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MORNING NOTE

October 27, 2011

INTERDIGITAL, INC. (IDCC-Q)

Rating: Buy
12-Month Target: $118.00

Q3'11 EARNINGS RESULTS EXCEED EXPECTATIONS

MARKET INFO: IDCC-Q			
Closing Price			$45.15
Quarterly Dividend			$0.10
Annualized Yield (Based on Last Trade)			0.89%
Target Price			$118.00
Potential ROI (Based on Last Trade)			261.4%
52 Week Range ($)			$22.81 / $82.50
Market Cap ($mm) (Based on Last Trade)			$2,052.65
Cash (mm)			$690.59
Debt (mm)			$200.02
Enterprise Value (mm) (Based on Last Trade)			$1,562.08
Shares o/s (mm)			45.5
Avg Volume (previous 3 months)			2,314,970
FYE: Dec 31	**FY2010A**	**FY2011E**	**FY2012E**
Revenue (mm)	394.55	300.02	465.18
Adj. EBITDA (mm)	263.80	167.20	331.58
EBITDA margin (%)	66.9%	55.7%	71.3%
EPS	$3.48	$1.90	$3.97
FD EPS	$3.43	$1.87	$3.90
VALUATION	**FY2010A**	**FY2011E**	**FY2012E**
EV/Sales	4.0X	5.2X	3.4X
EV/EBITDA	5.9X	9.3X	4.7X
P/E	13.2X	24.1X	11.6X

Source: Capital IQ, M Partners

SO MUCH FOR "DISTRACTION RISK" – EXECUTION SOLID

- Last night InterDigital released its Q3'11 results. It did not hold a conference call, as it continues to explore strategic alternatives.
- Revenue and Adj. EBITDA of $76.5M and $43.0M, respectively, were above our estimates of $74.0M and $41.2M, and above the consensus estimate of $72.1M and $38.6M. EPS of $0.57 was above our estimate of $0.41 and the consensus estimate of $0.40.

($mm)	Actuals			Q3'11 Estimates		Change	
	Q3'11A*	Q2'11A	Q3'10A	M Partners	Consensus	Q/Q	Y/Y
Revenue	$76.5	$69.9	$91.9	$74.0	$72.1	9.4%	-16.8%
Adj. EBITDA	$43.0	$37.4	$61.4	$41.2	$38.6	14.8%	-30.1%
EBITDA (%)	56.2%	53.5%	66.8%	55.6%	53.5%	+206 bps	-1123 bps
FD EPS	$0.57	$0.37	$0.80	$0.41	$0.40	51.3%	-28.9%

Source: M Partners, Company Reports, Capital IQ
*Adj. EBITDA inferred from "non-cash expenses". May be updated upon filing of 10-Q.

- Q3 results were down Y/Y due to the absence of $14.4M in royalties recognized from LG.
- Results were up Q/Q due to $7.9M of past sales recognized related to an audit resolution with an existing customer, up from $0.4M in Q2'11 and $0.7M in Q3'10.
- Operating expenses increased $6.8M versus the same quarter last year due primarily to $5.2M of IP enforcement and non-patent litigation costs related to the recent ITC action.
- During the quarter, OPEX increased by $1.5M due to the strategic alternatives process.
- The company's top three customers by revenue continue to be Samsung (34%), RIM (15%) and HTC (11%).
- IDCC now has approximately 19,000 issued and pending patents, up from 18,500 at the end of FY'10.
- Per-unit royalties of $34.2M were down from $35.8M in Q3'10 due primarily to continued softness in the Japanese market.

ARE THERE CLUES FOR INVESTORS IN THE PRESS RELEASE?

- Regardless of the status of the process currently being managed by Evercore and Barclays on behalf of the Board of Directors, management continues to operate business as usual and is creating incremental value that interested parties should notice.
- The company has highlighted faster than expected adoption of LTE technology, while re-iterating its "leading position" in LTE.
- We notice that the company has specified "core terminal unit licensing business", which may be an approach to categorize potential asset groups for interested parties.
- Finally, investors should also be encouraged that the press release highlighted that the engineering team continues to produce new high quality (and award winning) inventions. So far, the team appears to have produced approximately 500 new patents so far this year.

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THE GOOD NEWS REGARDING THE HUAWEI COMPLAINT TO THE ITC

- Essentially Huawei is complaining to the ITC that InterDigital is not being Fair Reasonable and Non-Discriminatory (FRAND) regarding the licensing demands associated with eight essential patents being reviewed by the ITC. The inference is that Huawei expects to pay a royalty, they just do not want to pay InterDigital's price.
- Our fundamental value estimate of $65.50 does not include licensing revenue from Huawei, ZTE, or Nokia, which represents approximately 32% of the total market.
- Based on the sheer volume of 19,000 patents and patents pending, the range of invention from the handset, to the network, to video compression, and the recognized quality of the patents, we are remain confident in our BUY recommendation and $118.00 takeout valuation. With the progress made by the company and the posturing by Huawei, we are confident that there is upside to our fundamental value, implying that there may be minimal fundamental downside at the current share price range.
- Our $118.00 share price target includes $12.00 per share of net cash, and implies $284,000 per patent and patent pending versus the mean value of over $600,000 implied by recent patent deals by Novell, Nortel, and Mosaid.

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Buy: price expected to rise
Sell: price is inflated and expected to decrease
Hold: properly priced
Speculative Buy: price expected to rise; material risk to the investment exists
Under review: not currently rated

Summary of Recommendations		
As of September 30, 2011		
Buy	42	93%
Hold	2	5%
Sell	1	2%
Total	45	100%

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