 1 OEM. InterDigital believes revenue collected from its fifteen 3G licensees, including LG accounts for approximately 35% of all 3G devices sold. LG not only represents its largest licensee to date, with approximately 14m 3G handsets sold in 2005, but more importantly this signing adds validity and credibility and should spur license agreements by the other major OEMs.
- **Nokia settlement augments cash base and strengthens case against Samsung.** On April 27th IDCC and Nokia resolved their 2G differences to the tune of \$253m to IDCC. This settlement not only strengthens IDCC's balance sheet, but may also stimulate the resolution of the outstanding 2G Samsung settlement. Nokia paid royalty rates consistent with the previous arbitration decision and since Samsung is bound by those same terms we believe Samsung will reach a similar conclusion, most likely before the end of 2006. We expect the settlement to be in the range of \$60 to \$120m.
- **Strategic partnerships provide solid inroads into new markets while mitigating risk.** IDCC has indicated that it has plans to develop and sell its own chip and software solutions to the wireless community. The company has developed strategic relationships with well established companies like Infineon, Philips Semiconductor, and General Dynamics. We believe these relationships will allow InterDigital to gradually establish its product and brand in the marketplace, while product introduction risk will be offset by aligning itself with proven industry suppliers.

- **Large cash position will serve as an offensive and defensive weapon.** IDCC will close 2Q06 with approximately \$450m in cash. This large war chest will help the company prosper on numerous fronts. First and foremost IDCC will have enough fuel to adequately develop, defend, and enforce its large IP portfolio. Litigation risk is always a concern, but having adequate resources to defend your patents is paramount. On the offensive side of the ball the increased cash position will help IDCC acquire 2G technology in order to offer a complete dual mode ASIC into the marketplace. Additionally, the company has set aside \$200m for a buyback, which will be immediately accretive to shareholders as management has stated they will execute in a very swift manner.
- **Growth in the mobile handset market and convergence will drive royalty revenues.** The mobile handset market is expected to grow at a compound annual rate of 11% through 2010, with a 3G CAGR in excess of 32% over the same period. With over 575 million 3G units predicted to ship in 2009, extracting license fees from even a small percentage of those units will translate into a significant increase in revenues for InterDigital. Additionally, device convergence will eliminate the need to carry multiple devices such as PDAs and MP3 players, driving sales of capable 3G units as consumers look to lighten their pockets.
- **InterDigital's vast patent portfolio and forward looking philosophy serve as a key differentiator.** It is important to note that this company is not a one trick pony when it comes to technology development. IDCC is poised to take advantage of the growth in the 3G handset market, but we believe the company's success will not end there. Due to its significant involvement in the Standards bodies IDCC has amassed significant knowledge in multiple wireless communications protocols such as the IEEE 802.x family and Next Generation Networks (NGN). By actively contributing into the Standards Development Organizations (SDOs) IDCC is assuring itself and onlookers that it is committed to identifying, patenting, and collecting future royalties and next generation communication technologies.
- **The key value drivers for IDCC are royalty rates, a shift to the product market, and management of the company's capital structure.** Receiving the "right" royalty rate in the IP licensing model can make or break your bottom line and IDCC is doing everything possible to ensure it will not be taken advantage of by some of the larger industry players. The ability to bring a complete product solution to market will help to facilitate negotiations with potential licensees, in addition to opening up new markets and revenue opportunities for the company. Lastly, IDCC is making a conscious effort to manage its weighted average cost of capital, which should help to boost the company's valuation over the long run.

Investment Risks

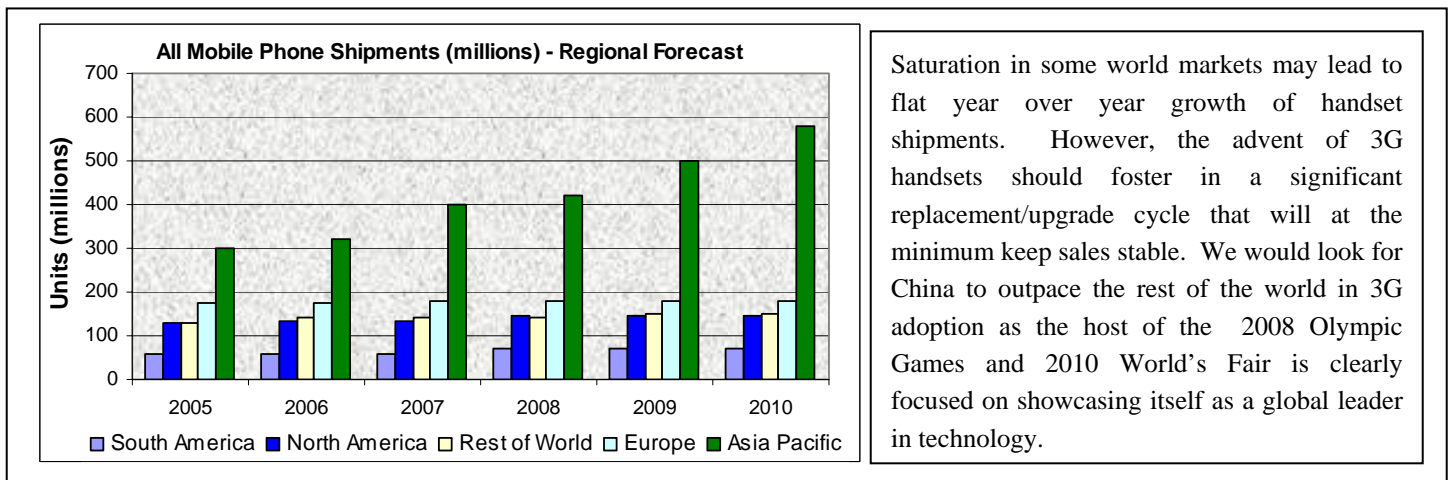
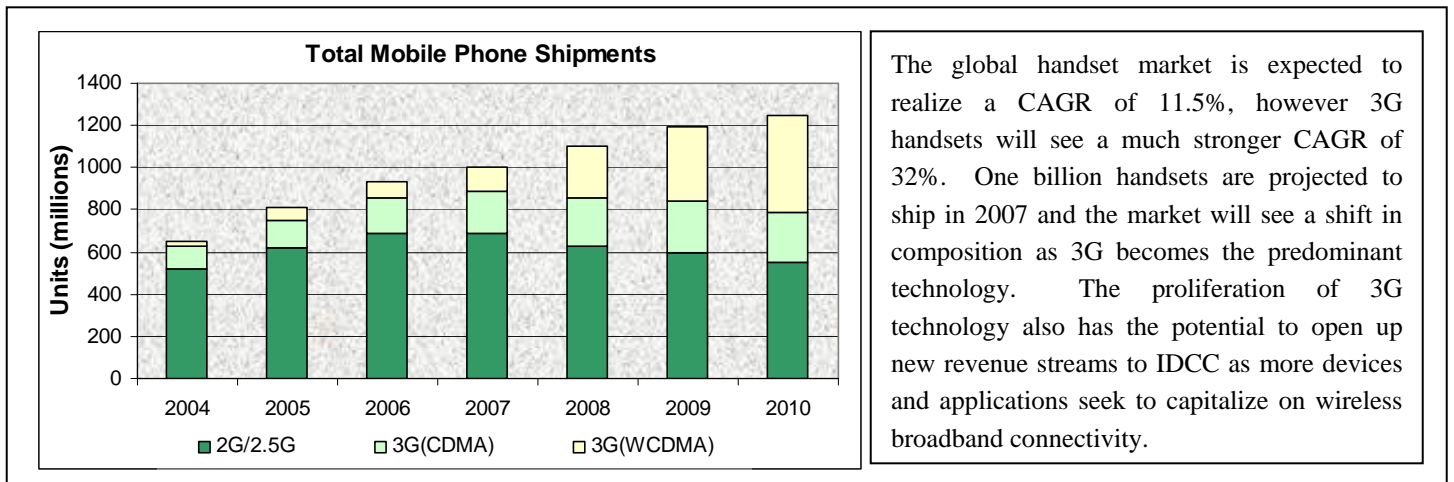
The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target:

- **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.

Industry Overview

InterDigital's intellectual property is being incorporated into mobile handsets, arguably the largest consumer market in the world. Last year worldwide mobile subscribers approached 2 billion and that number is expected to swell to 3 billion by 2009. Sales of handsets have seen explosive growth over the last ten years driven primarily by increased demand for wireless voice services. The growth driver going forward will shift from voice to data as access to the internet, multimedia entertainment, GPS, messaging, and mobile commerce services take center stage. This increased demand for data services in addition to device convergence is helping to usher in third generation (3G) networks and handsets.



Competition

The wireless and wired communications industry is highly competitive, characterized by rapid change, evolving standards, short product life cycles, and price erosion. To compete, industry players must differentiate themselves by offering products that are favorably priced, reduce the bill of materials, and excel in the areas of performance, level of integration, and quality. Licensing technology will be critical to the success of InterDigital, as such careful navigation of the changing patent environment will be of the utmost importance. Patents and related intellectual property have become increasingly valuable, used by companies as both an offensive and defensive tool to drive profitability. However, patent disputes have become commonplace in today's society, and the accompanying litigations often create large financial burdens for the parties involved. There is a chance that the government goes too far with industry regulations, which could have a negative impact for all parties involved with patenting technology.

- **ARM Holdings plc (ARMHY, not rated)** – designs and licenses intellectual property for numerous digital products. The company's product offerings includes microprocessors, data engines, 3D processors, digital libraries, embedded memories, peripherals, and software and development tools.
- **Broadcom Corp. (BRCM, not rated)** – Operates as a fabless semiconductor company designing and developing chips for the wired and wireless communication devices. Broadcom markets a system on a chip and software solutions to manufacturers of digital devices.
- **Ceva Inc. (CEVA, not rated)** – designs and licenses DSP cores, systems platforms, and software for use in communications and multimedia devices. Ceva typically licenses its technology as intellectual property to electronics companies which implement the technology in integrated circuits.
- **Ericsson – (ERICY, not rated)** – offers a range of mobile devices that support multimedia applications and other services that promote richer communication. The company invests heavily in R&D, regularly contributes to the standards bodies, and controls an IP portfolio with more than 20,000 patents.
- **Infineon Technologies (IFX, not rated)** – designs, develops, and manufactures semiconductor systems and ICs for use in a wide range of communication devices. Infineon can be classified as a competitor to IDCC on the product side, but their strategic relationship makes it a win-win situation.
- **MIPS Technologies Inc. (MIPS, not rated)** – develops embedded processors and intellectual property for digital entertainment, wired and wireless communications, office automation, and automotive markets. The company's proprietary technology solutions are often found in digital set top boxes, DVD players, video game systems, laser printers, 802.11 wireless networking devices, and automotive telematics.
- **Qualcomm, Inc. (QCOM, not rated)** – designs, develops, and manufactures digital wireless communications products. The company is an enabler of its technology through an active IP licensing program. QCOM has a large portfolio of patents that should help power the convergence of wireless and personal electronic devices.

Corporate Strategy and Financial Model

Business Strategy

The near term goal for IDCC is to collect royalty revenue on every 3G handset sold by both large and small handset manufacturers. Currently, the company believes it is collecting royalty revenues on 35-40% of the 3G market. The company will continue to pursue the remaining five top OEMs (Nokia, Motorola, Samsung, Sony Ericsson, and Siemens) to make certain it achieves full penetration of the 3G market. Additionally, IDCC has mapped out three business models to ensure it obtains the maximum revenue potential for its intellectual property. The company also plans to acquire key legacy technology allowing it to offer a complete 3G platform.

IDCC believes the most efficient way to capitalize on its technology is to structure the organization in such a manner that it conducts business in any one of three business models. The "IP Model" seeks to license key 3G technology patents to original equipment manufacturers or semiconductor companies. In the "Chipless Model" IDCC will partner with an original equipment manufacturer or semiconductor company and

provide them with the necessary software needed to complete a wireless IC solution. Finally the “Fabless Model” will enable IDCC to design, market, and sell its own complete dual mode ASIC modem solution.

We believe the Chipless/Fabless Model will be a success, but this effort could be further strengthened by IDCC’s ability to acquire legacy GSM/GPRS/EDGE technology so it may offer a complete dual mode R6 ASIC 3G platform. The company has every component of a 3G modem in place with the exception of the legacy technology, therefore we believe a company in possession of an established proven Layer 1 solution a likely acquisition target. An acquisition in order to secure the application layer may also make sense for IDCC. Targets would include voice and video encoding software, as well as security software, all of which would be difficult to develop in house. Acquisitions may prove to be more advantageous to IDCC in order to reduce risk, minimize resource drain, and the ability to approach the market with a proven winner.

We view IDCC’s continuous contribution to the industry standards bodies as a key element to the future success of the organization. IDCC’s involvement in the standards bodies is important in order to upgrade and reinforce the IP portfolio as well as build relationships within the industry. Standards contributions also ensure that IDCC’s intellectual property is deemed essential, providing the company with a solid legal position while subjecting its patents to royalty payments. Active participation in the standards bodies may also provide a three to five year lead time into the transparency of fledgling technologies like 802 and 4G. IDCC had the foresight in the 1990’s to direct its technology development efforts on 3G technologies and we believe consistent standards involvement will provide it with the technological insight to maintain a competitive edge in a rapidly evolving marketplace.

Financial Model

IDCC is positioning itself to collect revenues in the form of recurring royalty payments, royalty prepayments, chip sales, and revenues from the sales of its software. The majority of its present revenues are derived from recurring 3G patent royalties. Some variability does exist in the model as to the timing of future licensees, the dollar amount of potential contracts, and the timing of those payments. Typically, the company will charge a royalty rate of 1% to 3% of the wholesale handset price (approx. \$100).

The beauty of the IDCC IP model is the 100% margin on the collection of royalties and license fees along with the significant operating leverage that can be realized as the company begins to scale its operations. Since cost of goods sold is absent from the income statement the bulk of expenses fall under patent administration and licensing and development. The ongoing filing, enforcement, and sometimes litigation involved with owning an intellectual property portfolio can often lead to significant expenditures. Last year IDCC spent nearly \$50m managing its patent portfolio and we believe this number will grow modestly over the next few years. Along with patent expenses, we believe development costs will also increase over time. Other expenses should increase very slightly as revenues begin to ramp as the company has all of the necessary resources and infrastructure in place to drive growth.

Analysis, Valuation, and Investment Recommendation

We firmly believe that InterDigital Communication Corp. will be an attractive stock to own over the next several years as the company continues to push forward with its development of wireless technologies. The company’s long track record of technology development, 6,000 patents, and large cash base adds credence that this is one of the premier patent licensing companies and is worthy of investor attention. At the heart of our investment thesis is IDCC’s goal of capturing royalty revenue on every 3G enabled handset sold. The company’s recent success in licensing LG Electronics to a 3G deal and its \$253m 2G resolution with Nokia have helped to further legitimize IDCC’s technology offerings, but Wall Street seems to have taken a “what have you done for me lately” attitude pushing the stock to its mid 20’s pre-announcement level.

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 = Q206 projected cash balance minus long and short term debt divided by shares outstanding

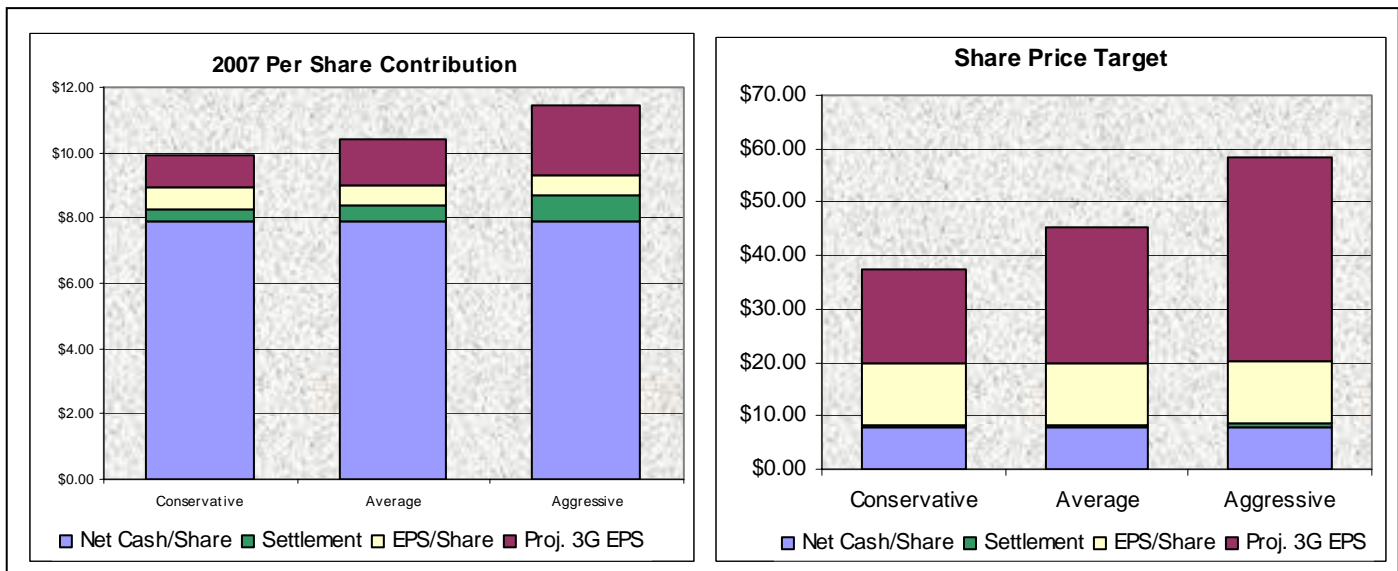
Settlement Cash/share = estimated Samsung award taxed at 36% divided by shares outstanding

EPS = our 2007 EPS estimate which relies only on current licensees

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	\$7.91	\$7.91	\$7.91
Expected Settlement Cash/share	\$0.38	\$0.47	\$0.76
2007 EPS estimate	\$0.64	\$0.64	\$0.64
2007 Proj. 3G EPS	\$0.99	\$1.41	\$2.12
2007 Valuation Scenarios			
Net Cash/Share 2Q06	\$7.91	\$7.91	\$7.91
Expected Settlement Cash/share	\$0.38	\$0.47	\$0.76
2007 EPS estimate (18x P/E)	\$11.45	\$11.45	\$11.45
2007 Proj. 3G EPS (18x P/E)	\$17.82	\$25.46	\$38.19
Price Target	\$37.56	\$45.29	\$58.30

We assign an 18x multiple on the 2007 earnings streams, which represents the peer group average.



Our \$38 price target is of the conservative viewpoint, however we believe two factors could drive valuation scenarios closer to our average or aggressive targets. First, the signing of another top-six OEM should produce royalty revenues similar if not greater to the LG deal. LG owns a 6% share of the handset market and most likely got a very favorable royalty rate since it was a first mover. The next OEM to sign with IDCC can expect to see a royalty rate higher than that given to LG. Therefore, if we assume an OEM with a similar market share to LG inks the next deal royalty revenue can be expected to be at least \$285m, or \$0.68 EPS per year. Assuming IDCC signs Samsung (12% market share) that deal should net at least \$500m, or \$1.18 EPS per year. Second, we believe the large cash base will be accretive to EPS on two fronts, the stock buyback and the acquisition of legacy 2G technology.

Potential investors should also realize that we have taken a very conservative approach in our financial modeling of revenues through 2007. Our model only includes revenues which we believe have a high degree of visibility, we have not tried to make any guesstimates as to the timing or amounts of future deals or projected 3G market penetration. Instead we have factored future market penetration and licensing potential into our sum-of-the-parts valuation analysis.

Income Statement

InterDigital Communications (IDCC)

December Fiscal Year (Millions)	F2003	F2004	F2005				F2006				F2007		
	Year	Year	Mar-05	Jun-05	Sep-05	Dec-05	Year	Mar-06	Jun-06	Sep-06	Dec-06	Year	Year
	(A)	(A)	(A)	(A)	(A)	(A)		(A)	(E)	(E)	(E)		
Total Revenue	114.6	103.7	35.5	38.6	48.5	40.5	163.1	51.6	291.0	62.5	65.5	470.5	194.3
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
Gross Profit	114.6	103.7	35.5	38.6	48.5	40.5	163.1	51.6	291.0	62.5	65.5	470.5	194.3
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
Sales and Marketing	4.9	6.2	2.3	1.5	1.8	2.3	7.9	1.8	2.2	2.5	2.9	9.4	8.7
General, and Administrative	18.2	21.6	6.6	5.9	5.4	6.3	24.2	5.0	5.8	6.6	7.2	24.6	24.2
Patents Administration and Licensing	16.0	30.3	11.2	10.1	14.7	13.4	49.4	10.0	10.0	11.0	11.0	42.0	44.0
Development	45.9	51.2	16.2	14.9	15.6	16.4	63.1	16.0	16.5	19.7	20.9	73.1	76.0
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
Total Operating Expenses	85.0	110.0	36.3	32.5	38.4	38.3	146.0	32.8	34.5	39.7	42.1	149.2	152.9
Operating Income	29.5	(6.3)	(0.8)	6.2	10.2	2.2	17.1	18.8	256.5	22.7	23.4	321.4	41.4
Interest Income	1.8	2.0	0.8	0.7	0.8	0.9	3.2	1.5	1.5	3.5	3.5	10.0	14.3
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
Income before Taxes	41.7	(4.5)	0.0	6.8	10.9	3.1	20.9	20.3	258.0	26.2	26.9	331.4	55.7
Income Taxes	(7.3)	4.7	0.9	2.8	4.4	1.1	9.3	7.4	90.3	9.2	9.4	116.3	19.5
Net Income	34.5	0.2	(0.9)	4.0	6.5	2.0	11.6	12.9	167.7	17.0	17.5	215.1	36.2
Diluted Earnings per Share	\$0.58	\$0.00	(\$0.02)	\$0.07	\$0.11	\$0.03	\$0.20	\$0.23	\$2.95	\$0.30	\$0.31	\$3.78	\$0.64
Diluted Shares Outstanding	59.69	59.08	55.05	56.79	57.09	57.16	57.16	56.88	56.88	56.88	56.88	56.88	56.88
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%
Research and Development	40.1%	49.4%	45.6%	38.7%	32.2%	40.5%	38.7%	31.0%	31.0%	31.5%	32.0%	15.5%	39.1%
Selling, General, and Administrative	4.3%	6.0%	6.4%	4.0%	3.7%	5.7%	4.9%	3.5%	0.8%	4.0%	4.5%	7.2%	16.9%
Operating Margin	25.8%	-6.1%	-2.2%	15.9%	20.9%	5.4%	10.5%	36.4%	88.1%	36.4%	35.7%	68.3%	21.3%
Net Margin	30.1%	0.1%	-2.5%	10.4%	13.4%	4.8%	7.1%	25.0%	57.6%	27.3%	26.7%	45.7%	18.6%
Tax Rate	17.4%	103.4%	-4300.0%	-41.3%	-40.4%	0.0%	0.0%	-36.4%	35.0%	35.0%	35.0%	35.1%	-35.0%
Growth Rates													
Revenue, yr/yr	30.4%	-9.5%	7.5%	31.4%	559.7%	19.3%	57.3%	45.4%	653.9%	28.7%	61.6%	188.4%	-58.7%
Gross Profit, yr/yr	30.4%	-9.5%	7.5%	31.4%	559.7%	19.3%	57.3%	45.4%	653.9%	28.7%	61.6%	188.4%	-58.7%
Research and Development, yr/yr	13.6%	26.1%	41.3%	10.1%	28.5%	28.3%	27.6%	-20.0%	42.0%	38.9%	28.1%	19.4%	-7.5%
Selling, General, and Administrative, yr/yr	25.6%	18.9%	21.8%	8.9%	7.4%	8.6%	11.7%	-23.5%	-1.6%	21.0%	15.2%	1.9%	-1.7%
Operating Income, yr/yr	219.7%	-121.3%	-109.5%	180.7%	-153.1%	-15.4%	-371.6%	-2540.7%	4070.0%	123.5%	976.6%	1780.7%	-87.1%
Net Income, yr/yr	1272.6%	-99.6%	-115.1%	351.7%	-201.9%	-1295.1%	7393.5%	-1561.3%	4081.0%	161.2%	790.8%	1751.8%	-83.2%
Diluted EPS, yr/yr	1258.6%	-99.5%	-116.4%	387.7%	-198.7%	-1335.1%	7644.5%	-1514.3%	4074.1%	162.1%	795.1%	1760.9%	-83.2%

Michael F. Ciarmoli

610-684-5413

mciarmoli@boenninginc.com

Source: IDCC filings, Boenning & Scattergood

Balance Sheet

InterDigital Communications (IDCC) Balance Sheet

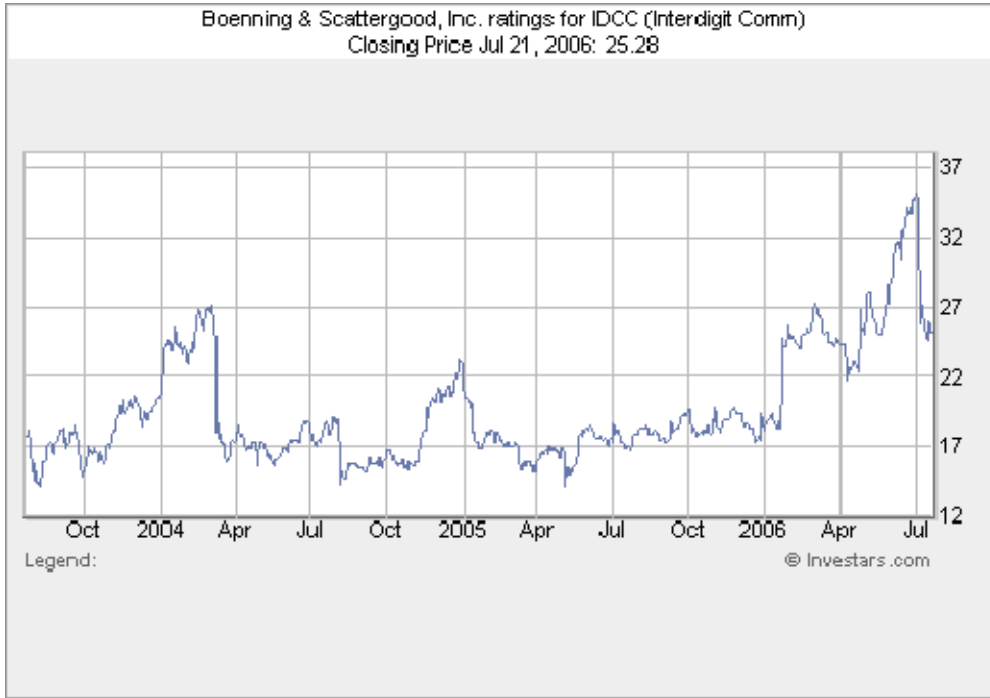
December Fiscal Year (Millions)	2003		2004			2005				2006
	Dec.	March	June	Sept.	Dec.	March	June	Sept	Dec	March
Balance Sheet										
Cash and cash equivalents	20.9	25.8	40.9	44.2	15.7	13.9	11.9	41.1	27.9	64.1
Short Term Investments	85.1	99.6	82.4	100.7	116.1	112.6	88.1	73.2	77.8	132.9
Accounts receivable, net	37.8	36.3	55.9	6.6	11.6	9.9	15.6	14.8	19.5	113.4
Deferred income taxes	0.0	0.0	0.0	3.5	5.2	4.9	7.8	6.4	42.1	62.2
Prepaid Expenses	8.6	8.0	6.9	6.2	8.0	8.5	6.5	6.8	8.4	13.1
Prepaid Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	152.4	169.7	186.1	161.2	156.6	149.8	130.0	142.2	175.7	385.7
Property, Plant, and Equipment, net	12.1	11.2	10.8	10.7	10.7	11.9	11.3	10.9	10.7	12.6
Patents, net	32.2	33.8	35.7	37.9	41.0	51.5	54.2	56.6	59.5	62.0
Deferred Tax Assets, net	0.0	0.0	0.0	23.3	27.2	26.5	20.9	17.9	48.7	55.8
Other non-current assets	8.4	11.2	11.9	12.1	6.5	5.6	5.5	5.2	5.0	14.2
Total non-current assets	52.8	56.2	58.4	84.0	85.3	95.5	91.9	90.6	123.8	144.7
Total Assets	205.2	225.9	244.5	245.2	241.9	245.3	221.9	232.8	299.5	530.4
Current Portion of LTD	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Accounts Payable	6.4	3.9	4.1	5.9	6.8	7.8	6.2	5.7	7.2	7.0
Accrued Compensation and related expenses	7.6	5.5	7.2	9.1	9.3	9.0	10.5	11.9	17.0	6.0
Deferred revenue	22.4	22.3	26.8	27.9	28.1	25.9	21.6	25.3	20.1	73.7
Foreign and Domestic Taxes Payable	1.3	2.8	0.9	0.1	0.4	0.1	0.1	0.1	0.2	15.8
Other accrued expenses	2.2	3.0	6.8	4.3	5.1	4.1	5.5	8.3	5.8	8.4
Total Current Liabilities	40.1	37.8	46.0	47.5	49.8	47.1	44.3	51.5	50.5	111.3
Long Term Debt	1.8	1.7	1.7	1.6	1.7	1.8	1.8	1.7	1.6	1.5
Long Term Deferred Revenue	64.2	74.3	79.0	84.8	71.1	85.3	83.9	76.4	71.2	213.2
Other Long Term Liabilities	1.6	1.6	1.6	1.6	3.6	1.5	0.4	1.2	1.9	2.7
Total Liabilities	107.7	115.5	128.2	135.5	126.3	135.7	130.3	130.7	125.2	328.6
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Additional Paid in capital	305.3	313.0	323.1	338.3	342.8	354.7	355.9	357.7	383.5	392.2
Accumulated Deficit	(164.6)	(158.8)	(158.0)	(164.4)	(164.5)	(165.4)	(161.4)	(154.9)	(109.8)	(96.9)
Accumulated Other Comp. Loss	(0.3)	(0.2)	(0.6)	(0.6)	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Unearned Compensation	(0.7)	(1.2)	(6.1)	(4.5)	(3.3)	(11.2)	(9.5)	(7.3)	(5.8)	0.0
Retained Earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Stock	42.8	42.8	42.8	59.8	59.8	68.9	93.9	93.9	93.9	93.9
Total Shareholders Equity	97.5	110.5	116.3	109.7	115.7	109.6	91.6	102.1	174.3	201.8
Total Liabilities and Stockholders Equity	205.2	225.9	244.5	245.2	241.9	245.3	221.9	232.8	299.5	530.4
Leverage and Liquidity										
Long-Term Debt to Capital	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.3	0.5
Current Ratio	3.8	4.5	4.0	3.4	3.1	3.2	2.9	2.8	3.5	3.5
Per Share Data										
Cash & Equivalents	1.77	2.10	2.09	2.62	2.23	2.30	1.76	2.00	1.85	3.46
Net Working Capital	1.88	2.21	2.37	2.06	1.81	1.86	1.51	1.59	2.19	4.82
Tangible Book Value	1.63	1.85	1.97	1.98	1.96	1.99	1.61	1.79	3.05	3.55

Statement of Cash Flows

December Fiscal Year (Millions)	2002	2003	2004	2005				2006	
	Year	Year	Year	Mar-05	Jun-05	Sep-05	Dec-05	Year	Mar-06
Net Income	2.5	34.5	0.2	(0.9)	4.0	6.5	47.3	11.6	12.9
Adjustments to reconcile NI to net cash:									
Depreciation and Amortization	9.3	9.7	9.7	2.7	2.8	2.9	3.0	11.4	3.4
Deferred Revenue Recognized	(54.7)	(61.6)	(53.6)	(15.9)	(12.9)	(14.9)	(21.9)	(65.6)	(29.9)
Increase in deferred revenue	72.5	57.5	66.2	27.9	7.2	11.0	11.5	57.6	225.5
Non-cash compensation	0.0	1.3	5.5	2.7	2.3	2.2	2.5	9.8	1.3
Deferred Income Taxes	0.0	0.0	(17.1)	0.0	3.6	4.4	(45.3)	(37.3)	(27.2)
Tax Benefit from Stock Options	0.0	0.0	7.5	0.0	0.0	0.0	2.3	2.3	3.2
Non-cash repositioning charges	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.0
Amortization of unearned compensation	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.3	0.0	0.0	(0.1)	0.1	(0.1)	(0.1)	(0.0)
(Increase) Decrease in assets:									
Receivables	(39.0)	15.6	26.2	1.7	(5.7)	0.8	(4.7)	(7.9)	(93.9)
Deferred Charges	(0.8)	3.4	(2.6)	1.7	(0.5)	(0.4)	0.7	1.5	(12.8)
Other Current Assets	(1.0)	(0.8)	0.1	(0.5)	1.6	0.5	(2.0)	(0.4)	(1.2)
Increase (decrease) in liabilities									
Accounts Payable	0.6	1.0	0.3	1.0	(0.8)	(0.7)	1.4	0.8	(0.2)
Accrued compensation	(0.1)	1.7	4.7	(2.3)	0.6	2.3	6.1	6.7	(9.5)
Accrued Taxes Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.6
Other Accrued Expenses	5.8	(3.1)	1.1	(1.5)	1.3	2.6	(2.6)	(0.1)	2.5
Cash from Operations	(2.6)	59.6	48.2	16.7	3.4	17.6	(1.7)	(9.4)	89.7
Purchase of short term investments	(124.5)	(144.4)	(199.1)	(44.3)	(37.3)	(14.1)	(55.8)	(151.5)	(88.7)
Sales of short term investments	131.7	124.1	167.9	47.6	62.1	28.8	51.1	189.7	33.6
Purchases of Property and Equipment	(6.5)	(3.9)	(3.7)	(2.1)	(0.9)	(1.0)	(1.4)	(5.4)	(3.2)
Capitalized patent costs	(5.5)	(9.2)	(13.2)	(3.8)	(4.8)	(3.9)	(4.4)	(17.0)	(4.5)
Acquisition of patents and other assets	0.0	(10.4)	0.0	(8.1)	0.0	0.0	0.0	(8.1)	0.0
Proceeds from sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.0
Increases in notes receivable	0.0	(1.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Investments	(4.8)	(45.3)	(48.2)	(10.6)	19.1	9.8	(10.2)	8.0	(62.8)
Proceeds from exercise of stock options and warrants	12.3	19.2	12.2	1.3	0.6	1.8	1.1	4.9	9.4
Pmnts on LT debt including capital lease obligations	(0.4)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)
Purchase of treasury stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lease Obligations Incurred	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase of preferred stock	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase of common stock	0.0	(34.7)	(17.1)	(9.0)	(25.1)	0.0	0.0	(34.1)	0.0
Dividends on preferred stock	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Redemption of preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Financing	11.8	(15.7)	(5.2)	(7.8)	(24.5)	1.8	1.0	(29.6)	9.3
Cash and cash equivalents at beginning of period	17.9	22.3	20.9	15.7	13.9	11.9	41.1	15.7	27.9
Net (decrease) increase in cash and cash equivalents	4.5	(1.5)	(5.1)	(1.8)	(2.0)	29.2	(10.9)	(30.9)	36.2
Cash and cash equivalents at end of period	22.3	20.9	15.7	13.9	11.9	41.1	27.9	27.9	64.1
Net Income	2.5	34.5	0.2	(0.9)	4.0	6.5	47.3	11.6	12.9
Depreciation & Amortization	11.6	9.7	9.7	2.7	2.8	2.9	3.0	11.4	3.4
Other Non-Working Capital Items	17.8	(2.4)	8.6	14.7	0.1	3.1	(50.9)	(33.0)	172.9
Working Capital Items	(34.5)	17.8	29.8	0.2	(3.6)	5.1	(1.1)	0.6	(99.4)
Operating Cash Flow	(2.6)	59.6	48.2	16.7	3.4	17.6	(1.7)	(9.4)	89.7
Capital Expenditures	(6.5)	(3.9)	(3.7)	(13.9)	(5.7)	(4.9)	(5.8)	(30.4)	(7.8)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	(9.1)	55.6	44.5	2.7	(2.3)	12.7	(7.5)	(39.8)	81.9
Operating Cash Flow Per Share	(\$0.05)	\$1.00	\$0.82	\$0.30	\$0.06	\$0.31	(\$0.03)	(\$0.16)	\$1.58
Free Cash Flow per Share	(\$0.16)	\$0.93	\$0.75	\$0.05	(\$0.04)	\$0.22	(\$0.13)	(\$0.70)	\$1.44

Important Disclosures

Rating and Price Target History (IDCC)



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BOENNING & SCATTERGOOD INSTITUTIONAL CONTACTS

Director of Equities	William Brennan	wbrennan@boenninginc.com	610.832.5204
Director of Research	William Sutherland	wsutherland@boenninginc.com	610.862.5353
■	EQUITY RESEARCH		
Business & IT Services	Bill Sutherland	wsutherland@boenninginc.com	610.862.5353
Financial Services	Wilson Smith, CFA	wsmith@boenninginc.com	610.862.5329
Industrial Services	Ryan Connors	rconnors@boenninginc.com	610.832.5217
Technology Software	Brad Mook, CFA	bmook@boenninginc.com	610.832.5308
Technology Hardware	Mike Ciarmoli	mciarmoli@boenninginc.com	610.684.5413
■	INSTITUTIONAL SALES		
Boston	Rick Johnson	rjohnson@boenninginc.com	610.832.5306
Mid-Atlantic	Rick Johnson	rjohnson@boenninginc.com	610.832.5306
	Gerry Sweeney	gsweeney@boenninginc.com	610.832.5295
	George Marshall	gmarshall@boenninginc.com	610.832.5215
Midwest	Joe Bailey	jbailey@boenninginc.com	610.832.5305
New York	Gerry Sweeney	gsweeney@boenninginc.com	610.832.5295
	Joe Bailey	jbailey@boenninginc.com	610.832.5305
	George Marshall	gmarshall@boenninginc.com	610.832.5215
	Dan McGlinchey	dmcglinchey@boenninginc.com	610.832.5264
Southeast	Harry Himes	hhimes@boenniginc.com	610.832.5263
West Coast	Jeff LaBrot	jlabor@boenninginc.com	610.832.5309
■	AGENCY TRADING		
Mark Dengler		mdengler@boenninginc.com	610.862.5330
Joe Budash		jbudash@boenninginc.com	610.862.5330
Marne DeSantis		mdesantis@boenninginc.com	610.862.5330
Liam Timoney		ltimoney@boenninginc.com	610.862.5330
■	MARKET MAKING		
Joseph Morrissey		jmorrissey@boenninginc.com	610.862.5360
Suzanne Morrissey		smorrissey@boenninginc.com	610.862.5360
■	CONVERTIBLE BONDS		
Roger Barthmaier		rbarthmaier@boenninginc.com	610.832.5270
■	OPTIONS STRATEGY		
Louis DePaul		ldepaul@boenninginc.com	610.832.5275

4 TOWER BRIDGE * 200 BARR HARBOR DRIVE * SUITE 300 * W. CONSHOHOCKEN, PA 19428-2979

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