

# INTERDIGITAL, INC.

## In-line 2Q Results; Earnings Call Suspended

InterDigital reported in-line F2Q results as guided to in early May. While the renewal with LG remains outstanding and continues to be an overhang on the business, management's recent announcement that they are seeking strategic alternatives is likely to remain the key focus for now.

**Revenues Slight Above Expectations:** IDCC reported 2Q revenues of \$69.9M, modestly above our consensus estimate of \$69.2M and guidance of \$69.0M. The exclusion of LG's \$14.4M fixed fee payment coupled with the impact from Japan to some of IDCC's customers drove the sequential and year-over-year decline in sales. Samsung (37%), RIM (16%), and HTC (11%) accounted for ~65% of total sales. Overall, market dynamics remain healthy as smartphone penetration continues to rise.

**Modestly Lower Opex Yields In-line EPS:** Total operating expenses of \$40.1M declined sequentially given lower development costs. EPS of \$0.37 were in line with our estimate of \$0.37 and compares to consensus of \$0.36.

**Earnings Call Suspended Given Recent Announcement:** Management is suspending its scheduled 10AM earnings call given the company's recent announcement that they are seeking strategic alternatives for the business. For further details, please see "InterDigital: Exploring Strategic Options" 7/20/11. Our estimates remain under review.

**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)

	2010			2011			2012			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2011	2012		
Q1	1.09A	0.51A	0.51A	N/A	0.56E	0.56E	N/A	-53%	10%		
Q2	0.78A	0.37E	0.37A	N/A	0.55E	0.55E	N/A	-53%	49%		
Q3	0.79A	0.45E	0.45E	N/A	0.55E	0.55E	N/A	-43%	22%		
Q4	0.76A	0.49E	0.49E	N/A	0.59E	0.59E	N/A	-36%	20%		
Year	3.43A	1.82E	1.82E	N/A	2.25E	2.25E	N/A	-47%	24%		
P/E	20.3		38.3			31.0					

Source: Barclays Capital  
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

Stock Rating	<b>1-OVERWEIGHT</b> Unchanged
Sector View	<b>2-NEUTRAL</b> Unchanged
Price Target	<b>USD 55.00</b> Unchanged

Price (27-Jul-2011)	USD 69.77
Potential Upside/Downside	-21%
Tickers	IDCC

Market Cap (USD mn)	3165
Shares Outstanding (mn)	45.36
Free Float (%)	98.80
52 Wk Avg Daily Volume (mn)	0.9
Dividend Yield (%)	0.3
Return on Equity TTM (%)	42.44
Current BVPS (USD)	8.31

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 82.50-24.39



Link to Barclays Capital Live for interactive charting

### U.S. Wireless Equipment

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### Primary Stocks (Ticker, Date, Price)

InterDigital, Inc. (IDCC, 27-Jul-2011, USD 69.77), 1-Overweight/2-Neutral

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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.

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**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.

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**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

Amdocs Ltd. (DOX)	Ceragon Networks Ltd. (CRNT)	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)	

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### IMPORTANT DISCLOSURES CONTINUED

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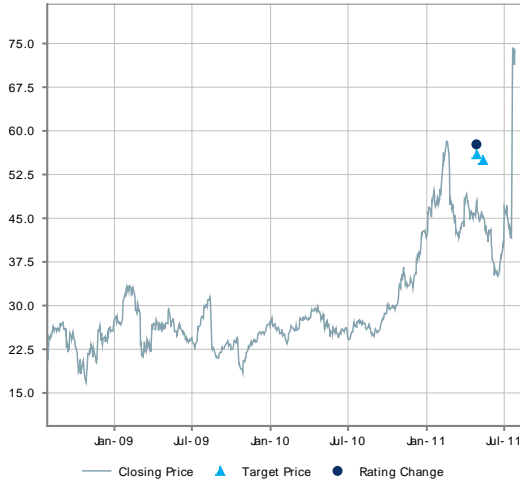
**InterDigital, Inc. (IDCC)**  
**USD 69.77 (27-Jul-2011)**

Stock Rating  
**1-OVERWEIGHT**

Sector View  
**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 27-Jul-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

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**Valuation Methodology:** Our price target of \$55 equates to ~14x our adjusted CY12 EPS estimate of \$3.05 (including the LG renewal) plus ~\$12 a share in 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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