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MORNING NOTE

February 1, 2011

INTERDIGITAL (IDCC-Q)

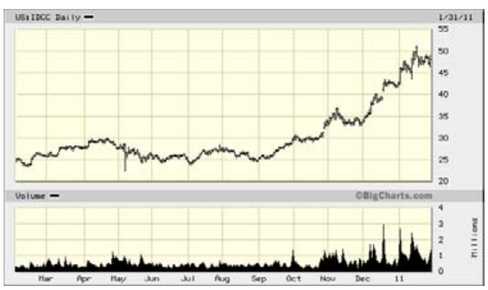
Rating: Buy
New 12-Month Target: $57.00

ACER LICENSING DEAL IS INCREMENTAL TO OUR SUM-OF-THE-PARTS ESTIMATE

Previous Target: $54.00

MARKET INFO: IDCC-Q			
Closing Price			$48.15
Quarterly Dividend			$0.10
Annualized Yield			0.83%
Target Price			$57.00
Potential ROI			18.4%
52 Week Range ($)			$22.30 / $51.03
Market Cap ($mm)			$2,133.96
Cash (mm)			$563.58
Debt (mm)			$0.54
Enterprise Value (mm)			$1,570.92
Shares o/s (mm)			44.3
Avg Volume (previous 3 months)			925,440
FYE: Dec 31	**FY2009A**	**FY2010E**	**FY2011E**
Revenue (mm)	297.40	395.30	460.66
EBITDA (mm)	185.16	266.76	324.40
EBITDA margin (%)	62.3%	67.5%	70.4%
EPS	$1.95	$3.49	$4.20
VALUATION	**FY2009A**	**FY2010E**	**FY2011E**
EV/Sales	5.3X	4.0X	3.4X
EV/EBITDA	8.5X	5.9X	4.8X
P/E	24.7X	13.8X	11.5X

Source: Capital IQ, M Partners



SECOND LARGEST PC-MAKER IN THE WORLD BECOMES GLOBAL LICENSEE

Yesterday, InterDigital announced that it has entered into a worldwide patent licensing agreement with Acer (the world's #2 PC vendor) for 2G, 3G, and 4G essential patents. This marks the second deal (after Pantech) that includes InterDigital's 4G patents. Because there was no litigation associated with this agreement, the implied margins of this licensing arrangement should be healthy. We continue to believe that InterDigital will maintain the highest margins among peers within the IPR industry because it has lower licensing friction due to its inventor reputation and business model, which lead to lower litigation costs, and lower OPEX.

Although Acer does manufacturer some smartphones, we believe that this deal is related to Acer's stated intentions to begin manufacturing and selling Android based tablet devices. In December, Acer announced that it plans to capture between 15% and 20% of the tablet market for 2011, which IDC sizes at between 40 million and 50 million units. Tablet devices are a new mobile computing category that had not previously been considered for 2G, 3G, or 4G licensing.

Whereas InterDigital has stated publicly in the past that it has 50% of the mobile handset market under license and plans to capture 100% of that market, tablets expand licensing opportunities into more traditional computing segments dominated by vendors like Hewlett-Packard, Acer, Lenovo, and Dell Computing.

Already, Android-enabled tablets are making a major impact on the make-up of the tablet market as it expands. In Q3'10, Apple (AAPL-Q) controlled 97% of the tablet market but declined to 75.3% in Q4'10 as 2.1 million Android tablets (mostly Samsung Galaxies) were shipped during the quarter.

IMPACT ON VALUATION

Although specific terms of the agreement have not been disclosed, we believe the Acer license adds about $3.00 to our sum-of-parts valuation. Our assumptions are detailed below:

- 5-year per unit license at a 1% royalty rate;
- 40M tablets sold in 2011, growing to 243M by 2015 with average selling prices declining from $600 to $235 during the period; and
- Acer market share of 7.5% in 2011 growing to 17.5% by 2015;

Tablets (In MM)	2011E	2012E	2013E	2014E	2015E
Total Shipments	40.0	68.0	108.8	168.6	243.0
ASP	$600	$500	$425	$350	$235
Total Market Size	$24,000	$34,000	$46,240	$59,024	$57,105
Acer Market Share	7.5%	10.0%	12.5%	15.0%	17.5%
Acer Shipments	3.0	6.8	13.6	25.3	42.5
Potential Royalties	$18.0	$34.0	$57.8	$88.5	$99.9
After-Tax Royalties @ 33%	$12.1	$22.8	$38.7	$59.3	$67.0
Present Value	$11.1	$19.3	$30.2	$42.6	$44.3

Total Present Value (MM)	$147.6	**Discount Rate**	**8.6%**
Shares Outstanding	44.3		
Per Share Value	**$3.33**	**Royalty Rate**	**1.0%**

Source: IDC, Yankee Group, M Partners

Sensitivity Table

		Royalty Rate		
		0.5%	**1.0%**	**1.5%**
Discount Rate	**8%**	$1.70	$3.40	$5.10
	10%	$1.59	$3.18	$4.77
	12%	$1.49	$2.98	$4.47

Source: M Partners

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RECOMMENDATION

- **Due to incremental licensing revenue associated with this deal, we re-iterate our BUY recommendation and increase our target price to $57.00 from $54.00.**
- If Acer meets or exceeds its 2011 goal of capturing 15% to 20% of the world tablet market, and it is on a per unit licensing arrangement with IDCC, this could add another $2.00 to $3.00 to our sum-of-the-parts estimate.
- Our valuation assumes that LG renews its 3G license but it does not include a potential licensing agreement with Nokia, nor does it include potential licensing agreements with handset manufacturers such as Motorola, Sony-Ericsson, ZTE, or Huawei.
- Additionally, our valuation does not contemplate incremental licenses from computer manufacturers such as Dell Computing, Hewlett-Packard, Lenovo, or others in the category.

Sum of Parts	Value (In MM)	Per Share
Cash and Equivalents	$563.6	$12.72
Existing Per-Unit Agreements	$1,040.0	$23.47
LG and Samsung Renewal	$371.0	$8.37
4G/LTE Opportunity	$694.3	$15.67
Acer License	**$147.6**	**$3.33**
Less: LT Debt	$0.6	$0.01
TOTAL	**$2,817.2**	**$63.57**
10% Pennsylvania Discount	**$2,535.4**	**$57.21**

Source: M Partners

IMPACT ON FY 2011 PERFORMANCE

In its press release Acer has stated it was planning to launch the tablet in April. InterDigital recognizes revenue quarterly in arrears, so we expect two quarters of recognized revenue during FY'11. Our base case assumptions estimate that EBITDA should increase by $9.0M to $324.3M from $315.3M. Expressed on a per share basis, this adds $0.21 EBITDA/share, increasing EBITDA/share to $7.32 from $7.11 EBITDA/per share. EPS increases to $4.24, up from $4.07 EPS. Due to the licensing efficiencies associated with this agreement, EBITDA margins increase from 69.7% to 70.4%. The mean EBITDA margin of its comparative group is 41.2% with the nearest comparative margin at 58.2% (MSD-TSX).

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Rating System

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 December 31, 2010		
Buy	28	80%
Speculative Buy	1	3%
Sell	2	6%
Hold	3	9%
Under Review	1	3%
Total	35	100%

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