DAVENPORT & COMPANY LLC
EST. 1863 • MEMBER: NYSE • FINRA • SIPC

EQUITY RESEARCH

JONATHON SKEELS
(804) 697-2958
jskeels@investdavenport.com

July 29, 2010

InterDigital, Inc. (IDCC-NASDAQ-US$28.00)

Good quarter, but expiring license agreements and intended uses for cash balance keep us on the sidelines

RATING: Neutral
TARGET PRICE: US$NA
BASIS OF TARGET: NA

SECTOR: Technology
SECTOR RECOMMENDATION: Market-weight

Expiring license agreements and intended uses for cash balance keep us on the sidelines. IDCC reported better than expected 2Q10 results with upside driven by revenues from new licensees and past infringement sales. While our 2010/2011 estimates move higher to reflect this improving performance, we remain cautious on the shares due to concerns over expiring license agreements and the intended uses for the cash balance.

Review of 2Q results. IDCC reported 2Q revenues and EPS of $91 million and $0.78, which exceeded our estimates for $82 million and $0.64.The top-line beat was driven by higher technology solutions revenues ($3.5 million) and a past infringement payment ($4.9 million) related to relicensing a handset manufacturer whose license expired back in mid 2009. Excluding these items, recurring patent license royalties grew 14% yr-yr and were in-line with our expectations.

Given the strong 2Q results, we are moving are 2010/2011 estimates higher. For 2010, our estimates increase to $378 million and $3.30 from $362 million and $3.06. For 2011, our estimates increase to $295 million and $1.95 from $275 million and $1.75.

Cash balance continues to grow, but company remains focused on large IP acquisitions. IDCC ended the quarter with $485 million in net cash or $10.90/share. Since quarter's end, the cash balance increased by another $100 million due to the receipt of the final license payment from Samsung Electronics. While some of cash will be kept on hand for defensive purposes, management remains focused on using cash to make patent acquisitions within the wireless space.

In particular, management has expressed interest in the Nortel LTE portfolio that is being shopped around and mentioned they could partner with others to purchase the portfolio. Based on the valuation of this portfolio and uncertainty over the ability to monetize the patents, we are concerned the returns on this investment will not be attractive.

Valuation attractive, but remain on sidelines. IDCC shares currently trade at just 9x our 2010 EPS estimate of $3.30 and at 6x our 2010 EPS estimate excluding cash of $10.90 per share (June 30) and associated interest income. On 2011 estimates, the shares trade at 14x our EPS estimate of $1.95 and 10x our 2011 estimate excluding cash and associated interest income. While the stock is admittedly cheap, we remain on the sidelines due to concerns over expiring license agreements and the returns the company will achieve on its intended uses for the cash balance.

RISK PROFILE: Above Average
RISK CONSIDERATIONS: invalidation of IP position, unsuccessful resolution of IP litigation, unfavorable royalty rates, volatility of earnings, competition

Disclosure Code: None
Important disclosures and analyst certifications are in the Disclosure Section.

Valuation Data (source: Baseline)

FYE Dec		2009A	2010E	2011E
Forecasted Revenue Estimates:		$297.4	$377.8	$294.9
Projected EPS:	Q1	$0.34	$1.09	--
	Q2	$0.59	$0.79	--
	Q3	$0.69	$0.73	--
	Q4	$0.62	$0.69	--
Total		$2.21	$3.30	$1.95

Basis of Estimate: GAAP Net Income

Trading & Operating Data

52-Wk Range:	$18.41-$31.79
Volume 60-Day Avg (Th):	421.65
Avg. Shares O/S- LQ:	44.2
Market Value ($M):	$1,184.9
Institutional - % Held:	58.00%
Insider Ownership %:	0.00%
LT Debt /Capital LQtr %:	0.0%

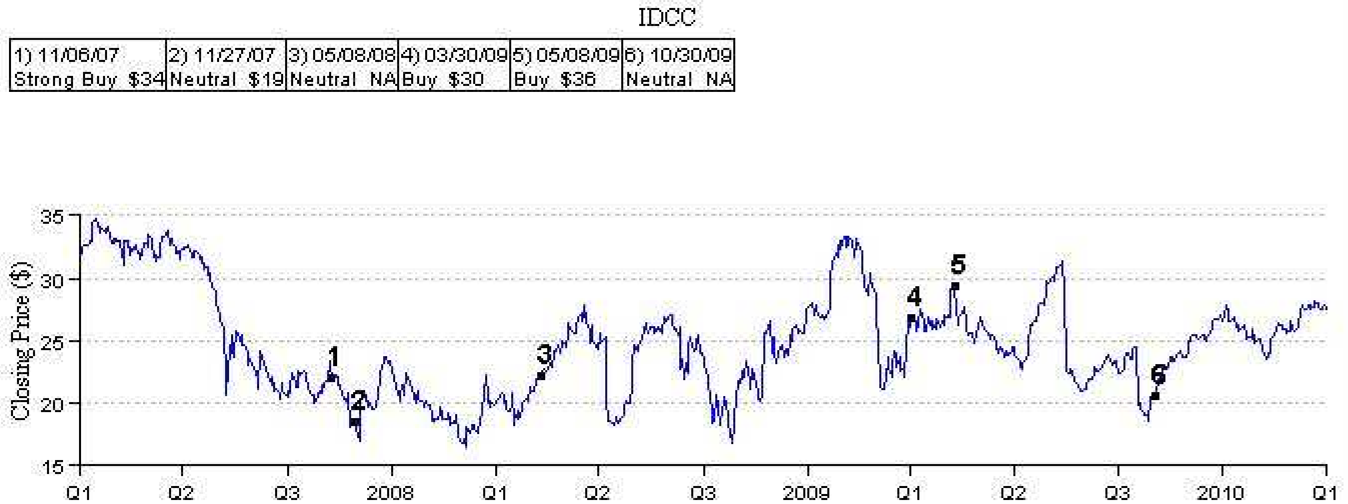
Company Profile
InterDigital Inc. (IDCC) designs and develops wireless technologies for mobile voice and data communications. IDCC monetizes its technology position by licensing its IP to companies that make, use or sell products that conform to 2G and 3G wireless Standards. IDCC was founded in 1972 and is headquartered in King of Prussia, PA

InterDigital
Financial Statements
(Dollars in millions, except per share data)

Jonathon R. Skeels (804) 697-2958

Income Statement	**2006A**	**2007A**	**2008A**	**1Q09A**	**2Q09A**	**3Q09A**	**4Q09A**	**2009A**	**1Q10A**	**2Q10A**	**3Q10E**	**4Q10E**	**2010E**	**2011E**
Total revenues	$ 480.5	$ 234.2	$ 228.5	$ 70.6	$ 74.9	$ 75.5	$ 76.4	$ 297.4	$ 116.2	$ 91.2	$ 85.9	$ 84.5	$ 377.8	$ 294.9
Growth														
Operating expenses:														
S,G&A	27.6	30.1	33.5	8.3	6.0	4.9	5.6	24.8	7.5	7.0	6.2	6.3	27.1	28.9
Patent administration and licensing expense	51.1	71.5	63.5	12.1	15.6	13.3	15.1	56.1	17.8	14.7	14.5	15.2	62.3	69.3
Development expense	65.4	85.2	98.9	26.9	13.2	10.7	13.3	64.0	16.2	16.4	16.4	16.7	65.7	67.2
Repositioning expense	-	-	-	37.1	(0.1)	-	1.6	38.6	-	-	-	-	-	-
Arbitration and litigation contingencies	-	24.4	(3.9)	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	144.1	211.2	191.9	84.3	34.7	28.9	35.6	183.5	41.5	38.1	37.1	38.3	155.0	165.5
Growth														
Operating income	**336.4**	**23.1**	**36.5**	**(13.8)**	**40.2**	**46.6**	**40.8**	**113.9**	**74.7**	**53.1**	**48.8**	**46.2**	**222.8**	**129.5**
Growth														
Net interest and other investment income	13.2	8.9	3.4	0.8	0.6	0.5	(3.2)	(1.2)	0.6	0.9	1.0	1.0	3.5	4.0
Earnings before income taxes	**349.6**	**32.0**	**40.0**	**(12.9)**	**40.9**	**47.1**	**37.7**	**112.7**	**75.3**	**54.0**	**49.8**	**47.2**	**226.3**	**133.5**
Income taxes	124.4	12.0	13.8	(4.2)	14.4	16.5	(1.2)	25.4	26.5	19.0	17.4	16.5	79.4	46.7
Tax Rate	*35.6%*	*37.5%*	*34.4%*	*32.8%*	*35.3%*	*35.0%*	*-3.2%*	*22.6%*	*35.1%*	*35.2%*	*35.0%*	*35.0%*	*35.1%*	*35.0%*
Insurance reimbursement (net of tax)	-	-	4.0	-	-	-	-	-	-	-	-	-	-	-
Net income (GAAP)	**225.2**	**20.0**	**26.2**	**(8.7)**	**26.4**	**30.6**	**38.9**	**87.3**	**48.8**	**35.0**	**32.4**	**30.7**	**146.9**	**86.8**
Net income (Non-GAAP)	**225.2**	**35.3**	**23.4**	**15.4**	**26.4**	**30.6**	**27.1**	**97.3**	**48.8**	**35.0**	**32.4**	**30.7**	**146.9**	**86.8**
EPS (GAAP)	$ 4.04	$ 0.40	$ 0.57	$ (0.20)	$ 0.60	$ 0.70	$ 0.89	$ 1.98	$ 1.09	$ 0.79	$ 0.73	$ 0.69	$ 3.30	$ 1.95
EPS (Non-GAAP)	**$ 4.04**	**$ 0.71**	**$ 0.51**	**$ 0.35**	**$ 0.60**	**$ 0.70**	**$ 0.62**	**$ 2.21**	**$ 1.09**	**$ 0.79**	**$ 0.73**	**$ 0.69**	**$ 3.30**	**$ 1.95**
Growth														
Shares outstanding	55.8	49.5	46.0	43.5	44.3	43.8	43.7	44.1	44.2	44.5	44.5	44.5	44.5	44.5
Margin Analysis														
S,G&A	5.7%	12.8%	14.6%	11.7%	8.0%	6.5%	7.3%	8.3%	6.5%	7.7%	7.2%	7.5%	7.2%	9.8%
Patent admin & licensing	10.6%	30.5%	27.8%	17.2%	20.8%	17.6%	19.7%	18.9%	15.3%	16.1%	16.9%	18.0%	16.5%	23.5%
Development	13.6%	36.4%	43.3%	38.1%	17.7%	14.1%	17.3%	21.5%	13.9%	18.0%	19.1%	19.8%	17.4%	22.8%
Operating margin	70.0%	9.8%	16.0%	-19.5%	53.7%	61.7%	53.4%	38.3%	64.3%	58.2%	56.8%	54.7%	59.0%	43.9%
EBITDA margin	73.1%	19.2%	28.6%					46.0%					64.8%	51.7%
Net margin	46.9%	8.5%	11.5%	-12.3%	35.3%	40.6%	50.9%	29.3%	42.0%	38.4%	37.7%	36.3%	38.9%	29.4%
Tax rate	35.6%	37.5%	34.4%	32.8%	35.3%	35.0%	-3.2%	22.6%	35.1%	35.2%	35.0%	35.0%	35.1%	35.0%

InterDigital, Inc.



Disclosure Section

As of 06/30/10, Davenport's ratings of covered companies were distributed as follows: 56.1% Buy, 42.9% Neutral, 1.0% Sell
As of 06/30/10, Davenport's percentages of covered companies that were investment banking clients within the past 12 months by rating were: 13.0% Buy, 10.2% Neutral, 0.0% Sell

Companies Mentioned in this Report and Associated Disclosures

InterDigital, Inc. (IDCC - NASDAQ):None; Samsung (SSNNF.PK): NA; Nortel (NRTLQ.PK): NA

Description of Rating System

Strong Buy These shares are viewed as compelling short and long-term investment opportunities. We expect these shares to materially outperform the market over the next 12 months. Aggressive purchase is recommended at current prices.

Buy These shares offer attractive long-term appreciation potential from current prices. We would expect these shares to outperform the market over a longer-term horizon and long-term investors can buy at current prices.

Neutral These shares should perform roughly in-line with the current market. We neither encourage the purchase nor the sale of these securities at current prices.

Reduce/Sell These shares have more downside risk than upside potential at current prices. We expect these shares to underperform the market at current prices.

Risk Profile Considerations

This risk classification has been determined primarily from considering the level and predictability of earnings, the volatility of the stock relative to the market, applicable debt ratings, the composition and level of the company's capital structure, the dependence on key customers, and other relevant risk considerations.

Description of Possible Disclosure Codes

A1 The Research Analyst or a member of the Analyst's household owns common stock of the subject company.
A2 The Research Analyst or a member of the Analyst's household owns preferred stock of the subject company.
A3 The Research Analyst or a member of the Analyst's household has options on the common stock of the subject company.
A4 The Research Analyst or a member of the Analyst's household owns rights for the securities of the subject company.
A5 The Research Analyst or a member of the Analyst's household owns warrants for the securities of the subject company.
A6 The Research Analyst or a member of the Analyst's household has futures contracts on the securities of the subject company.
A7 The Research Analyst or a member of the Analyst's household has a short position in the common stock of the subject company.
A8 The Research Analyst or a member of the Analyst's household owns a debt security issued by the subject company.
B The Research Analyst or a member of the Analyst's household serves as an officer, director, or advisory board member of the subject company.
I Davenport or its affiliates received compensation for investment banking services from the subject company in the past 12 months.
I2 Davenport or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.
I/F Davenport or its affiliates received fixed income investment banking fees from this company within the past 12 months.
S/C The subject company was a non-investment banking – securities related services client of Davenport or its affiliates for which compensation was received during the past 12-months.

N/C The subject company was a non-securities services client of Davenport or its affiliates for which compensation was received during the past 12-months.

O As of the end of the month immediately preceding the date of this report (or the end of the second most recent month if the report date is less than 10 calendar days after the end of the most recent month), Davenport or its affiliates beneficially owned 1% or more of any class of common equity securities of the subject company calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.

SCC The Research Analyst received non-investment banking related compensation from the subject company in the past 12 months.

U Davenport or its affiliates managed or co-managed a public offering of securities for the subject company in the past 12 months.

C Any other actual, material conflict of interest of the Research Analyst or Davenport and its affiliates, of which Davenport and its affiliates or the Research Analyst knows, or has reason to know, at the time of this report.

Additional information is available upon request.

One James Center • Post Office Box 85678 • Richmond, Virginia • 23285-5678 • Telephone (804) 780-2000.

Certification

As the primary author of this report, I hereby certify that the views and opinions expressed herein accurately reflect my personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed here.

Jonathon Skeels