

INTERDIGITAL INC. (IDCC-Q)

 Rating: **BUY**
 12-Month Target: **\$48.00**
ESSENTIAL 3G AND 4G PATENTS CRUCIAL TO THE MOBILE ECOSYSTEM

MARKET INFO: IDCC-Q			
Closing Price			\$28.71
Target Price			\$48.00
Potential ROI			67.2%
52 Week Range (\$)		\$18.41 / \$29.98	
Market Cap (\$mm)		\$1,264.76	
Cash (mm)		\$485.80	
Debt (mm)		\$0.62	
Enterprise Value (mm)		\$779.58	
Shares o/s (mm)		44.1	
Avg Volume (previous 3 months)		393,650	
FYE: Dec 31	FY2009A	FY2010E	FY2011E
Revenue (mm)	297.40	398.10	406.73
EBITDA (mm)	185.16	264.93	286.95
EBITDA margin (%)	62.3%	66.5%	70.6%
EPS	\$1.95	\$3.44	\$3.68
VALUATION	FY2009A	FY2010E	FY2011E
EV/Sales	2.6X	2.0X	1.9X
EV/EBITDA	4.2X	2.9X	2.7X
P/E	14.7X	8.3X	7.8X

Source: Capital IQ, M Partners



UNDER THE RADAR AND UNDERVALUED ...

- ➔ **InterDigital gets paid on every 3G enabled iPhone, iPad, Blackberry, and HTC phone sold globally.**
- ➔ **With the strength of its wireless inventions, IDCC is well positioned to participate in the exponential growth of 3G, 4G, and M2M devices via a portfolio of essential patents.**
- ➔ **IDCC is highly profitable with EBITDA (LTM) margins of 65.5% and a FCF (LTM) yield of 42%.**
- ➔ **IDCC has a strong balance sheet with net cash representing 46% of its market cap and trades at a low EV/FCF (LTM) of 2.4x.**

AN INVENTOR OF WIRELESS TECHNOLOGIES

- InterDigital Inc. (IDCC-Q) designs, develops and licenses wireless technologies such as 3G, LTE/4G, WiMax, and M2M communications. The company employs over 200 engineers and has 7,238 issued patents with 10,213 patent applications in process. Licensees include Samsung, RIM, HTC, Apple, LG, and Sierra Wireless.
- **InterDigital has over 55% of all 3G devices under license and holds 19% of 4G/LTE essential patents, second only to Qualcomm (QCOM-Q, Not Rated).** By definition, essential patents are patents that are so basic to a technical standard that it is impossible to design any device that complies with the standard without infringing the patent.

VALUATION AND RECOMMENDATION

- Though largely respected amongst wireless insiders and technologists, InterDigital's shares command limited investor attention. IDCC trades at FY'10 and FY'11 EV/EBITDA multiples of just 2.9x and 2.7x respectively.
- After adjusting for cash on hand, we infer that public markets currently value IDCC's patent portfolio at \$675M. Based on its portfolio of existing 3G licensees and the size of the potential 4G/LTE licensing opportunity ahead, we believe that the company's patent portfolio should be worth approximately \$1.8 billion.
- **We initiate coverage with a BUY recommendation and a \$48.00 target price based on a sum of parts approach to valuation.** Our target price implies FY'10 and FY'11 EV/EBITDA multiples of 6.0x and 5.6x. This compares to its nearest peers in the IP licensing space which trade at multiples of 11.6x and 11.5x respectively.

Management

William Merritt, CEO and Director

Scott McQuilkin, CFO

Directors

Steven Clontz, Chairman

Robert Roath

Edward Kamins

John Kritzmacher

Jeffrey Belk

Jean Rankin

Major Shareholders

BlackRock Inc.	6.2%
Heartland Advisors Inc.	5.2%
The Vanguard Group Inc.	4.5%
Opus Capital Management LLC	3.1%
State Street Global Advisors Inc.	2.6%

Source: Capital IQ

SIX REASONS TO BUY SHARES TODAY

Over the past four decades, InterDigital Inc. (IDCC-Q) has invented fundamental technologies that are now at the core of the mobile ecosystem. It appears that the company has been largely ignored and/or misunderstood by the investment community and we recommend that investors buy the stock for the following reasons:

- Essential Patents for Mobile Broadband:** IDCC has 7,238 issued patents and 10,213 patent applications in process. The company has over 55% of all 3G devices under license and 19% of all declared 4G/LTE essential patents, second only to Qualcomm (QCOM-Q). We estimate that IDCC captures an effective royalty rate of about 0.90% of the selling prices of all 3G devices under license and should see a 10% incremental increase in its rates as 4G/LTE networks begin deployment.
- LTE/4G upgrade is more urgent now than 3G deployment was:** According to Cisco, mobile data traffic grew by over 160% from 2008 to 2009 and is anticipated to grow at a CAGR of 108% from 2009 to 2014. Moreover, Cisco estimates that data demand will outpace current network capacity by up to 20x in 2014. In anticipation of the impending mobile bandwidth crunch driven by smart phones, net books, and tablets, over 100 carriers worldwide plan to deploy LTE network upgrades starting in 2011. InterDigital has developed key 4G technologies to optimize existing spectrum and enable seamless mobility across cellular and non-cellular networks.
- Sizeable and Rapidly Growing Market:** According to iSuppli, about 38% of the 1.1B mobile handsets sold in 2009 were 3G devices and this should grow to approximately 60% by 2013. If IDCC could capture a 0.90% royalty stream from its existing 3G licensees from now until 2013, the company could generate over \$2.3B from 3G royalties alone. We estimate that the combined 3G and 4G/LTE handset market could be worth \$179B per annum by 2014, up from about \$55.7B in 2009. IDCC's addressable market extends beyond handsets and into M2M modules and consumer electronics such as tablets, eReaders, camcorders, and netbooks. Based on ABI Research estimates, new categories of consumer electronics could represent over 50% of the potential \$574 B per annum 3G/4G mobile market in 2014.
- Free Option on 4G/LTE Opportunity and License Renewals:** Our sum of parts valuation indicates that the market values only the company's cash on hand and existing 3G royalty streams, which calculate to \$29.39 (see table below). Based on the current 50 day moving average share price of \$26.50, we infer that the market: i) values IDCC's 4G/LTE essential patents at \$0.00; ii) assigns zero probability of renewing the LG and Samsung 3G licenses; and iii) discounts the existing agreements by 16%. We believe that our intrinsic value estimate of \$53.59 more accurately reflects the aggregate sum of all of these opportunities.

Sum of Parts	Value (In MM)	Per Share	Per Share w/o Renewals
Cash and Equivalents	\$585.8	\$13.30	\$13.30
Existing Per-Unit Agreements	\$709.1	\$16.10	\$16.10
LG and Samsung Renewal	\$371.0	\$8.42	\$0.00
4G/LTE Opportunity	\$694.3	\$15.76	\$15.76
Less: LT Debt	\$0.6	\$0.01	\$0.01
TOTAL	\$2,360.8	\$53.59	\$45.17

Source: M Partners

- Fears Over-Weighted:** Some of the pricing pressure on the stock may be attributed to the expiry on Dec 31, 2010 of IDCC's licensing agreement with LG. Investor's concerns on this issue may be warranted since LG represents 19% of IDCC's FY'09 revenues. However, we believe that it would be nearly impossible for LG to continue selling 3G phones without infringing IDCC's essential 3G patents. The real uncertainty associated with LG is limited to the timing and the size of the renewal during 2011. We highlight that even if IDCC were to give both LG and Samsung free 3G licenses in consideration for signing up for 4G/LTE licenses, our intrinsic value estimate calculates to \$45.17 which still represents a 57% premium to IDCC's current share price.
- Nokia Litigation Upside:** Of the 45% of 3G devices currently not under license, 76% is represented by Nokia. The company is actively litigating against Nokia for past infringement and for future royalty streams. We estimate that if IDCC is successful, this could represent up to \$350M in past damages and \$750M in future royalties. However, even if IDCC's litigation is unsuccessful, we anticipate that Nokia will rapidly lose market share to iPhone and Android-based devices. Without Nokia, we believe that IDCC could still capture up to 65% of the 3G handset market by 2014.

WHO IS INTERDIGITAL?

InterDigital has been inventing wireless technologies for almost four decades.

InterDigital has been in the business of inventing wireless technologies for almost four decades. These inventions underpin many key technologies incorporated into almost every wireless device in use today. Since going public in 1981, the company has been awarded 7,238 patents and currently has 10,213 patent applications pending.

Despite having generated billions of dollars in licensing revenues over the years, shares of the company have been volatile. Our view to this is that IDCC's historical share price performance has reflected lumpiness of an emerging IP licensing business model. Over the past several quarters, the company has matured its capabilities to better monetize its patent portfolio and deliver cash flow. As a result, we believe that there is an emerging disconnect between the company's market capitalization and the value of its patent portfolio and associated royalty streams.

Current challenges associated with global mobile network congestion have to be addressed by technologies comprised, wholly or in part, of essential patents designed and held by IDCC. Decades of R&D efforts related to 3G and 4G standards should support a sustained period of solid financial growth and earnings performance.

THE VALUE OF INVENTION

InterDigital can be characterized as a non-practicing entity ("NPE"), which means that the company does not create or manufacture products based on its patented inventions, but instead monetizes its intellectual property ("IP") through licensing agreements with product companies such as Samsung and Research In Motion among dozens of others. InterDigital can be distinguished from most other NPEs because almost all of its IP is invented through internal R&D. Most other NPEs primarily focus on acquiring patents from third parties with the objective of targeting potential infringers of the acquired patents. As compared to companies we characterize as "patent acquirers", InterDigital spends significantly more on R&D as a percentage of revenues and considerably less on litigation. As highlighted in the table below, "patent acquirers" spend almost 300% more on acquiring IP than on R&D whereas "patent inventors" focus most of their expenditures on internal R&D.

Company Name	3-Year Average		
	R&D as % of Revenue	Litigation as % of Revenue	IP Acq. to R&D Ratio
Patent Acquirers			
Wi-Lan Inc. (TSX:WIN)	11.0%	47.1%	304%
MOSAID Technologies Inc. (TSX:MSD)	4.0%	23.9%	172%
Acacia Research Corporation (NasdaqGM:ACTG)	2.0%	16.7%	408%
Patent Acquirer Average	5.7%	29.2%	294.6%
Patent Inventors			
InterDigital, Inc. (NasdaqGS:IDCC)	33.7%	12.3%	0%
Tessera Technologies Inc. (NasdaqGS:TSRA)	21.7%	18.0%	11%
Rambus Inc. (NasdaqGS:RMBS)	53.0%	36.7%	15%
Patent Inventor Average	36.1%	22.3%	8.5%

Source: Company Reports

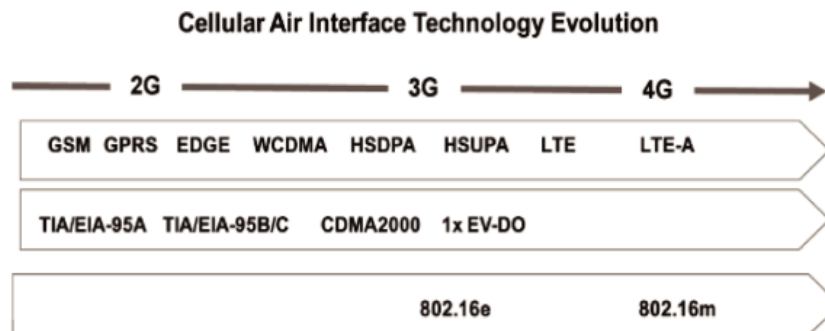
BECOMING ESSENTIAL: STANDARDS-BASED R&D

IDCC has helped define today's global wireless standards.

InterDigital focuses its R&D on generational shifts in wireless technologies and aims to provide complete solutions to the most complex and technical challenges rather than the "strategic inventing" of point solutions. By solving next generation wireless challenges years ahead of market deployment, IDCC develops a significant body of knowledge which it leverages into leadership positions within Standards Development Organizations (SDO). IDCC's holding of these leadership positions within key industry standards initiatives is significant because this means that IDCC can influence which patents become "essential patents" for any particular standard. Essential patents are so basic to a technical standard that it is impossible to design any device that complies with the standard without infringing the patent.

It is no surprise then that InterDigital has played a central role in defining today's global wireless standards.

Currently, hundreds of IDCC's technology contributions to WCDMA, HSDPA and HSUPA are included in 3G mobile specifications. In addition, the company is amongst the leading contributors to the standardization process for LTE (Long Term Evolution), LTE-Advanced, various IEEE 802 groups such as 802.21, and other convergence solutions, both wired and wireless. Over the course of its existence, InterDigital has invented technologies that have been embedded into all of the standards set out below.



Source: Company Reports

Licensees include the world's leading manufacturers of mobile devices.

Current licensees for IDCC's patents include some of the world's leading brands and manufacturers of mobile devices and wireless infrastructure equipment:

- Apple
- Samsung
- Sharp
- Cinterion
- Research in Motion
- LG
- Sierra Wireless
- Alcatel-Lucent
- HTC
- NEC
- Panasonic
- Infineon

In addition to its patent licensing business, IDCC generates revenue through specialized engineering services and the licensing of technology solutions including 3G protocol software and physical layer designs. The company's SlimChip technologies are incorporated into millions of 3G devices including the iPhone and iPad.

NETWORKS MUST UPGRADE TO LTE TO MEET DATA DEMAND

According to Cisco, mobile data traffic grew by over 160% from 2008 to 2009 and is anticipated to grow at a CAGR of 108% from 2009 to 2014. Moreover, Cisco estimates that data demand will outpace capacity by up to 20x in 2014. This exponential growth in mobile data is expected to be driven by the rapid adoption of smart phones, the unprecedented success of social networking on mobile devices, and popular apps such as mobile video and cloud-based music.

There are 132 carriers in 56 countries that are investing in LTE now.

In order to meet demand, network operators worldwide are scrambling to increase the capacity of their networks by upgrading to LTE. Currently, there are 132 carriers in 56 countries that are investing in LTE. By 2015, it is anticipated that there will be as many as 500M LTE subscribers globally. Still, LTE only represents up to a 5x improvement in bandwidth from current 3G networks which means that a significant gap of between data demand and capacity will still exist.

In anticipation of the significant demands placed on wireless networks, InterDigital has focused its R&D on three comprehensive areas of bandwidth innovations beyond its LTE essential patents. The company describes its approach as "bigger pipes, more pipes, and better pipes".

- **Bigger Pipes:** Increase the capacity of wireless systems through spectrum optimization.
- **More Pipes:** Seamless connectivity and mobility across both cellular and non-cellular networks to optimize throughput and data offload.
- **Better Pipes:** Intelligent data delivery techniques that combines the bandwidth of cellular and non-cellular networks and optimizes content based on device capabilities and network

bandwidth.

InterDigital's longer term R&D efforts are underpinned by technology solutions that will facilitate a "network of networks", connecting people to people, people to things, and things to things (M2M). This next generational shift will result in a dramatic rise of data connections per person and seamlessly connect billions of subscribers with trillions of connections.

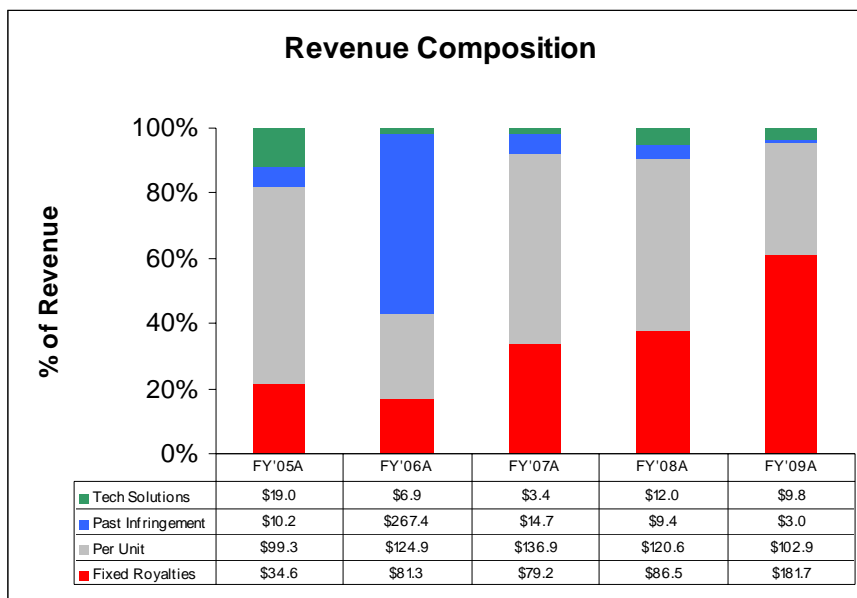
REVENUE MODEL

IDCC captures a royalty rate of 0.9% on over 55% of all 3G phones shipped globally in 2009.

- IDCC generates revenues primarily from licensing its wireless patents to mobile equipment and handset makers. While some customers such as Apple seek licensing arrangements with IDCC before selling devices utilizing IDCC inventions, most do not. IDCC generally approaches companies which it believes are utilizing its patented inventions and seeks to establish license agreements ex-post. Companies reluctant to sign license agreements face litigation from IDCC.
- Due to this ex-post approach, IDCC's license agreements typically provide for future royalties as well as consideration for past infringement. Royalty payments can be made on a lump sum basis to cover the use of IDCC's technologies for a certain period or on a per unit basis at a rate of 1% of the average selling prices of devices sold. Paid-up or perpetual licenses covering older generation technologies such as 2G/2.5G are also sold in consideration for taking up licenses for essential technology in newer standards.
- InterDigital licenses to over 55% of the 445M 3G phones shipped globally in 2009 and we estimate that it captures an effective royalty rate of about 0.9% across all licensees. Our estimate is based on an average selling price of \$125 divided by \$285M in current royalties reported in FY'09.
- The balance of IDCC's revenues are derived from licensing its SlimChip technologies. This stream of revenues includes one time engineering services as well as the licensing of the technology stack on a per-unit basis. IDCC's most notable technology licensee is Infineon (now Intel) which makes the baseband modem chipsets used by 3G enabled iPhones and iPads.

REVENUE COMPOSITION

- Excluding the one time revenue impact of the \$253M Nokia arbitration agreement in FY'06, fixed royalties have increased as a percentage of total revenues over the past five years from 21% in FY'05 to 61% in FY'09.



- As a percentage of total royalties, the company plans to maintain revenue contribution from fixed royalties in a range from 40% to 60%. Although the effective royalty rate for fixed payment agreements often works out to be less than the rate that per-unit licensees pay, the increasing proportion of fixed royalties relative to per-unit royalties is advantageous to IDCC for two reasons:
 - Fixed royalty payments are an effective hedge against slower than anticipated handset sales on a macro level as well as market share losses by licensees; and
 - Large upfront cash payments associated with fixed royalty agreements provide IDCC with a significant cash balances, which allows the company to pursue lengthy litigation with infringers. Consequently, IDCC is less vulnerable to delay strategies used by larger companies to overwhelm their opponents' legal budgets with motions. This helps to facilitate quicker monetization of InterDigital's patents.

VALUATION

- The market currently values IDCC at approximately \$1.26B. For the second quarter ended June 30, 2010, IDCC reported cash equivalents worth \$486M and accounts receivables of \$159M. Of these receivables, \$100M was owed by Samsung and has since been paid. This means that IDCC effectively has cash equivalents of \$586M or \$13.30 per share. Subtracting that figure from IDCC's market cap implies that the market is currently valuing IDCC's primary asset, its patent portfolio, at \$675M. Consequently, we believe that IDCC's shares may be considerably undervalued on both an absolute and relative basis.
- **We have taken a sum of parts approach to estimating the intrinsic value of IDCC. Our calculation of \$53.59 per share of value represents the sum of:**
 - 1) Total cash equivalents less outstanding debt which calculates to \$585.8M or \$13.30 per share.
 - 2) The present value of IDCC's existing per-unit license agreements which we estimate to be worth \$709.1M or \$16.10 per share;
 - 3) The potential value of LG and Samsung 3G renewals in 2011 and 2012 respectively which we value at \$371M or \$8.42 per share; and
 - 4) The value of company's 4G licensing opportunity which we estimate to be worth \$694.3M or \$15.76 per share.
- Considering that cash plus current 3G licensees under contract calculates to \$29.39, we infer that the market believes:
 - i. No licensees will renew 3G agreements when they become due; and
 - ii. IDCC is incapable of monetizing its 4G/LTE essential patents.
- The bulk of InterDigital's 3G patents do not expire until 2015, so as long as licensees such as LG and Samsung have paid in the past and acknowledged the use of the company's patents, they should renew. The only questions in terms of renewal are timing and value. We highlight that even if InterDigital were to give away 3G licenses in exchange for signing LG and Samsung up for 4G/LTE licenses, our intrinsic estimate only declines by \$8.42 per share.
- The company has a proven history of being able to successfully transition almost all of its 2G/2.5G licensees into 3G licenses. Evidence suggests that it has the capability to repeat the transition from 3G to 4G. The macro conditions for 4G/LTE are more favourable to IDCC than they were for 3G. Due to the shortage of data capacity there is urgency for the ecosystem to evolve quickly which could result in negotiating leverage for IDCC.
- InterDigital is incorporated in Pennsylvania which is reputed as having the toughest state anti-takeover laws in the US. A variety of academic publications estimate that this can impact a company's value by as much as 10%. We therefore apply a discount of 10% to our intrinsic value estimate of \$53.59 to arrive at our target price.
- **We are initiating coverage on IDCC with a BUY recommendation and a target price of \$48.00 per fully diluted share. Our target price implies FY'10 and FY'11 EV/EBITDA multiples of 6.0x and 5.6x, which represents a 46% and 50% discount to NPE peer multiples, and a 57% discount to QCOM, its closest peer in 4G essential patents.**

Intrinsic value of IDCC calculates to \$53.59 per share.

SUM OF PARTS ANALYSIS

VALUE OF EXISTING PER-UNIT LICENSE AGREEMENTS

Per Unit royalty streams are valued at \$16.10 per share.

- Our analysis indicates that the total value of InterDigital's per-unit royalty streams is \$709.1M or \$16.10 per share.
- We arrive at our valuation by applying a discount rate of 8.6% to our estimate of royalty streams from existing license agreements.
- Our discount rate is a function of a sector beta of 1.2, a 2.7% risk-free rate (10-year US government bond yield), and a risk premium of 5%.

	Royalty Rate	License	Expiry Date
Handsets			
Sharp	1% of ASP	2G/3G	Dec-14
NEC/Casio Hitachi	1% of ASP	3G	Dec-15
Panasonic	1% of ASP	3G	Dec-15
RIM	1% of ASP	3G	Dec-14
HTC	1% of ASP	3G	Dec-15
Kyocera	1% of ASP	2G/3G	Dec-14
M2M			
Sierra Wireless	1% of ASP	2G/3G	Dec-14
Cinterion	1% of ASP	2G/3G	Dec-12
Enfora	1% of ASP	2G/3G	Dec-14
SlimChip Modem			
Infineon	\$0.30-0.50	SlimChip	Dec-14

Source: Company Reports, M Partners

3G HANDSETS

3rd largest 3G essential patent portfolio.

- The market for 3G handsets was \$55.7B in 2009 and is expected to grow to \$159.7B by 2014. InterDigital holds 94 essential patents for 3G technologies and is the third largest essential patent holder for 3G behind Qualcomm with 204 and Ericsson with 155. Some of IDCC's 3G technologies include: bandwidth allocation, power control, handover enhancements between cells, and high speed packet data channel coding.
- The company has over 22% of the 445M 3G phones shipped globally in 2009 under a per unit license and we estimate that it captures a royalty rate of about 1%.

3G Vendor Market Share	
Nokia	34.0%
Samsung	21.2%
LG	8.9%
RIM	3.5%
Sony Ericsson	3.5%
Apple	2.9%
Motorola	2.8%
HTC	1.1%
Other	22.1%

Source: ABI Research

22% of all 3G handsets worldwide licensed on a per unit basis in Q1'10.

- Most of the company's historical 3G royalties come from South Korea and Japan where 3G markets are mature. IDCC is just beginning to generate revenue from recent 3G smart phone entrants such as RIM and HTC in other regions. As at Q1'10, HTC 3G handsets represented a market share of 1.1% globally.
- Bolstered by the popularity of the Android operating system, we believe that HTC's market share could grow significantly and could reach as high as 2% by 2015.
- Based on key assumptions detailed in the table below, we estimate that the present value of InterDigital's 3G handset royalty streams is worth \$613.7M today.

3G Per-Unit Royalties						
Shipments	2010E	2011E	2012E	2013E	2014E	2015E
RIM (MM)	22.3	28.3	35.4	42.1	47.4	50.4
Market share	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
ASP	\$300	\$275	\$250	\$225	\$200	\$180
HTC (MM)	7.0	9.7	14.2	18.0	23.0	28.8
Market share	1.1%	1.2%	1.4%	1.5%	1.7%	2.0%
ASP	\$225	\$200	\$175	\$150	\$125	\$100
Other (MM)*	110.9	129.3	157.0	180.5	196.5	201.5
Market share	17.4%	16.0%	15.5%	15.0%	14.5%	14.0%
ASP	\$100	\$95	\$90	\$85	\$80	\$75
Value Analysis						
Value of Shipments (MM)	\$14,516	\$22,003	\$25,467	\$27,525	\$28,091	\$17,991
Royalties to IDCC @ 1%	\$145.2	\$220.0	\$254.7	\$275.3	\$280.9	\$179.9
After-Tax Royalties @ 33%	\$97.3	\$147.4	\$170.6	\$184.4	\$188.2	\$120.5
Present Value	NA	\$130.3	\$138.8	\$138.2	\$129.8	\$76.6
Total PV	\$613.7		Discount Rate		8.6%	

Source: Gartner, ABI Research, M Partners

*Note: "Other" market share of 16% during 2011 is based on IDCC's current share of 3G phones under license of 55% and subtracting Samsung's, LG's, RIM's, HTC and Apple's 2010 aggregate market shares of 34.6%. This calculates to 17.4% for 2010 and we then assume incremental market share losses to Apple, HTC, and Samsung going forward.

Average 1% royalty per handset.

TECHNOLOGY SOLUTIONS

- IDCC's most notable technology solutions licensee is Infineon (now Intel). We estimate that IDCC receives \$0.40 from Infineon/Intel for every 3G enabled iPhone and iPad sold. Based on our forecast assumptions below, we calculate a present value of \$74.2M.

SlimChip (In MM)	2011E	2012E	2013E	2014E
Apple iPhone	55	65	70	78
Apple 3G iPad	15	20	25	30
Total Shipments	70	85	95	108
\$/Unit	\$0.40	\$0.40	\$0.40	\$0.40
Total Royalties	\$28.0	\$34.0	\$38.0	\$43.2
After-tax Royalties @ 33%	\$18.8	\$22.8	\$25.5	\$28.9
Present Value	\$16.6	\$18.5	\$19.1	\$20.0
Total PV	\$74.2	Discount Rate		8.6%

Source: Gartner, M Partners

CELLULAR M2M MODULES

- M2M is about enabling communications between a machine and a mobile terminal (machine-to-mobile and mobile-to-machine) or between a machine and a back-end information system (machine-to-machine). Key applications for M2M devices include:
 - Energy:** Cellular connectivity to smart meters for automated meter reading, demand response, and remote connect/disconnect to optimize energy consumption.
 - Security:** Cellular connectivity to security alarms.
 - Remote Monitoring:** Multiple cellular telemetry applications including remote product service, condition monitoring, and asset monitoring.
 - Healthcare:** Embedded cellular tele-health and telemedicine applications such as the remote monitoring of persons with chronic diseases.
 - Automotive:** Cellular connectivity to vehicles for roadside assistance, in-vehicle infotainment, toll collection, fleet management, and pay as you drive auto insurance.
- The multitude of applications and devices could mean trillions of bandwidth intensive connections which all need to be seamlessly connected and fully integrated. ABI Research anticipates that the total annual market value of cellular enabled M2M devices will grow at a CAGR of 23% to \$3.8B by 2015.
- InterDigital's cellular M2M module licensees currently include Sierra Wireless, Cinterion, and Enfora. ABI Research estimates their current market shares to be 20%, 20%, and 5% respectively. The Sierra Wireless and Enfora agreements expire in December 2014 and the Cinterion agreement expires in December 2012. Assuming no loss in market share for the three vendors, we estimate that the total present value of IDCC's M2M agreements is \$21.3M.

45% of M2M market under license.

M2M Modules (In MM)	2011E	2012E	2013E	2014E
Sierra Wireless	\$262.8	\$341.3	\$481.8	\$614.3
Market Share	20.0%	20.0%	20.0%	20.0%
Cinterion	\$262.8	\$341.3	\$481.8	\$614.3
Market Share	20.0%	20.0%	20.0%	20.0%
Enfora	\$65.7	\$85.3	\$120.5	\$153.6
	5.0%	5.0%	5.0%	5.0%
Total Value	\$591.3	\$767.8	\$602.3	\$767.9
Total Royalties @ 1%	\$5.9	\$7.7	\$6.0	\$7.7
Present Value	\$5.2	\$6.2	\$4.5	\$5.3
Total PV	\$21.3	Discount Rate		8.6%

Source: ABI Research, M Partners

*Total Value includes all three streams until 2012 and excludes Cinterion for 2013-14

SAMSUNG AND LG RENEWALS

The most recent renewals of Samsung's and LG's 2G/2.5G licenses were undertaken on a paid-up basis. In consideration for renewing their 2G/2.5G licenses and signing on to new 3G licenses, Samsung and LG were granted perpetual licenses for the older 2G/2.5G technologies. Our view is that the same type of arrangement is likely to re-occur with respect to 3G renewal discussions with these two vendors. Although the company has not bifurcated the pricing of its fixed royalty 3G license from its paid-up 2G/2.5G licenses, we believe that a reasonable proxy to calculate the value of paid up licenses could be based on a four year forecast of shipments and selling prices at a royalty rate of 0.70% and discounted at the company's cost of equity of 8.6%.

It's not "if" but "when"
LG renews.

- **LG Renewal:** LG's 3G license is up for renewal at the end of December 2010. We believe that the possibility of LG not renewing is remote given that LG has already acknowledged its use of IDCC's 3G technologies. However, we do not anticipate that this renewal will be negotiated and finalized until Q2'11 at the earliest as LG may posture for more favorable terms while utilizing IDCC's public company status to create negotiating leverage. IDCC is likely to hold out for the best deal it can negotiate. We conjecture that IDCC will aim to include a 4G license in the renewal negotiations and may offer a paid-up 3G license at a discounted price in consideration. **Based on our forecast of LG 3G device shipments and average selling prices, we estimate a paid up 3G license should be worth \$105M after tax in Q2'11 or \$91.9M today.**

Samsung and LG
renewals worth \$8.42
per share

- **Samsung Renewal:** In January 2009, Samsung and IDCC concluded a fixed royalty licensing agreement worth \$400M for the use of IDCC's 3G technologies until December 2012, and perpetual use of its 2G/2.5G technologies. Similar to our discussion on LG above, we expect IDCC to try to negotiate a paid-up 3G license in consideration for signing a 4G license when the 3G license comes up for renewal. **Based on our forecast of Samsung 3G device shipments from 2013 to 2016 and average selling prices, we estimate a Samsung paid up 3G license could be worth \$280M today.**

In the event that LG and Samsung are given 3G licenses for free in exchange for taking on 4G/LTE licenses, our intrinsic value declines by \$8.42 per share.

POTENTIAL VALUE OF 4G PATENT PORTFOLIO

- With mobile applications like Hulu and YouTube driving bandwidth consumption and network congestion, the adoption of LTE devices could be occur much more rapidly than 3G. The global 3G rollout did not occur at the pace anticipated by many market participants because there were no killer applications like Netflix or Facebook driving the need for bandwidth. As we had highlighted earlier, data demand is expected to outpace current network capacity by a factor of 20x in 2014.
- We estimate that the 4G/LTE handset market should grow from \$0.00 today to over \$38.5B by 2014. With 19% of all essential patents for 4G/LTE, IDCC has the second largest portfolio essential patents behind Qualcomm and is well positioned to benefit from the transition from 3G to 4G/LTE.
- **Assuming that IDCC can reproduce its 3G market share of 55% in 4G/LTE, we value the potential royalty streams from its 4G/LTE portfolio at \$694.3B or \$15.76 per share.** Conditions appear positive because IDCC retains relatively higher share of 4G essential patents compared to its 3G portfolio. We emphasize that the market currently values IDCC's 4G/LTE portfolio at zero dollars.
- We assign a discount rate of 25% to the LTE licensing opportunity to account for the greater level of uncertainty vis-à-vis the executed and legally binding 3G agreements. Our time frame for royalties extends to the end of the weighted average lifespan of our estimate of the company's 4G/LTE patent portfolio. As LTE licensing deals are won and there is greater visibility on their anticipated royalty streams, we will reduce our discount rate on these royalties to 8.6%.
- Our valuation may prove to be conservative as early data points suggest that Nortel's LTE portfolio could fetch anywhere from \$600M to \$1.1B. We underscore that Nortel only holds about 5% of LTE essential patents as compared to IDCC which is estimated to hold 19%.
- We believe that the transition to LTE could mean incrementally higher royalty rates over its 3G patents for three reasons:
 - 1) LTE devices will be higher priced, implying potentially higher absolute royalties per device.
 - 2) LTE devices will be multi-mode (i.e. supporting GSM, UMTS/3G, and CDMA 2000), which means that LTE devices could incorporate more IDCC technologies than the past.
 - 3) LTE falls in the sweet spot of IDCC's development road map.

LTE/4G essential
patents valued at
\$15.76 per share.

- We are therefore comfortable with a 10 bps incremental increase in effective royalty rates to 1% for IDCC's LTE patents over its effective 3G royalty rates of 0.9%.

Published LTE Royalty Rates	
Qualcomm	3.25%
Nokia	1.50%
Ericsson	1.50%
Nortel	1.00%
Huawei	1.50%
ZTE	1.00%
Motorola	2.25%

Source: Company Reports

IPR Share for LTE Essential Patent Candidates

Company	# of Patents / Apps	% Share
Qualcomm	250	32%
InterDigital	147	19%
Nokia	94	12%
LG	73	9%
Samsung	67	9%
Ericsson	50	6%
Nortel	34	4%
Motorola	26	3%
Texas Instruments	22	3%
Sony	6	1%
NEC	5	1%
ETRI	4	1%
Other	8	1%
Total	786	100%

Source: ETSI, Tech IPM LLC

- While our estimated royalty rate may appear low given the strength of its IP portfolio relative to other patent holders, this is because product companies such as Qualcomm typically publish high royalty rates as a tool to drive sales of its chipsets through bundled discounts.
- Since it would difficult to speculate on which vendors may take fixed licenses and which ones may take per-unit licenses, we base our valuation analysis on a per-unit equivalent basis. In other words, we assume that the value of any potential fixed royalty licenses will be equivalent to the present value of the same royalty streams had the agreement been negotiated in a per-unit basis.

4G/LTE (In MM)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total Shipments	4	14	41	77	304	515	720	950	1225	1500	1300	975
ASP	\$400	\$360	\$324	\$292	\$262	\$236	\$213	\$191	\$160	\$140	\$125	\$100
Total Market Size	\$1,600	\$5,040	\$13,284	\$22,453	\$79,782	\$121,641	\$153,055	\$181,753	\$196,000	\$210,000	\$162,500	\$97,500
Potential Royalties @ 1%	\$8.8	\$27.7	\$73.1	\$123.5	\$438.8	\$669.0	\$841.8	\$999.6	\$1,078.0	\$1,155.0	\$893.8	\$536.3
After-Tax Royalties @ 33%	\$5.9	\$18.6	\$49.0	\$82.7	\$294.0	\$448.2	\$564.0	\$669.8	\$722.3	\$773.9	\$598.8	\$359.3
Present Value	\$4.2	\$10.6	\$22.4	\$30.3	\$86.2	\$105.1	\$105.8	\$100.5	\$86.7	\$74.3	\$46.0	\$22.1
Total Present Value	\$694.3											
Discount Rate	25%											

Source: Gartner, M Partners

FURTHER UPSIDE CONSIDERATIONS

- IDCC's technology solutions licensees also include Beceem, CapSemi, and Phillips. Since these customers have not won any material design wins for their chipsets to date, we have not modeled any potential contribution in our target price. IDCC should capture \$0.30 to \$0.50 per chipset shipped in the event of any design wins by these licensees.
- 3G handset vendors and manufacturers that remain unlicensed include Nokia, Sony-Ericsson, Motorola, ZTE, and Huawei. InterDigital is currently in litigation with Nokia and is in discussions with the rest of these companies. Any wins will positively impact our target price.
- Uptake of 4G technology may be faster than estimated, moving royalty streams ahead by one to two quarters.

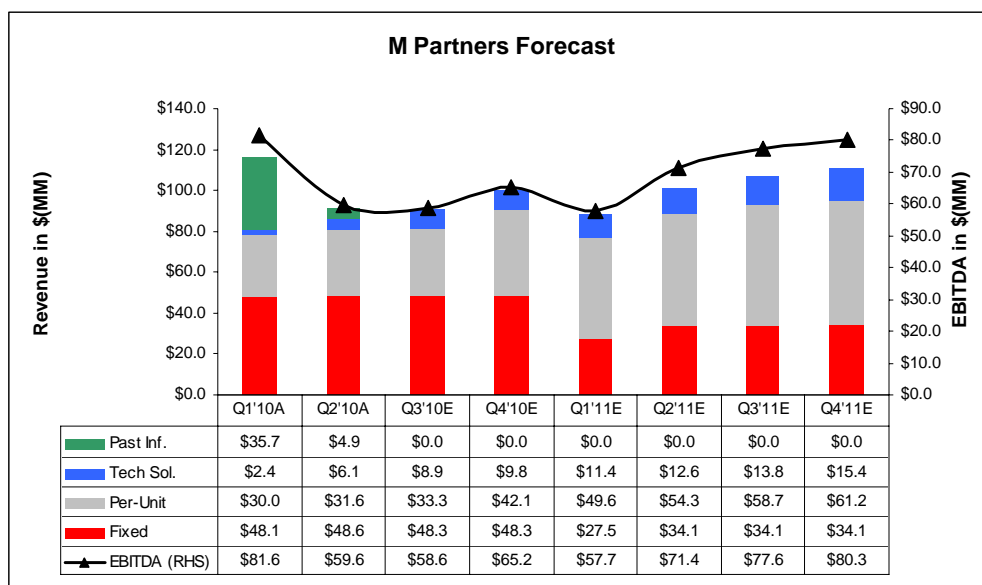
COMPARATIVE ANALYSIS

M PARTNERS FORECAST

We are forecasting H2'10 and FY'11 in order to benchmark InterDigital against peer NPE companies on an EV/EBITDA multiple basis (See Appendix A for full financial forecast). We have made the following key assumptions to support our estimates:

- Our forecasted royalty streams are divided into three categories:
 - Fixed royalties:** A total of \$206.7M to be amortized over the period in accordance with the company's deferred revenue amortization schedule.

- b. **Per-unit royalties:** We assumed a 1% royalty rate on forecasted 3G handset shipments made by current per-unit licensees. For M2M licensees such as Sierra Wireless and Cinterion, a 1% royalty rate is applied to their forecasted M2M revenues. We then amortize IDCC's deferred revenue associated with pre-paid per-unit royalties at a rate of \$24M per quarter against these revenue streams.
 - c. **Technology solutions:** We assume baseline engineering revenues of \$4M per quarter plus SlimChip royalties at \$0.40 per chipset based on forecasted iPhone and 3G enabled iPad sales.
- IDCC's \$285M license agreement with LG signed in Jan 2006 expires in Dec 2010. The 2G/2.5G portion of the license will have been paid-up but the 3G portion will be up for renewal. We assume that this will be renewed on a paid-up basis for \$145M to be paid over eighteen months. We base our estimate on the present value of a royalty stream of 0.75% applied against our 2011-2014 forecast of LG's 3G shipments.
 - If a gap occurs between contract expiry and renewal, IDCC is likely to capture the lost revenues during the gap period through a catch up payment and so the timing of the LG renewal should be immaterial on an annualized basis.



COMPARABLE COMPANIES

- Although technically not considered an NPE, we include Qualcomm (QCOM-O) as part of our peer set since both QCOM and IDCC have significant wireless patent portfolios and should participate meaningfully in the expansion of 3G, 4G, and M2M sectors. Although Qualcomm derives the majority of its revenues from selling CDMA chipsets, 98% of QCOM's operating profit was generated from its technology licensing division over the past three years.
- The average FY'10 and FY'11 EV/EBITDA multiples for this peer set are 11.6x and 11.5x respectively. However, we highlight that there exists considerable variance amongst the multiples driven by deviations in factors related to sector economics and specific event driven situations.
- We underscore that InterDigital is an NPE but is not a "patent troll". Unlike Mosaid, Wi-Lan, and Acacia Research, InterDigital spends significantly more on R&D as compared to litigation/arbitration, and develops almost all of its IP internally.
- Although Tessera and Rambus are structurally similar to InterDigital in terms of their focus on R&D and are roughly the same size, they may not be appropriate comparatives:
 - Rambus has not been profitable over the past three fiscal years and is only expected to turn a profit for FY'10 due to a legal win against NVIDIA. For FY'11, Rambus is not anticipated to be profitable.

Despite its relative earnings power, IDCC trades at a 55% discount to peers.

- While Tessera has demonstrated a consistent track record of profitability, most of its revenue generating patents will be expiring over the next eighteen months. We believe this is reflected in their current market price.
- We believe that given the absence of pure-play comps, the best benchmark against which to value InterDigital may be Qualcomm due to a similar portfolio of 4G essential patents. QCOM currently trades at 14.1x and 13.0x FY'10 and FY'11 EV/EBITDA as compared to IDCC which trades at 2.9x and 2.7x our estimates. While a discount may be justified due to QCOM's leading patent position in 3G and 4G technologies as well as higher royalty rates associated with bundling chipsets with technology licenses, the valuation discount of 80% is not warranted.

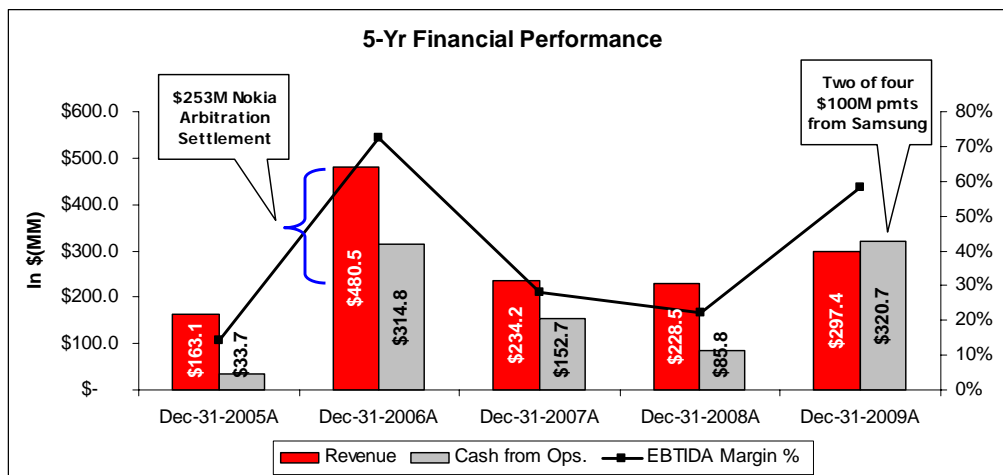
Company Name	Market Cap (mm)	Ent. Value (mm)	LTM Revenues (mm)	Cash & Equiv. (mm)	LTM EBITDA (mm)	LTM EBITDA Margin (%)	LTM EPS	Valuation Multiples			
								FY'10 TEV/ EBITDA	FY'11 TEV / EBITDA	FWD P/E	TEV/ LTM Revenues
QUALCOMM Incorporated (NasdaqGS:QCOM)	\$71,126.2	\$62,436.2	\$10,729.0	\$9,968.0	\$3,984.0	37.1	\$1.90	14.1x	13.0x	19.2x	5.8x
Tessera Technologies Inc. (NasdaqGS:TSRA)	\$935.4	\$498.1	\$261.4	\$437.3	\$121.7	46.6	\$0.86	5.0x	6.3x	17.2x	1.9x
CEVA Inc. (NasdaqGM:CEVA)	\$304.6	\$211.1	\$41.1	\$93.5	\$7.4	18.1	\$0.41	19.1x	15.2x	29.1x	5.1x
Rambus Inc. (NasdaqGS:RMBS)	\$2,359.2	\$1,877.8	\$259.4	\$597.6	\$103.2	39.8	\$0.79	8.1x	NM	NA	7.2x
Acacia Research Corporation (NasdaqGM:ACTG)	\$596.9	\$529.4	\$90.8	\$67.5	\$16.7	18.3	\$0.20	18.4x	17.7x	27.5x	5.8x
Wi-Lan Inc. (TSX:WIN)	\$444.5	\$352.2	\$30.5	\$94.8	\$14.8	48.3	-\$0.01	36.8x	13.6x	39.4x	11.5x
MOSAID Technologies Inc. (TSX:MSD)	\$285.1	\$181.5	\$73.4	\$103.6	\$42.3	57.7	\$1.80	4.3x	3.8x	10.5x	2.5x
Average								11.6x	11.5x	21.8x	5.0x
Median								11.1x	13.0x	19.2x	5.5x
InterDigital, Inc. (NasdaqGS:IDCC)	\$1,264.8	\$779.6	\$359.3	\$485.8	\$235.3	65.5	\$3.44	2.9x	2.7x	8.3x	2.2x

Source: Capital IQ, Bloomberg, M Partners

FINANCIAL OVERVIEW

HISTORICAL FINANCIAL PERFORMANCE

- As a result of litigation costs, past infringement, and fixed royalty payments, InterDigital's revenues and cash flows can be somewhat erratic:
 - IDCC's profit margins and cash flows in 2005 were adversely impacted by a \$19M increase in litigation costs associated with Nokia regarding its 2G patents. This issue was subsequently settled in IDCC's favour in 2006 (see next point).
 - In FY'06, IDCC entered into an arbitration settlement agreement with Nokia for \$253M in past infringement royalties which resulted in revenues of \$480M and cash flow from operations of \$315M.
 - In FY'09, IDCC signed a fixed royalty licensing agreement with Samsung for \$400M which covers the use of IDCC's 2G and 3G technologies until 2012. Although revenues will be recognized ratably over the license period, cash payments of \$200M were received in 2009 with the balance received this year.



- For its most recent fiscal year ended December 31, 2009, the company reported revenues of \$297M with EBITDA of \$173M and FCF of about \$285M. Per unit royalties represented \$102.9M or 35% of total revenues with fixed fees representing \$181.7M. Approximately 1% or \$3.0 million of revenue was generated from past infringement payments and \$10M was generated by technology solutions.

GEOGRAPHIC/CUSTOMER CONCENTRATION

- IDCC discloses a geographic breakdown of its revenues based on the locations of its customers' headquarters. Over 80% of IDCC's revenues for the past three years have been generated from licensees headquartered in Asia. For FY'09, Samsung and LG accounted for 33% and 19% of the company's revenues respectively.
- We believe that part of the geographic concentration is driven by significant 3G penetration rates in Korea (71%) and Japan (87%) in comparison to the rest of the world (11%) in 2009.
- Customer concentration can be attributed to Samsung's and LG's number two and three positions in terms of global 3G market share.

	2009A	2008A	2007A
Korea	\$160.5	\$59.2	\$58.4
Japan	\$73.3	\$113.8	\$117.4
Canada	\$27.4	\$19.0	\$14.6
Taiwan	\$15.4	\$14.4	\$11.3
United States	\$10.5	\$10.9	\$6.7
Germany	\$10.4	\$6.1	\$1.3
Other Europe	\$0.1	\$1.6	\$24.6
Other Asia	\$0.0	\$3.4	\$0.0
Total	\$297.4	\$228.5	\$234.2

Source: Company Reports

- The Y/Y increase in revenues from Canadian customers is primarily driven by an increase in device shipments from Research in Motion (RIM-TSX) and to a smaller extent from M2M device sales from Sierra Wireless (SW-TSX).
- The spike in revenues associated with German customers can be attributed primarily to increased shipments of baseband chipsets from Infineon (now Intel) to Apple for its 3G devices. We estimate that IDCC generates \$0.30 to \$0.50 for every chipset sold by Infineon to Apple. Infineon chipsets are currently in the iPhone 3G, 3GS, and 4 as well as 3G enabled iPads.
- We anticipate that revenues contribution from Germany, Canada, and Taiwan will continue to increase as Apple, RIM, and HTC erode Nokia's market share.

H1'10 PERFORMANCE

- For H1'10, IDCC reported revenues of \$207M (43% Y/Y) with EBITDA of \$141M (68% margin). Q'10 was positively impacted by a one-time past infringement payment of \$35.7 from Casio Hitachi Mobile Communications Co., Ltd. Excluding past infringement, Q1'10 revenues were \$80.5M with EBITDA of \$45.9M. During the Q2'10 conference call, the company provided guidance for Q3'10 in the range of \$88.5M to \$90.5M excluding the potential impact of any new agreements or any unpaid royalties identified in audits. This is ahead of consensus estimates of \$86.3M (by 4.6%). Management guidance implies that the company should generate by Q3'10 revenue equivalent to total revenue for FY'09 which was \$297.4M.
- There is no risk that 3G royalties will decrease during H2'10.

For H1'10, IDCC reported revenues of \$207M and FCF of \$67M.

	Q1'10	Y/Y	Q2'10	Y/Y	H1'10	Y/Y
Fixed Royalties	\$48.1	14.3%	\$48.6	4.1%	\$96.7	8.9%
Per-Unit Royalties	\$30.0	10.3%	\$31.6	33.3%	\$61.6	21.0%
Past Infringement	\$35.7	NM	\$4.9	113.0%	\$40.6	NM
Technology Solutions	\$2.4	84.6%	\$6.1	177.3%	\$8.5	242.9%
Total Revenue	\$116.2	64.7%	\$91.2	21.7%	\$207.4	42.6%
EBITDA	\$81.6	137.0%	\$59.6	26.5%	\$141.2	73.2%
<i>EBITDA Margin</i>	<i>70.2%</i>		<i>65.3%</i>		<i>68.1%</i>	

Source: Company Reports

\$13.30M in cash – 50% of 50 day MA implied market cap.

BALANCE SHEET

- For the second quarter ended June 30, 2010, IDCC reported cash equivalents worth \$486M and accounts receivables of \$159M. \$100M of these receivables was owed from Samsung and has since been paid. This infers that IDCC has cash equivalents of \$586M or \$13.30 per share.
- While IDCC does not have significant liabilities, it does have \$587M in deferred revenue. \$417M of the deferred revenue relates to fixed royalty payments that will be amortized over the term of the associated agreements. The balance of \$170M relates to prepaid per-unit royalties which will be amortized as its licensees report their sales. There are no obligations associated with the deferred revenue.

KEY RISKS

CUSTOMER CONCENTRATION

- Samsung and LG account for 52% of IDCC's current royalty streams. Any failure to renew these licenses could materially impact IDCC's revenues and cash flows. Although we believe that the likelihood of this risk materializing is low, it remains a key risk factor.

VOLATILITY OF REVENUES AND CASH FLOWS

- InterDigital's historical revenues and cash flows have been volatile and we expect that this trend will continue. This is due to the uncertain nature of past infringement damages, litigation costs, and the size and timing of fixed royalty agreements. For this reason, we opted for a sum-of-parts valuation approach of the company's assets to arrive at our target price.

REVENUES FROM PER-UNIT LICENSEES DEPENDANT UPON MARKET CONDITIONS

- Per-unit royalties account for about 40% of InterDigital's current royalties. Any decrease in adoption of 3G devices, M2M modules, or loss of market share of any of its licensees could result in a decline in revenues and cash flows. We believe that the company has taken steps to mitigate against this risk by incrementally increasing its fixed royalties as a percentage of total royalties over the past five years.

4G/LTE TECHNOLOGIES MAY NOT BE WIDELY ADOPTED OR DEPLOYED

- The transition from 3G to 4G/LTE technologies represents the company's largest growth opportunity. If network operators or consumers fail to adopt 4G/LTE, InterDigital's future prospects will be materially impacted. To address this risk, we highlight that the Global Mobile Suppliers Association recently announced that 101 network operators in 41 countries have committed to deploying LTE, with 22 networks in service by the end of 2010.

ESSENTIAL PATENTS ARE NOT LEGAL STANDARDS

- Standards development organizations ("SDO") determine which patents are essential to comply with a particular standard. However, SDOs are not legal bodies and do not have enforcement authority against entities that fail to obtain required licenses. They also do not have the ability to protect the intellectual property rights of holders of essential patents.

PENNSYLVANIA ANTI-TAKEOVER LAWS

- InterDigital is incorporated in Pennsylvania which is reputed to have the strongest anti-takeover laws in the US. As a result, potential acquirers could be deterred from attempting a takeover. This may cause some downward pressure on the company's value since this effectively precludes any change of control premiums that shareholders might receive. To address this issue, we have discounted our intrinsic value estimate by 10% to arrive at our target price.

APPENDIX A – FINANCIAL STATEMENTS

InterDigital Inc.
Year Ended Dec 31

Income statement (\$MM, except per share amounts)	F'08A	F'09A	Q1'10A	Q2'10A	Q3'10E	Q4'10E	F'10E	Q1'11E	Q2'11E	Q3'11E	Q4'11E	F'11E
Revenue	228.47	297.40	116.19	91.15	90.50	100.26	398.10	88.51	100.97	106.57	110.67	406.73
Operating Expenses												
Patents Administration and Licensing	63.49	56.13	17.82	14.71	18.10	20.05	70.68	18.59	17.17	15.99	16.60	68.34
Research & Development	98.93	64.01	16.16	16.36	14.93	15.54	63.00	14.16	13.63	13.85	14.39	56.03
Selling, General and Administrative	33.45	24.78	7.52	7.01	7.24	8.02	29.79	6.64	7.57	7.99	8.30	30.50
	195.88	144.91	41.51	38.08	40.27	43.61	163.47	39.39	38.37	37.83	39.29	154.88
EBIT	32.59	152.49	74.68	53.07	50.23	56.65	234.63	49.12	62.60	68.74	71.38	251.85
Adj. EBITDA	66.55	185.16	81.61	59.59	58.59	65.15	264.93	57.70	71.37	77.59	80.29	286.95
Other Income												
Interest and investment income (loss)	3.43	(1.19)	0.60	0.89	0.00	0.00	1.49	0.00	0.00	0.00	0.00	0.00
Arbitration and litigation contingencies	3.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repositioning	0.00	(38.60)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	7.37	(39.79)	0.60	0.89	0.00	0.00	1.49	0.00	0.00	0.00	0.00	0.00
Income (loss) before tax	39.96	112.70	75.28	53.96	50.23	56.65	236.12	49.12	62.60	68.74	71.38	251.85
Provision for income tax	13.76	25.45	26.45	19.00	17.58	19.83	82.86	17.19	21.91	24.06	24.98	88.15
Net income	26.21	87.26	48.83	34.96	32.65	36.82	153.26	31.93	40.69	44.68	46.40	163.70
Earnings per share												
Basic	\$0.58	\$1.98	\$1.11	\$0.79	\$0.74	\$0.84	\$3.49	\$0.73	\$0.93	\$1.02	\$1.06	\$3.72
Diluted	\$0.57	\$1.95	\$1.09	\$0.78	\$0.73	\$0.83	\$3.44	\$0.72	\$0.91	\$1.00	\$1.04	\$3.68

Balance sheet (\$MM)	F'08A	F'09A	Q1'10A	Q2'10A	Q3'10E	Q4'10E	F'10E	Q1'11E	Q2'11E	Q3'11E	Q4'11E	F'11E
Cash	100.14	210.86	214.37	217.43	257.00	214.41	214.41	182.18	186.33	155.31	167.10	167.10
Short term investments	41.52	198.94	268.02	268.36	268.36	268.36	268.36	268.36	268.36	268.36	268.36	268.36
Accounts receivable	33.89	212.91	148.81	159.09	77.26	87.03	87.03	96.08	180.72	198.92	176.77	176.77
Prepaid expenses	16.47	11.11	13.79	12.41	12.41	12.41	12.41	12.41	12.41	12.41	12.41	12.41
Deferred tax assets	49.00	68.50	49.71	65.88	65.88	65.88	65.88	65.88	65.88	65.88	65.88	65.88
Current Assets	241.02	702.32	694.70	723.17	680.91	648.09	648.09	624.91	713.71	700.88	690.52	690.52
Property, plant and equipment	20.97	10.40	9.60	9.27	9.27	9.27	9.27	9.27	9.27	9.27	9.27	9.27
Deferred tax assets	7.72	31.65	57.89	41.63	41.63	41.63	41.63	41.63	41.63	41.63	41.63	41.63
Patents	102.81	119.17	121.77	125.80	127.30	128.80	128.80	130.30	131.80	133.30	134.80	134.80
Intangible assets	22.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	10.51	44.94	42.13	44.86	44.86	44.86	44.86	44.86	44.86	44.86	44.86	44.86
Investments in other entities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	405.77	908.49	926.09	944.72	903.96	872.65	872.65	850.97	941.26	929.94	921.07	921.07
Accounts payable	9.13	6.28	8.74	9.33	7.31	7.77	7.77	6.86	6.99	7.20	7.48	7.48
Accrued liabilities	4.12	7.87	8.02	6.18	7.96	8.81	8.81	8.17	7.55	7.03	7.30	7.30
Accrued compensation and related expenses	33.04	10.59	12.25	15.61	13.58	15.04	15.04	13.28	15.15	15.99	16.60	16.60
Current portion of long term debt	1.61	0.58	0.30	0.29	0.25	0.20	0.20	0.15	0.05	0.00	0.00	0.00
Taxes payable	0.00	33.83	48.64	51.23	51.23	51.23	51.23	51.23	51.23	51.23	51.23	51.23
Current liabilities	47.89	59.15	77.95	82.64	80.32	83.05	83.05	79.69	80.96	81.45	82.61	82.61
Total Deferred Revenue	259.70	668.25	615.47	587.11	514.78	442.46	442.46	390.94	437.85	379.76	321.68	321.68
Long term debt	1.32	0.47	0.40	0.33	0.20	0.15	0.15	0.10	0.00	0.00	0.00	0.00
Other long term liabilities	9.19	11.08	5.11	9.14	9.14	9.14	9.14	9.14	9.14	9.14	9.14	9.14
Total Liabilities	318.11	738.95	698.92	679.21	604.45	534.81	534.81	479.87	527.96	470.35	413.43	413.43
Common stock - par value	0.66	0.67	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
Additional paid-in capital	471.47	491.07	499.89	503.20	504.56	506.06	506.06	507.39	508.91	510.51	512.17	512.17
Treasury stock - common	(544.23)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)	(569.25)
Retained earnings / (deficit)	159.52	246.77	295.60	330.56	363.21	400.03	400.03	431.96	472.65	517.33	563.73	563.73
Accumulated other comprehensive income (loss)	0.25	0.28	0.25	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32
Total Shareholders Equity	87.66	169.54	227.17	265.51	299.52	337.84	337.84	371.10	413.31	459.59	507.64	507.64
Total Shareholders Equity & Liabilities	405.77	908.49	926.09	944.72	903.96	872.65	872.65	850.97	941.26	929.94	921.07	921.07

Statement of cash flows (\$MM)	F'08A	F'09A	Q1'10A	Q2'10A	Q3'10E	Q4'10E	F'10E	Q1'11E	Q2'11E	Q3'11E	Q4'11E	F'11E
Cash flow from operations												
Net income	26.21	87.26	48.83	34.96	32.65	36.82	153.26	31.93	40.69	44.68	46.40	163.70
Items not involving cash:												
Depreciation and amortization	28.85	22.87	5.48	5.32	7.00	7.00	24.80	7.25	7.25	7.25	7.25	29.00
Stock-based compensation	5.10	9.79	1.44	1.19	1.36	1.50	5.50	1.33	1.51	1.60	1.66	6.10
Impaired long term investments	0.75	3.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repositioning charge	0.00	30.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Recognition of foreign tax credits	0.00	(16.40)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred income taxes	1.84	(43.43)	(7.45)	0.09	0.00	0.00	(7.36)	0.00	0.00	0.00	0.00	0.00
Increase in deferred revenue	84.21	611.99	8.58	43.92	0.00	0.00	52.50	0.00	105.00	0.00	0.00	105.00
Deferred charges changes	3.08	4.37	(3.42)	0.89	0.00	0.00	(2.53)	0.00	0.00	0.00	0.00	0.00
Other	0.03	(0.16)	0.01	0.15	0.00	0.00	0.16	0.00	0.00	0.00	0.00	0.00
	150.06	710.79	53.47	86.53	41.01	45.33	226.33	40.51	154.46	53.53	55.31	303.80
Accounts receivable	96.99	(179.01)	64.10	(10.28)	81.82	(9.76)	125.88	(9.05)	(84.65)	(18.20)	22.15	(89.74)
Prepaid Expenses and other current assets	3.20	2.97	0.86	0.31	0.00	0.00	1.17	0.00	0.00	0.00	0.00	0.00
Accounts payable	(30.12)	(1.51)	2.47	(0.76)	(2.02)	0.46	0.14	(0.91)	0.13	0.21	0.28	(0.29)
Accrued liabilities	(5.86)	3.75	0.16	(1.84)	1.78	0.86	0.95	(0.64)	(0.63)	(0.52)	0.27	(1.52)
Deferred revenue recognized	(127.95)	(225.16)	(61.36)	(72.29)	(72.32)	(72.32)	(278.29)	(51.52)	(58.09)	(58.09)	(58.09)	(225.78)
Accrued taxes payable	(15.51)	33.01	14.82	2.59	0.00	0.00	17.41	0.00	0.00	0.00	0.00	0.00
Accrued compensation	15.00	(24.14)	(1.80)	4.59	(2.03)	1.46	2.22	(1.76)	1.87	0.84	0.61	1.56
Change in non-cash operating working capital	(64.25)	(390.10)	19.24	(77.68)	7.23	(79.31)	(130.53)	(63.89)	(141.36)	(75.75)	(34.77)	(315.77)
Cash flow from operating activities	85.81	320.69	72.70	8.85	48.23	(33.98)	95.80	(23.38)	13.10	(22.22)	20.54	(11.97)
Cash flow from investing												
Proceeds from short-term investments	170.42	156.61	121.14	119.01	0.00	0.00	240.15	0.00	0.00	0.00	0.00	0.00
Purchase of short-term investments	(126.39)	(314.13)	(190.26)	(119.28)	0.00	0.00	(309.55)	0.00	0.00	0.00	0.00	0.00
Purchase of property, plant, and equipment	(5.65)	(4.02)	(0.44)	(0.65)	(1.00)	(1.00)	(3.09)	(1.25)	(1.25)	(1.25)	(1.25)	(5.00)
Capitalized patent costs	(28.22)	(31.29)	(6.86)	(7.01)	(7.50)	(7.50)	(28.87)	(7.50)	(7.50)	(7.50)	(7.50)	(30.00)
Capitalized technology license costs	(6.96)	(1.12)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term investments	(0.65)	(0.65)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow from investing activities	2.55	(194.59)	(76.42)	(7.93)	(8.50)	(8.50)	(101.35)	(8.75)	(8.75)	(8.75)	(8.75)	(35.00)
Cash flow from financing												
Proceeds from issuance of common shares	2.18	7.64	6.60	1.87	0.00	0.00	8.47	0.00	0.00	0.00	0.00	0.00
Repurchase of shares	(82.33)	(25.02)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payment of long term debt	(1.59)	(1.88)	(0.35)	(0.08)	(0.17)	(0.10)	(0.70)	(0.10)	(0.20)	(0.05)	0.00	(0.35)
Tax benefits from stock-based compensation	1.50	3.88	0.98	0.36	0.00	0.00	1.34	0.00	0.00	0.00	0.00	0.00
	(80.24)	(15.38)	7.22	2.15	(0.17)	(0.10)	9.11	(0.10)	(0.20)	(0.05)	0.00	(0.35)
Net Change in Cash	8.13	110.72	3.50	3.06	39.56	(42.58)	3.55	(32.23)	4.15	(31.02)	11.79	(47.32)
Cash, Beg. of Period	92.02	100.14	210.86	214.37	217.43	257.00	210.86	214.41	182.18	186.33	155.31	214.41
Cash, End of Period	100.14	210.86	214.37	217.43	257.00	214.41	214.41	182.18	186.33	155.31	167.10	167.10

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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

Buy	27	87%
Sell	1	3%
Hold	1	3%
Under Review	2	6%
Total	31	100%