

InterDigital Inc.

(IDCC-NASDAQ)

Rating/Risk: **Outperform/Moderate**
Price: **\$26.94**
Target Price: **\$35** (raised from \$29)

**Samsung Licensing Agreement Finalized — 2G/3G Deal Valued at \$400m
Maintain Outperform Rating, Lifting Price Target to \$35**

Investment Conclusion: We believe the \$400m Samsung 2G/3G deal greatly improves IDCC's financial position, reduces the company's overall risk profile, and adds further validity and credibility to the company's patent licensing model. IDCC now has more than 50% of the 3G handset market under license and a good portion of the legal overhang around the story has been removed. We have increased our estimates for 2009 and 2010 and believe the Samsung settlement should pave the way for additional handset OEMs to be licensed in future periods. We think three key factors will allow InterDigital to continue to grow its revenues and earnings in the coming years: 1) increasing global adoption of 3G handsets and devices, 2) Addition of new 3G royalty paying customers, and 3) Increasing 3G unit sales from current royalty paying customers. Although, an argument can be made that the current ITC case against Nokia can still create a drag on the stock, we believe the Samsung deal has effectively created a \$23 floor on IDCC shares which in our view significantly improves the risk/reward profile. We would continue to advise investors to take advantage of favorable entry points that may arise due to overreactions stemming from legal news. We maintain our Outperform rating and are lifting our price target to \$35 (up from \$29).

Key Points:

- Samsung 2G/3G deal improves financial position and reduces IDCC's risk profile.
- Increasing our 2009 estimates and introducing 2010 estimates to account for Samsung deal.
- Maintaining our Outperform rating but lifting price target to \$35

Fundamental & Valuation Data

	2007A	2008E	2009E	2010E
	Current	Prior	Consensus	Current
Mar.	\$0.34	\$0.15		A
June	(\$0.09)	\$0.13		A
Sept.	\$0.18	\$0.20	\$0.06	A
Dec.	(\$0.04)	\$0.13	<u>\$0.12</u>	<u>\$0.13</u>
Year	\$0.40	\$0.61	\$0.46	\$0.55
				E
				E
			\$2.28	\$0.83
				\$1.25
				2.47
Revenue	\$234.2	\$226.8	\$230.7	\$226.9
EBITDA	\$54.9	\$58.3	\$45.8	\$45.8
			\$350.8	\$256.5
			\$67.1	\$245.7
				380.5
				181.28
P/E	66x	44x		12x
EV/Revenue	4x	4x		3x
EV/Ebitda	18x	17x		6x
				11x
				3x
				5x

*EPS estimates are non-GAAP

January 16, 2009

Communication Technology

Market Data

52-Week Range:	\$28.98-16.2
Market Cap. (M)	\$1,171.0
Shares Out. (M):	43.2
Float Shs. (M):	42.4
Inst. Ownership:	47.0%
Short Interest (M):	3.1
Avg. Daily Vol. (Shs.):	864,000
Avg. Daily Vol. (M):	\$23.2

Capitalization

Book Value / Share:	\$1.96
Net Cash / Share:	\$3.89
Long-Term Debt / Cap'l:	71.3%
Dividend Yield:	0.0%

Fundamental Summary

3-Yr. Hist. Rev CAGR:	61.3%
5-Yr. Fwd. EPS CAGR:	17.0%
ROE (2007):	-1.4%

Description

InterDigital Inc. engages in the design, development, and delivery of wireless technologies and platforms. InterDigital Inc. is located in King of Prussia, PA and employs 320 people. (www.interdigital.com)

Michael F. Ciarmoli
610.684.5413
mciarmoli@boenninginc.com

Kevin Ciabattoni
610.684.5414
kciabattoni@boenninginc.com

Key Points in Detail

- **Samsung 2G/3G deal improves financial position and reduces IDCC's risk profile.** Although the aggregate value of the Samsung deal was somewhat lighter than we had expected, visibility into IDCC's future revenue and earnings streams (through 2012) has increased dramatically. The \$400m payment will be recognized quarterly over the next four years commencing in 1Q09. IDCC's cash balance of \$187m will be augmented substantially as the Samsung related royalty payments begin to hit the P&L. We believe the strong cash position will enable IDCC to pursue strategic acquisitions, continue to execute on its stock buyback program, or even issue a cash dividend — all of which should help to increase shareholder returns. Perhaps more importantly IDCC now has more than 50% of the global 3G handset market under license which in our view drastically reduces the risk profile of the organization and further validates the company's technology. We believe it will be extremely difficult for unlicensed handset OEMs (Nokia, Sony Ericsson, Motorola, and others) to avoid signing royalty agreements with IDCC in future periods, however rapidly falling handset ASPs may make it worth while for OEMs to employ litigation as a sensible stall tactic in order to minimize the eventual royalty dollars that may be paid to IDCC. In our view the threat of being on the losing end of a court ruling against an unlicensed OEM is minimal, perhaps less than 10%. We anticipate that IDCC will continue to incur a fair amount of legal expenses on a quarterly basis to maintain and defend its IP, but believe those levels should fall off significantly in the coming periods.
- **Increasing our 2009 estimates and introducing 2010 estimates to account for Samsung deal.** In light of the recent deal and disclosed financial terms we are lifting our 2009 revenue and earnings estimates and lifting our previously unpublished 2010 projections. In 2009 we are now projecting revenues to be \$350.8m, up from our prior estimate of \$251m. On the bottom line we now project EPS to be \$2.28, up from our prior estimate of \$0.81. Aside from Samsung being a key catalyst to revenue and earnings growth we anticipate more meaningful contributions from RIMM and Infineon. In 2010 we are modeling for revenues of \$380.5m, representing yr/yr growth of 8.5%. On the bottom line we are projecting 2010 EPS to be \$2.47, also representing yr/yr growth of 8.5%. Baked into our EPS projections is the assumption that management continues to execute on its buyback as we have fully diluted share count decreasing to 45.2m in 2010, down from 46.4m today. Additionally, we have assumed that legal expenses will fall from \$64m in 2008 to roughly \$45m in 2010.
- **Maintaining our Outperform rating and lifting price target to \$35.** With much of the legal overhang and legal risk removed from the IDCC story we believe IDCC shares continue to represent a sound way to play the growing 3G handset market. Additionally, the company's enviable financial position (little debt and sizable cash position) should enable the company to significantly advance its portfolio of wireless IP by way of internal development or strategic acquisition. IDCC shares have held up well in a terrible market and we believe the Samsung deal effectively puts a \$23 floor on the stock, significantly enhancing the risk/reward profile. Prior to the Samsung deal we pegged IDCC's 2010 operating EPS to be roughly \$0.97. By applying an industry multiple of 14x (in line with QCOM) to the \$0.97 estimate, adding back the company's current cash position of \$4.10/share, and then adding the PV of the Samsung \$400m we believe shares should be worth at a minimum of \$23. This \$23 minimum valuation assumes no premium for additional licensees that may be added in future periods and also fails to take into account IDCC's 3G market penetration which now stands at just over 50% — which we believe legitimizes and validates the company's technology. More importantly the \$23 valuation does not reflect an improved risk profile as a result of the Samsung ITC case rolling off. We believe IDCC shares are worth significantly more than \$23 and arrive at our \$35 price target by applying a 14x

multiple (again inline with QCOM) to our 2010 EPS estimate of \$2.47. Given this favorable risk/reward profile we are maintaining our Outperform rating and lifting our price target to \$35.

Company Overview

InterDigital Inc. 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.

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

Risk Factors

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.

InterDigital Communications (IDCC)
Income Statement

December Fiscal Year	F2010E		F2009E		F2008E		F2007		F2006		F2005	
	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	
(Millions)												
Total Revenue	380.5	350.8	226.8	226.8	56.0	58.7	55.1	57.0	234.2	234.2	480.4	163.1
Gross Profit	380.5	350.8	226.8	226.8	56.0	58.7	55.1	57.0	234.2	234.2	480.4	163.1
Operating Expenses												
Sales and Marketing	11.4	10.1	8.3	8.3	2.4	2.0	1.9	2.0	7.8	7.8	6.6	7.9
General, and Administrative	34.2	27.0	22.6	22.6	5.7	5.7	5.5	5.7	24.2	24.2	21.0	24.2
Patents Administration and Licensing	45.0	50.0	63.8	63.8	15.1	20.4	13.3	15.0	67.6	67.6	51.1	49.4
patent administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Patent litigation and arbitration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arbitration Award	0.0	0.0	(3.9)	(3.9)	(1.2)	0.0	(2.7)	0.0	16.6	16.6	0.0	0.0
Development	121.8	108.7	96.0	96.0	23.2	22.7	24.1	26.0	87.1	87.1	65.4	63.1
Repositioning	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Total Operating Expenses	212.4	195.8	186.7	186.7	45.1	50.9	42.0	48.7	211.2	211.2	144.0	146.0
Total Operating Expenses (ex Patent Admin & Lic.)	167.4	145.8	122.9	122.9	30.1	30.4	28.7	33.7	143.6	143.6	93.0	96.6
Operating Income (GAAP)	168.1	154.9	40.1	40.1	10.9	7.8	13.0	8.3	23.1	23.1	336.4	17.1
Interest and Investment Income	4.0	4.0	4.0	4.0	0.4	1.2	1.1	1.2	8.9	8.9	13.2	3.2
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	172.1	158.9	44.0	44.0	11.3	9.1	14.2	9.5	32.0	32.0	349.6	20.9
Income Taxes	60.2	55.6	15.5	15.5	4.0	3.2	5.0	3.3	12.0	12.0	124.4	9.3
Net Income (GAAP)	111.9	103.3	28.5	28.5	7.3	5.9	9.2	6.2	20.0	20.0	225.1	11.6
Preferred Stock Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income applicable to shareholders	111.9	103.3	28.5	28.5	7.3	5.9	9.2	6.2	20.0	20.0	225.1	11.6
Operating Income (GAAP)												
Arbitration award/Expense												
Operating Income (Non-GAAP)												
Interest Income												
Income tax benefit (provision)												
Net Income (Non-GAAP)												
EBITDA	181.3	168.1	58.3	58.3	19.3	11.1	16.3	11.6	54.9	54.9	351.0	28.5
Diluted Earnings per Share (GAAP)	\$2.47	\$2.28	\$0.61	\$0.61	\$0.15	\$0.13	\$0.20	\$0.13	\$0.40	\$0.40	\$4.04	\$0.20
Diluted Earnings per Share (Non-GAAP)	\$2.47	\$2.28	\$1.20	\$1.20	\$0.30	\$0.26	\$0.36	\$0.28	\$0.73	\$0.73	\$4.04	\$0.20
Diluted Shares Outstanding	45,250	45,250	46,397	46,397	47,323	46,450	45,813	46,000	49,489	49,489	55,778	57,161
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%
Research and Development	32.0%	31.0%	42.3%	42.3%	41.4%	38.6%	43.7%	42.0%	37.2%	37.2%	13.6%	38.7%
Selling and Marketing	4.9%	4.9%	13.6%	13.6%	4.3%	3.5%	3.4%	3.5%	13.7%	13.7%	5.7%	4.9%
General and Administrative	14.8%	14.8%	10.0%	10.0%	10.1%	9.7%	10.0%	10.0%	10.3%	10.3%	4.4%	14.8%
Patents Administration and Licensing	30.3%	30.3%	26.3%	26.3%	26.9%	34.8%	24.2%	26.3%	28.9%	28.9%	10.6%	30.3%
Operating Expenses	89.5%	85.8%	82.3%	82.3%	80.5%	86.6%	76.3%	85.5%	90.2%	90.2%	30.0%	89.5%
Operating Expenses (Ex patent & Lit costs)	58.3%	55.8%	55.9%	55.9%	55.8%	51.8%	57.1%	59.2%	50.9%	50.9%	19.4%	58.3%
Operating Margin	10.5%	17.7%	14.5%	17.7%	19.5%	13.4%	23.7%	14.5%	9.8%	9.8%	70.0%	10.5%
Net Margin	7.1%	29.5%	12.6%	12.6%	13.1%	10.0%	16.7%	10.8%	8.5%	8.5%	46.9%	7.1%
Tax Rate	0.0%	35.0%	35.2%	35.2%	35.5%	35.5%	35.0%	35.0%	37.5%	37.5%	35.6%	0.0%
Growth Rates												
Revenue, y/yr	57.3%	8.5%	-3.2%	-3.2%	-17.4%	6.7%	-2.6%	3.9%	-51.2%	-15.7%	194.5%	57.3%
Gross Profit, y/yr	57.3%	8.5%	-3.2%	-3.2%	-17.4%	6.7%	-2.6%	3.9%	-51.2%	-15.7%	194.5%	57.3%
Research and Development, y/yr	27.6%	13.2%	5.9%	5.9%	13.9%	203.6%	204.1%	178.7%	18.4%	18.4%	-16.5%	27.6%
Selling, General, and Administrative, y/yr	11.7%	26.8%	-6.7%	-6.7%	-13.3%	233.6%	146.7%	144.1%	15.5%	15.5%	-13.2%	11.7%
Operating Income, y/yr	-371.6%	286.7%	73.8%	286.7%	-54.9%	-188.3%	24.2%	-399.2%	-93.1%	-93.1%	1868.7%	-371.6%
Net Income, y/yr	7393.5%	262.1%	42.6%	262.1%	-58.6%	-232.8%	5.6%	-411.3%	-91.1%	-91.1%	1838.4%	7393.5%
Diluted EPS, y/yr	7644.5%	271.2%	52.1%	271.2%	-54.6%	-239.8%	12.5%	-427.9%	-90.0%	-90.0%	1886.4%	7644.5%
Revenue Seq1	57.3%	8.5%	-3.2%	-3.2%	2.1%	4.8%	-6.2%	3.5%	-51.2%	-3.0%	194.5%	57.3%

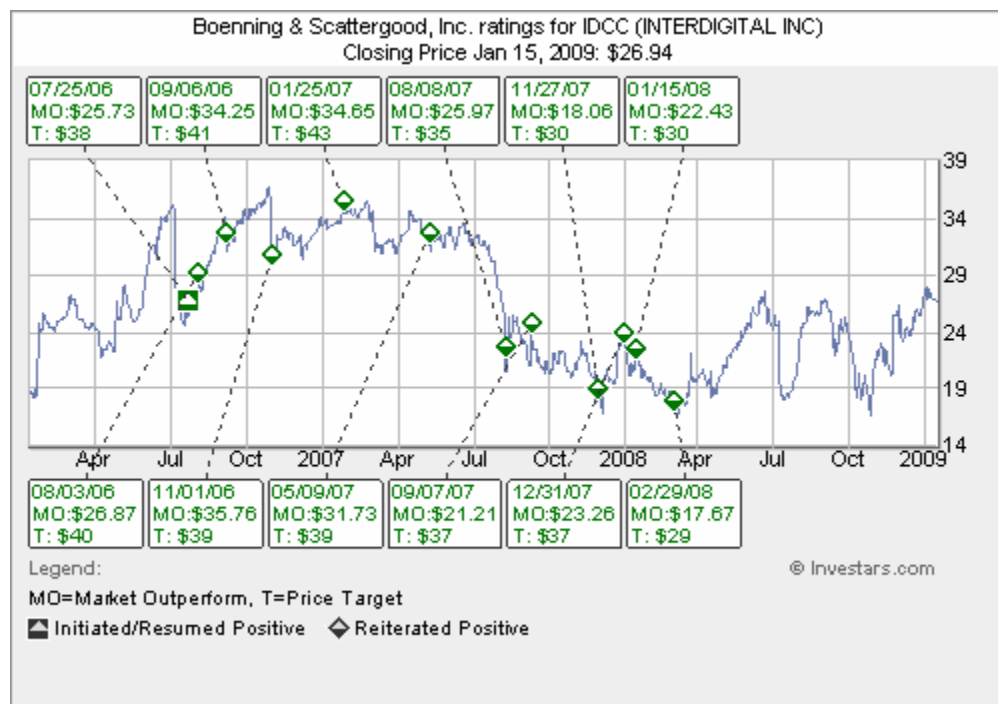
Note: non-GAAP results are presented to reconcile one time events

Michael F. Ciarmoli
610-684-5413
mciarmol@boenninginc.com

Source: IDCC filings, Boenning & Scattergood

Disclosure Appendix

Rating and Price Target History:



Analyst Certification:

The research analysts whose names appears on this research report certify that: (1) all of the views expressed in this research report accurately reflect their personal views about the subject security or issuer, and (2) no part of the research analysts' compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in this research report.

Important Disclosures:

Analyst compensation is based on, in part, Boenning & Scattergood, Inc.'s profitability, which includes revenues from investment banking. Boenning & Scattergood expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Boenning & Scattergood's Ratings System:

Our three-tier investment ratings are based on a stock's return potential relative to a broad market index:

- **Outperform (Buy):** The security's total return over the year or longer is expected to exceed the total return of the S&P 500™ over the identical period.
- **Neutral (Hold):** The security's total return over the next year or longer is expected to be roughly equivalent to the total return of the S&P 500™ over the identical period.
- **Underperform (Sell):** The security's total return over the next year or longer is expected to be less than the total return of the S&P 500™ over the identical period.

Our four-tier risk ratings are based on a mix of price volatility and fundamental factors relative to the market and peer group.

- **Low:** The security has higher-than-average fundamental predictability and/or lower-than-average price volatility.
- **Moderate:** The security has average fundamental predictability and/or average price volatility.
- **High:** The security has lower-than-average fundamental predictability and/or higher-than-average price volatility.
- **Speculative:** The security has very inconsistent fundamental predictability and/or very high relative price volatility.

Ratings Distribution (12/31/08):

<u>Coverage Universe</u>	<u>% of Universe</u>	<u>Investment Banking Clients (a)</u>	<u>% of Rating Group</u>
Outperform (Buy)	56%	Outperform (Buy)	7%
Neutral (Hold)	41%	Neutral (Hold)	0%
Underperform (Sell)	3%	Underperform (Sell)	0%

(a) Related to services provided within the past 12 months.

Additional information on companies in a research report, including financial models, is available on request. Boenning & Scattergood, Inc. does and seeks to do business with companies covered in its research reports. As a result, Investors should be aware that they firm may have a conflict of interest that could affect the objectivity of this report. This report is not a complete analysis of every material fact representing company, industry or security mentioned herein. The information has been obtained from sources believed reliable, but is not necessarily complete and is not guaranteed. The reports are prepared for general information only and do not have regard to the specific investment objectives, financial situation or the particular needs of any specific person who may receive this report. The information is not to be relied upon in substitution for the exercise of independent judgment. It is recommended that Investors seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed in any report and should understand that statements regarding future prospects, earnings estimates and forecasts may not be realized. This communication shall not be deemed to constitute an offer, or solicitation on our part with respect to the sale or purchase of any securities. Securities and financial instruments mentioned herein may not be qualified for sale in all states. Opinions are subject to change without notice and reflect the opinion at its original date of publication. Boenning & Scattergood may have issued a trading opinion that may have identified a short term trading opportunity that may differ from the analyst's stock rating which is based on the expected return over a 12-month period. Boenning & Scattergood may trade for their own accounts as market maker, may have a long or short position in any securities of this issuer or related investments, and/or may be the opposite side of public orders. This firm or its officers, directors, stockholders, employees and clients, in the normal course of business, may have, acquire or sell a position including options, if any, in the securities mentioned. Boenning & Scattergood may also act as underwriter, placement agent, advisor, or lender to an issuer mentioned herein.

BOENNING & SCATTERGOOD INSTITUTIONAL EQUITY CONTACTS

Dir. of Equities & Research Nancy Zeller-Landau nzlandau@boenninginc.com 610.832.5319

■ **RESEARCH ANALYSTS**

Business Services	William Sutherland	wsutherland@boenninginc.com	610.862.5353
Financial Services	Matthew Schultheis, CFA	mschultheis@boenninginc.com	610.832.5290
Financial Services	Jason O'Donnell	jodonnell@boenninginc.com	610.832.5258
Industrials	Ryan Connors	rconnors@boenninginc.com	610.832.5217
Medical Technology	Debjit Chattopadhyay, Ph.D	dchattopadhyay@boenninginc.com	610.684.5417
Retail	Holly Guthrie	hguthrie@boenninginc.com	610.684.5412
Technology	Steve Salberta, CFA	ssalberta@boenninginc.com	610.832.5212
Aerospace and Defense/ Technology	Michael Ciarmoli	mciarmoli@boenninginc.com	610.684.5413

■ **RESEARCH ASSOCIATES**

William DiTullio	wditullio@boenninginc.com	610.684.5407
Christopher Mince	cmince@boenninginc.com	610.832.5274
Michael Roomberg	mroomberg@boenninginc.com	601.862.5337
Kevin Ciabattoni	kciabattoni@boenninginc.com	610.684.5414

■ **INSTITUTIONAL SALES**

Northeast	Eugene Bodo	ebodo@boenninginc.com	610.862.5368
Northeast	Rick Johnson	rjohnson@boenninginc.com	610.832.5306
Northeast	George Marshall	gmarshall@boenninginc.com	610.832.5215
Northeast	Dan McGlinchey	dmcglinchey@boenninginc.com	610.832.5264
Northeast/Southeast	Rich Farr	rfarr@boenninginc.com	610.684.5423
West/Europe	Jeff LaBrot	jlabrot@boenninginc.com	610.832.5309
Mid-West	Matt Oliver	moliver@boenninginc.com	610.684.5420

■ **AGENCY TRADING**

Mark Dengler	mdengler@boenninginc.com	610.862.5330
Joe Budash	jbudash@boenninginc.com	610.862.5330
Andrew Ferraro	aferraro@boenninginc.com	610.862.5330
Harry Himes	hhimes@boenninginc.com	610.862.5330
Brendan Kenny	bkenny@boenninginc.com	212.209.3903
Liam Timoney	ltimoney@boenninginc.com	610.862.5330
Melissa Donahue	mdonahue@boenninginc.com	610.862.5330
Scott Freeze	sfreeze@boenninginc.com	610.832.5335

■ **MARKET MAKING**

Joseph Morrissey	jmorrissey@boenninginc.com	610.862.5360
Sean Clair	sclair@boenninginc.com	610.862.5360
Brendan Dwyer	bdwyer@boenninginc.com	610.862.5363
Jeff McMurray	jmcmurray@boenninginc.com	610.862.5360
Eric Axelson	eaxelson@boenninginc.com	610.862.5360
Adam Booth	abooth@boenninginc.com	610.832.5325

■ **DERIVATIVE STRATEGY**

Louis DePaul	ldepaul@boenninginc.com	610.832.5275
--------------	-------------------------	--------------

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

MEMBER FINRA/SIPC