

INTERDIGITAL, INC.

F3Q Beat on 1x Items; Process Ongoing

InterDigital reported better than expected F3Q results helped by several one time items. Underlying revenues however declined given Japan/RIM, though exposure to the smartphone market – which remains healthy – benefited the quarter. Management again did not host a conference call as its strategic alternative evaluation process remains ongoing and is likely to remain the key focus for now.

Better F3Q revenues driven by a one time resolution: F3Q revenues of \$76.5M were above our estimate of \$74.4M as an audit resolution with an existing customer led past sales to \$7.9M from \$0.4M in F2Q. Excluding this, revenues were \$68.8M, and below our estimate as per unit revenues continued to decline. Per unit revenues declined 2% QoQ and were again impacted by declining royalties from customers in Japan and likely RIM as well. Given revenue recognition one quarter in areas, we consider RIM to remain a negative impact on F4Q. During the quarter, Samsung (34%), RIM (13%) and HTC (12%) remained IDCC's top three customers, representing 59% of total sales.

Large tax benefit offset higher opex to yield \$0.12 EPS beat: A favorable tax resolution (~\$0.18 benefit) offset higher opex in litigation costs as well as expenses associated with the strategic alternative evaluation process. Opex is likely to remain at elevated levels in F4Q. F3Q EPS of \$0.57 was above our estimate of \$0.45.

Reducing 2011/2012 estimates, target declines to \$45: We lower our F4Q estimates to \$70.3M / \$0.32 from \$78.8M / \$0.49 given declining underlying revenues and higher opex. Our 2012 estimates decline modestly to \$331.1M / \$2.08 from \$337.2M / \$2.25. The outstanding litigation with Nokia and LG remain key overhangs.

Barclays Capital is providing investment banking services to the Board of Directors of InterDigital as the company explores potential strategic alternatives.

IDCC: Quarterly and Annual EPS (USD)

FY Dec	2010		2011			2012			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2011	2012	
Q1	1.09A	0.51A	0.51A	N/A	0.56E	0.48E	N/A	-53%	-6%	
Q2	0.78A	0.37A	0.37A	N/A	0.55E	0.51E	N/A	-53%	38%	
Q3	0.79A	0.45E	0.57A	N/A	0.55E	0.55E	N/A	-28%	-4%	
Q4	0.76A	0.49E	0.32E	N/A	0.59E	0.54E	N/A	-58%	69%	
Year	3.43A	1.82E	1.77E	N/A	2.25E	2.08E	N/A	-48%	18%	
P/E	13.2		25.5			21.7				

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

Stock Rating **1-OVERWEIGHT**
Unchanged

Sector View **2-NEUTRAL**
Unchanged

Price Target **USD 45.00**
lowered -18% from USD 55.00

Price (26-Oct-2011) USD 45.15
Potential Upside/Downside 0%
Tickers IDCC

Market Cap (USD mn) 2147
Shares Outstanding (mn) 45.44
Free Float (%) 98.91
52 Wk Avg Daily Volume (mn) 1.4
Dividend Yield (%) 0.6
Return on Equity TTM (%) 32.11
Current BVPS (USD) 9.29

Source: FactSet Fundamentals

Price Performance Exchange-Nasdaq
52 Week range USD 82.50-30.12



[Link to Barclays Capital Live for interactive charting](#)

U.S. Wireless Equipment

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COMPANY SNAPSHOT

INTERDIGITAL INC.

U.S. Wireless Equipment

Income statement (\$mn)	2010A	2011E	2012E	2013E	CAGR
Revenue	395	295	331	NA	NA
EBITDA	258	143	182	NA	NA
EBIT	236	125	162	NA	NA
Pre-tax income	238	115	149	NA	NA
Net income	154	82	96	NA	NA
Reported EPS (\$)	3.43	1.77	2.08	NA	NA
Diluted shares (m)	45	46	46	NA	NA
Dividend per share (\$)	-	0.40	0.40	NA	NA

Margin and return data (%)	Average				
EBITDA margin	65.4	48.5	54.8	NA	56.2
EBIT margin	59.8	42.5	48.9	NA	50.4
Pre-tax margin	60.4	38.9	45.1	NA	48.1
Net margin	38.9	27.7	29.1	NA	31.9
ROIC	(0.50)	(3.60)	(3.49)	NA	NM
ROA	17.6	7.9	8.4	NA	11.3
ROE	-134.9	17.4	16.8	NA	NM

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	139	139	122	NA	NA
Intangible fixed assets	NA	NA	NA	NA	NA
Cash and equivalents	542	714	836	NA	NA
Total assets	875	1,040	1,150	NA	NA
Short and long-term debt	11	200	200	NA	NA
Other long-term liabilities	NA	NA	NA	NA	NA
Total liabilities	989	571	577	NA	NA
Net debt/(funds)	(531)	(514)	(636)	NA	NA
Shareholders' equity	(114)	469	573	NA	NA
Change in working capital	160	(4)	1	NA	NA
Operating cash flow	134	(12)	124	NA	NA
Capital expenditure	(3)	(2)	(3)	NA	NA
Free cash flow	131	(14)	122	NA	NA

Valuation and leverage metrics	Average				
P/E (x)	13.2	25.5	21.7	NA	20.1
EV/EBITDA (x)	5.8	11.0	8.0	NA	8.2
FCF yield (%)	6.5	-0.7	5.8	NA	3.9
Price/sales (x)	5.1	7.0	6.3	NA	6.2
Price/BV (x)	-	17.8	4.4	3.6	NA - 3.2
Dividend yield (%)	0.0%	0.9%	0.9%	NA	0.6
Total debt/capital (%)	-10.8	29.9	25.9	NA	15.0

Selected operating metrics (\$, units in mn)

	2010A	2011E	2012E	
Deferred revenues	467	339	339	NA
Global handset units	1363	1484	1593	NA
3G units	457	609	729	NA
4G units	1	11	43	NA

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (26-Oct-2011)	\$45.15
Price Target	\$45
Ticker	IDCC

Investment case

We rate IDCC 1-OW. We believe that the company's asymmetric licensing model supported by its rigorous internal R&D processes is well positioned to capitalize on the mass adoption of 3G devices, the transition to 4G and the broader adoption of wireless technologies by non-traditional devices.

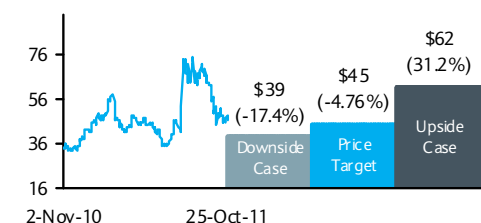
Upside case **\$62**

Our 2012 adjusted estimates do not account for any additional contract wins beyond the LG renewal (\$11 to base case) despite InterDigital's improving pipeline of business. Share gains of 10% of the combined 3G / 4G market not addressed could drive an additional \$12/share

Downside case **\$39**

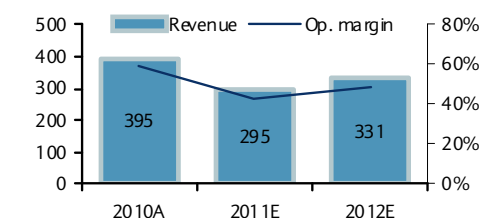
Our downside case is derived from the current fixed contracts the company has in place as well as a market value (~14x) for its per-unit licensing business. An inability to renew key contracts, however, could drive additional downside driven by further multiple contraction.

Upside/downside scenarios



Source: FactSet

Revenue and Op Margin (\$ in Mn)



Source: Company data, Barclays Capital

Note: FY end Dec.

We lower our price target from \$55 to \$45. Given the state of the LG negotiation, we are no longer comfortable including the assumption that LG revenues would return to add ~\$0.75 above our 2012 EPS estimate of \$2.08. However, we do expect at least one of the litigants – Nokia, LG, Huawei, or ZTE, to join Samsung, Apple, and RIM as royalty generating customers in 2012. As such, we boost our multiple slightly from 14x to 16x. Our \$45 price target is therefore based on ~16x our new 2012 EPS estimate plus ~\$11 per share in cash. Our prior \$55 price target was based on an adjusted EPS of ~\$3.05 (including LG) plus ~\$12 per share in cash.

Figure 1: Barclays Capital vs. Consensus

(\$ in millions except per share data)	3Q11	4Q11E	2011E	2012E
Revenues				
Barclays Capital (New)	76.5	70.3	295.0	331.2
Barclays Capital (Old)	74.4	78.8	300.8	337.2
Consensus	74.2	77.3	299.0	401.2
Cash EPS				
Barclays Capital (New)	0.57	0.32	1.77	2.08
Barclays Capital (Old)	0.45	0.49	1.82	2.25
Consensus	0.43	0.45	1.77	2.81

Source: Company reports and Barclays Capital estimates

Figure 2: Historical and Projected Income Statement

Period Ending \$ in millions	Mar-10 1Q	Jun-10 2Q	Sep-10 3Q	Dec-10 4Q	Mar-11 1Q	Jun-11 2Q	Sep-11 3Q	Dec-11 4QE	Mar-12 1QE	Jun-12 2QE	Sep-12 3QE	Dec-12 4QE	Dec-09 FY	Dec-10 FY	Dec-11 FYE	Dec-12 FYE
INCOME STATEMENT																
Revenues	116.2	91.2	91.9	95.3	78.5	69.9	76.5	70.3	79.2	81.5	85.2	85.2	297.4	394.5	295.0	331.2
YoY % Change	64.7%	21.7%	21.8%	24.7%	-32.5%	-23.3%	-16.8%	-26.3%	1.0%	16.6%	11.5%	21.3%	30.2%	32.7%	-25.2%	12.2%
QoQ % Change	52.0%	-21.5%	0.8%	3.7%	-17.7%	-10.9%	9.4%	-8.1%	12.8%	2.8%	4.6%	0.0%				
Operating expenses:																
Sales and Marketing	7.5	7.0	7.2	6.6	7.8	7.5	9.4	8.8	8.6	8.4	8.6	8.8	18.8	28.3	33.5	34.4
Patents Administration and Licensing	17.8	14.7	12.8	13.6	15.9	16.8	17.9	18.3	16.8	16.6	16.5	16.8	54.8	58.9	68.9	66.7
Development	16.2	16.4	17.5	21.5	17.4	15.8	17.0	17.0	16.3	16.8	17.3	17.7	64.7	71.5	67.2	68.2
Repositioning	-	-	-	-	-	-	-	-	-	-	-	-	38.6	-	-	-
Arbitration and litigation contingencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	41.5	38.1	37.5	41.6	41.2	40.1	44.3	44.1	41.8	41.8	42.3	43.3	144.9	158.7	169.6	169.3
Proforma Operating Income	74.7	53.1	54.5	53.6	37.3	29.8	32.2	26.2	37.4	39.6	42.9	41.9	152.5	235.9	125.4	161.9
EBIT (GAAP)	74.7	53.1	54.5	53.6	37.3	29.8	32.2	26.2	37.4	39.6	42.9	41.9	113.9	235.9	125.4	161.9
Other Income (expense):																
Interest and Investment Income	0.6	0.9	0.6	0.5	(0.9)	(3.4)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(1.2)	2.6	(10.6)	(12.6)
Income before provision for Income Taxes	75.3	54.0	55.0	54.2	36.4	26.4	29.0	23.0	34.3	36.5	39.7	38.8	151.3	238.4	114.8	149.3
Income tax	(26.5)	(19.0)	(19.5)	(19.9)	(13.0)	(9.3)	(2.8)	(8.1)	(12.2)	(12.9)	(14.1)	(13.8)	(54.9)	(84.8)	(33.1)	(53.0)
Income tax adjustment	-	-	-	-	-	-	-	-	-	-	-	-	29.4	-	-	-
Income Tax (GAAP)	(26.5)	(19.0)	(19.5)	(19.9)	(13.0)	(9.3)	(2.8)	(8.1)	(12.2)	(12.9)	(14.1)	(13.8)	(25.4)	(84.8)	(33.1)	(53.0)
Proforma Net Income	48.8	35.0	35.5	34.3	23.3	17.2	26.2	15.0	22.1	23.5	25.6	25.0	96.4	153.6	81.7	96.3
Net Income (GAAP)	48.8	35.0	35.5	34.3	23.3	17.2	26.2	15.0	22.1	23.5	25.6	25.0	87.3	153.6	81.7	96.3
Proforma EPS	1.10	0.79	0.80	0.76	0.51	0.37	0.57	0.32	0.48	0.51	0.55	0.54	2.18	3.43	1.77	2.08
EPS (GAAP)	1.10	0.79	0.80	0.76	0.51	0.37	0.57	0.32	0.48	0.51	0.55	0.54	1.98	3.43	1.77	2.08
Pro forma Shares Outstanding	44.2	44.5	44.6	45.4	45.9	45.8	46.3	46.3	46.3	46.3	46.3	46.3	44.3	44.8	46.1	46.3
Shares Outstanding (GAAP)	44.2	44.5	44.6	45.4	45.9	45.8	46.3	46.3	46.3	46.3	46.3	46.3	44.1	44.8	46.1	46.3
Percent of Sales																
Pro Forma Operating Income	64%	58%	59%	56%	48%	43%	42%	37%	47%	49%	50%	49%	38%	60%	43%	49%
Pro Forma Net Income	42%	38%	39%	36%	30%	25%	34%	21%	28%	29%	30%	29%	29%	39%	28%	29%
Sales and Marketing	6%	8%	8%	7%	10%	11%	12%	13%	11%	10%	10%	10%	6%	7%	11%	10%
General and Administrative	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%
Patents Administration and Licensing	15%	16%	14%	14%	20%	24%	23%	26%	21%	20%	19%	20%	18%	15%	23%	20%
Development	14%	18%	19%	23%	22%	23%	22%	24%	21%	21%	20%	21%	22%	18%	23%	21%
Tax rate	-35%	-35%	-35%	-37%	-36%	-35%	-10%	-35%	-36%	-36%	-36%	-36%	-17%	-36%	-29%	-36%
QoQ Growth																
Sales and Marketing	34%	-7%	3%	-9%	19%	-3%	24%	-6%	-2%	-3%	2%	3%	106%	50%	19%	3%
Patents Administration and Licensing	18%	-17%	-13%	7%	17%	5%	7%	2%	-8%	-1%	-1%	2%	-7%	7%	17%	-3%
Development	22%	1%	7%	23%	-19%	-10%	8%	0%	-4%	3%	3%	2%	-36%	10%	-6%	1%

Source: Company reports and Barclays Capital estimates

Figure 3: Historical and Projected Revenue Segmentation

Period Ending	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Dec-09	Dec-10	Dec-11	Dec-12
\$ in millions	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	FY	FY	FYE	FYE
SEGMENT REVENUES																
Total Royalty Payments																
Fixed Payments	48.1	48.6	49.6	49.5	35.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	181.7	195.8	134.9	132.9
Per-Unit Payments	30.0	31.6	35.8	35.7	39.5	35.0	34.2	35.9	44.8	47.1	50.8	50.8	102.9	133.1	144.4	193.5
Past Infringement	35.7	4.9	0.7	-	2.3	0.4	7.9	-	-	-	-	-	3.0	41.3	10.6	-
Total Patent Licensing Royalties	113.8	85.1	86.1	85.2	77.0	68.6	75.3	69.1	78.1	80.3	84.1	84.1	287.6	370.2	289.9	326.5
Technology Solutions Revenue	2.4	6.1	5.8	10.0	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.2	9.8	24.3	5.2	4.7
Total Revenue	116.2	91.2	91.9	95.2	78.5	69.9	76.5	70.3	79.2	81.5	85.2	85.2	297.4	394.5	295.0	331.2
Check	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of Sales																
Fixed Payments	41%	53%	54%	52%	45%	48%	43%	47%	42%	41%	39%	39%	61%	50%	46%	40%
Per-Unit Payments	26%	35%	39%	38%	50%	50%	45%	51%	57%	58%	60%	60%	35%	34%	49%	58%
Past Infringement	31%	5%	1%	0%	3%	1%	10%	0%	0%	0%	0%	0%	1%	10%	4%	0%
Total Patent Licensing Royalties	98%	93%	94%	89%	98%	98%	98%	98%	99%	99%	99%	99%	97%	94%	98%	99%
Technology Solutions Revenue	2%	7%	6%	11%	2%	2%	2%	2%	1%	1%	1%	1%	3%	6%	2%	1%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
QoQ Growth																
Fixed Payments	0%	1%	2%	0%	-29%	-6%	0%	0%	0%	0%	0%	0%				
Per-Unit Payments	23%	5%	13%	0%	11%	-11%	-2%	5%	25%	5%	8%	0%				
Past Infringement	17750%	-86%	-86%	-100%	NA	-83%	1875%	NA	NA	NA	NA	NA				
Total Patent Licensing Royalties	57%	-25%	1%	-1%	-10%	-11%	10%	-8%	13%	3%	5%	0%				
Technology Solutions Revenue	-37%	154%	-5%	72%	-85%	-12%	-11%	0%	0%	0%	0%	0%				
Total Revenue	52%	-22%	1%	4%	-18%	-11%	9%	-8%	13%	3%	5%	0%				
YoY Growth																
Fixed Payments	14%	4%	11%	3%	-27%	-32%	-33%	-33%	-6%	0%	0%	0%		8%	-31%	-1%
Per-Unit Payments	10%	33%	29%	47%	32%	11%	-5%	0%	14%	35%	49%	42%		29%	8%	34%
Past Infringement	NA	113%	40%	-100%	-94%	-92%	1029%	NA	NA	NA	NA	NA				
Total Patent Licensing Royalties	64%	21%	19%	18%	-32%	-19%	-13%	-19%	1%	17%	12%	22%		29%	-22%	13%
Technology Solutions Revenue	85%	177%	132%	163%	-38%	-78%	-80%	-88%	-22%	-11%	0%	0%		148%	-79%	-9%
Total Revenue	65%	26%	23%	25%	-32%	-23%	-17%	-26%	1%	17%	11%	21%		33%	-25%	12%

Source: Company reports and Barclays Capital estimates

ANALYST(S) CERTIFICATION(S)

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IMPORTANT DISCLOSURES

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The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

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Primary Stocks (Ticker, Date, Price)

InterDigital, Inc. (IDCC, 26-Oct-2011, USD 45.15), 1-Overweight/2-Neutral

Guide to the Barclays Capital Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Wireless Equipment

Comverse Technology, Inc. (CMVT)	Ericsson (ERIC)	InterDigital, Inc. (IDCC)
Motorola Mobility Holdings (MMI)	Motorola Solutions, Inc. (MSI)	Nokia (NOK)
QUALCOMM, Inc. (QCOM)	Research In Motion (RIMM)	Tekelec (TKLC)

Distribution of Ratings:

Barclays Capital Inc. Equity Research has 1910 companies under coverage.

44% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 57% of companies with this rating are investment banking clients of the Firm.

41% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 50% of companies with this rating are investment banking clients of the Firm.

12% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 35% of companies with this rating are investment banking clients of the Firm.

IMPORTANT DISCLOSURES CONTINUED

Guide to the Barclays Capital Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

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Barclays Capital Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

InterDigital, Inc. (IDCC)

USD 45.15 (26-Oct-2011)

Stock Rating

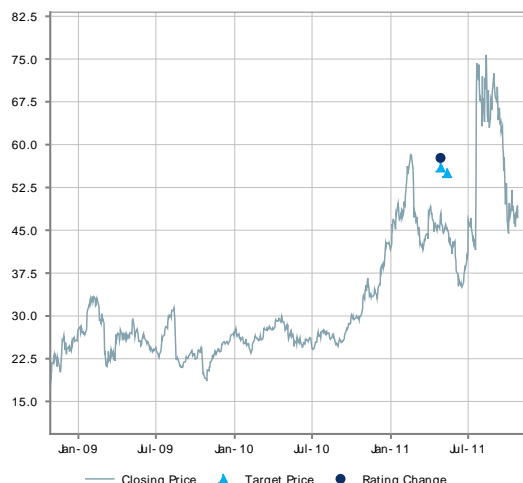
1-OVERWEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 26-Oct-2011)

Currency=USD



Date	Closing Price	Rating	Price Target
12-May-2011	45.04		55.00
27-Apr-2011	47.75	1-Overweight	56.00

[Link to Barclays Capital Live for interactive charting](#)

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Valuation Methodology: Our \$45 price target is based on ~16x our 2012 EPS estimate of \$2.08 plus ~\$11 per share in net cash.

Risks which May Impede the Achievement of the Price Target: InterDigital's historical revenues and cash flow have been volatile on both a quarter-over-quarter and year-over-year basis. The trend is unlikely to dissipate due to limited visibility around the timing of payments related to past infringement, the size and timing of royalty payments, litigation costs, and dependency on per unit shipment payments from various vendors.

InterDigital's revenue model is highly dependent on its ability to renew key licenses. A failure to do so could result in protracted litigation and an inability to drive further revenues and cash flow. The company's revenue stream also depends on several licensees which pay on a per-unit basis, and thus any share loss, decreased purchasing, or product cycle execution challenges could ultimately impact the company's revenue and cash flow.

Other Material Conflicts: Barclays Capital is providing investment banking services to the Board of Directors of InterDigital as the company explores potential strategic alternatives.

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