



COMPANY UPDATE / ESTIMATE CHANGE /  
PRICE TARGET CHANGE

**Key Metrics**

IDCC - Nasdaq (as of 04/28/10)	\$28.35
Price Target	\$34
52-Week Range	\$18.41-\$31.79
Shares Outstanding (mm)	44
Market Cap. (\$mm)	\$1,235
3-Mo. Average Daily Volume (000)	415
Institutional Ownership	60.0%
Debt/Total Capital (03/10)	0.3%
ROE (12/09)	67.9%
Book Value/Share (03/10)	\$5.14
Price/Book Value	5.5x
Dividend Yield	0.0%
LTM Price/Earnings	9.4x

**EPS FY 12/31**

	2008A	2009A	Prior 2010E	Curr. 2010E	Curr. 2011E
1Q	--	\$0.34	\$0.69	\$0.58A	
2Q	--	\$0.59	\$0.64	\$0.59	
3Q	--	\$0.69	\$0.66	\$0.62	
4Q	--	\$0.61	\$0.74	\$0.65	
Year	\$0.54	\$2.23	\$2.72	\$2.44	\$3.25
P/E	52.9x	12.7x		11.6x	8.7x

**Revenue (\$mm)**

	2008A	2009A	Prior 2010E	Curr. 2010E	Curr. 2011E
1Q	--	\$71	\$117	\$116A	
2Q	--	\$75	\$76	\$78	
3Q	--	\$75	\$77	\$80	
4Q	--	\$76	\$81	\$81	
Year	\$228	\$297	\$351	\$355	\$370

**Company Description:** King of Prussia, PA based InterDigital develops wireless technology, patents it, and licenses it to handset manufacturers. The firm is also working on media independent and network independent solutions. Please see p. 3 for a Wireless Glossary.

**Technology**  
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April 29, 2010

**InterDigital Inc**

IDCC --- Nasdaq -- Buy -4

**1Q10 Earnings Shortfall as Legal Expenses Climb. \$10/Share of Cash and Growing.**

**Investment Highlights**

- **InterDigital reported mixed 1Q10 results.** Revenue was a robust \$116.2 million, although \$35.7 million of the total was due to past sales from a new license agreement and a royalty audit. Recurring patent license revenue of \$78.1 million grew 13% y/y and 8% q/q. GAAP EPS of \$1.09 was below our \$1.24 estimate due to a \$6 million q/q increase in operating expenses. Operating expenses have climbed 44% over the past two quarters, concerning us about the firm becoming lax on costs.
- **InterDigital signed three licensees during 1Q10: Casio Hitachi Mobile Communications, Enfora, and Beceem.** These are modest licenses, but highlight IDCC's focus across the wireless spectrum, including handset manufacturers, machine-to-machine (M2M) manufacturers, and semiconductor manufacturers. We expect this broad focus to continue, and possibly expand if InterDigital's media independent handover technology (MIH) technology gains a following as cellular, cable, 802.xx, web-based, and other technologies converge.
- **InterDigital's \$482 million in cash (\$9.90 per share) gives the firm options.** The firm received another \$30 million from Casio Hitachi, and we project another \$100 million (before taxes) from Samsung by the end of summer. This would bring IDCC's cash position to greater than 50% of its market capitalization. We expect InterDigital to acquire a large patent pool in the coming months, or IDCC could be attractive to private equity firms.
- **We reiterate our Buy rating, and are raising our price target by \$1, to \$34.** Our \$34 price target is based on a 14x multiple applied to our 2010 EPS estimate of \$2.44. This is a discount to the Nasdaq Composite's 18x forward multiple to account for IDCC's sometimes lumpy revenue stream.

**Note Important Disclosures on Pages 6-7**  
**Note Analyst Certification on Page 6**

**Further Discussion**

InterDigital reported mixed 1Q10 results, with a strong \$9.90 per share of cash. The firm's cash position was further augmented in April 2010 (but not included in our \$9.90 March 31, 2010 figure) by a \$30 million payment from Casio Hitachi and an audit of an existing licensee. We expect another \$100 million from Samsung by the end of summer, which will take InterDigital's cash position to almost \$12 per share. Management and the Board of Directors have been cautious with the firm's cash position. We expect the firm to use its cash to buy small companies with promising technology and/or buy large patent families that enhance InterDigital's 4G licensing efforts. We believe the firm could join a consortium that bids on Nortel's 4G patents, which would significantly add to IDCC's solid 4G patent portfolio. Alternatively, private equity firms are attracted to companies like InterDigital that have a high cash percentage relative to their market capitalization.

What we would like InterDigital to accomplish in 2010:

1. Sign one of the "majors" to a 4G license, signaling the strength of IDCC's 4G patents.
2. Resolve its 3G licensing dispute with Nokia, which could lead to hundreds of millions of dollars for InterDigital.
3. Purchase of shares in the open market by IDCC's management and directors. In the almost nine years we have followed the company, we cannot recall an open market purchase.
4. Sign a licensing agreement or solutions agreement with an infrastructure provider or wireless carrier. This would enhance InterDigital's perception in the wireless community, in our view, while reinforcing the firm's value proposition as more than a "tax" collector on its patents.
5. License other wireless products companies such as those involved with notebooks, netbooks, book readers, etc.

If InterDigital achieves these five items, we believe the share price could rise 20%-50%, and reach or surpass our \$34 price target.

**Legal Update**

InterDigital filed its appeal at the Federal Circuit Court of appeals regarding its 3G patent infringement case against Nokia. The International Trade Commission ruled that InterDigital's four patents in the case were valid, but not infringed by Nokia. We believe InterDigital has: 1) Filed, and had several continuation patents approved that bolster its case and/or 2) Received rulings/clarifications on the patents from the U.S. Patent and Trademark Office (USPTO) that reinforce IDCC's claims while countering the rulings/findings of the International Trade Commission. CEO Bill Merritt is optimistic that InterDigital's appeal could lead to a settlement, but in our nine years of following InterDigital, Nokia has always pushed the envelope against InterDigital in court. Our view is that Nokia uses the court system to stall/delay the process as long as possible. This could push a licensing agreement into 2011.

Risks to our Buy rating include, but are not limited to:

- InterDigital loses its appeal in its 3G patent infringement against Nokia at the Federal Circuit Court of Appeals.
- Existing licensees stop paying InterDigital or seek to negotiate lower rates given IDCC's difficulties with Nokia.
- Nokia pays InterDigital less than \$0.35 per 3G phone.
- Delays in signing 4G licenses occur.

Prices of companies mentioned:

Casio (CSIOF - \$7.505 – not rated)  
Hitachi (HIT - \$44.25 – not rated)

Nokia (NOK - \$12.01– Long-term Buy)  
Nortel (NRTLQ - \$0.052- not rated)

*Additional information available upon request.*

**Figure I: Wireless Glossary**

802.xx – specification for various wireless local area networks. The xx after the period is representational. 802.11b and 802.11g are examples of real wireless local area networks.

3GPP – 3<sup>rd</sup> Generation Partnership Project. Collaboration between telecommunication groups and associations to promote 3G system specifications.

GSM – Global Standard for Mobile Communications, a 2G technology.

CDMA – Code Division Multiple Access.

CDMA2000 1x – a 3G air interface standard for wireless technology

EDGE – Enhanced Data Rates for GSM Evolution.

HSDPA – High Speed Downlink Packet Access. A packet-based data service that features downlink transmission rates up to 8-10 Mbps (megabits per second). It is expected that HSDPA will increase the viability of over-the-air downloads of music, movies, and related media.

HSUPA – High Speed Uplink Packet Access. A packet-based data service that enables communication from a terminal to host (uplink) at transmission rates up to 5.75 Mbps. It is expected that HSUPA will find early success with PC card manufacturers and PC manufacturers looking to embed their devices with technology that enables users to send large files quickly.

LTE – Long Term Evolution. A 4G air interface standard.

TD-SCDMA – Time Division-Synchronous Code Division Multiple Access. A 3G air interface standard that will likely only find widespread use in China.

UMTS – Universal Mobile Telecommunications System, basically the European name for WCDMA.

WCDMA – a 3G air interface standard, Wideband Code Division Multiple Access.

WiBro – Wireless broadband technology designed to offer 30 Mbs to 50 Mbs theoretical data speeds in a one-half to three mile radius of a wireless base station.

1G – First Generation. A circuit-switched, analog wireless technology that is not widely used today, except in rural or less developed areas. 1G only carries voice traffic.

2G – Second Generation. A digital wireless technology that enables voice and limited amounts of data. TDMA, GSM, and CDMA are examples of 2G air interface standards.

2.5G – Second and a Half Generation wireless technology that utilizes packet-switching, which facilitates increased data speeds. GPRS is an example of 2.5G.

3G - Third Generation wireless technology that uses packet-based wireless networks to deliver voice and advanced data services. WCDMA and CDMA 2000 1x are examples of 3G air interface standards.

4G – Fourth Generation wireless technology based on internet-protocol with theoretical data rates up to between 100 Mbit/s to 1Gbit/s. LTE is an example of a 4G technology.

**Exhibit I: InterDigital Yearly Income Statement****InterDigital (IDCC)****Earnings Model** in thousands, except per share data

Fiscal Year (ends Dec)	FY	FY
Calendar Year	F2009A	F2010E
<b>Revenue</b>		
Recurring Licensing & Royalty	287,657	306,987
Product	9,747	12,600
Engineering Development	-	-
Other/one-time		35,700
<b>Total Revenue</b>	<b>297,404</b>	<b>355,287</b>
<b>EXPENSES</b>		
<i>Cost of Revenues</i>		
<i>Total Cost of Revenues</i>		
<b>Gross Profit</b>	<b>297,404</b>	<b>355,287</b>
<i>Operating Expenses</i>		
Research and Development	64,007	65,998
Selling, General, and Administrative	24,777	27,374
General & Administrative	-	-
Patent Admin. & Licensing	56,127	65,657
Other	38,604	-
<i>Total Operating Expenses</i>	<i>183,515</i>	<i>159,029</i>
<b>Operating Income</b>	<b>113,889</b>	<b>196,258</b>
Interest, net	(1,186)	2,690
Extraordinary Income (Expense)	-	-
<i>Net Income Before Taxes</i>	<i>112,703</i>	<i>198,948</i>
Income Taxes	27,857	67,647
<i>Income Tax Rate</i>	<i>35%</i>	<i>34%</i>
<i>Net Income</i>	<i>84,846</i>	<i>131,301</i>
<i>Preferred stock Dividends</i>	<i>-</i>	<i>-</i>
<b>Net Income</b>	<b>84,846</b>	<b>131,301</b>
<b>EBITDA</b>	<b>181,046</b>	<b>224,621</b>
<b>EBIT</b>	<b>113,889</b>	<b>196,258</b>
<b>Average Shares Outstanding</b>	<b>43,297</b>	<b>43,483</b>
<b>Fully Diluted Shares Outst.</b>	<b>44,082</b>	<b>44,370</b>
<b>Earnings Per Share</b>	<b>1.93</b>	<b>2.95</b>
<b>Adj. Earnings Per Share</b>	<b>2.23</b>	<b>2.44</b>
<b>EBITDA Per Share</b>	<b>4.11</b>	<b>5.06</b>
<b>Margin Analysis</b>		
Gross Profit	100%	100%
Operating	38%	55%
Net Profit	29%	37%
EBITDA	61%	63%
EBIT	38%	55%
<b>Percentage of Revenues</b>		
Research & Development	22%	10%
Selling & Marketing	8%	8%
Patent Admin. & Licensing	19%	18%
Goodwill & Other Intangibles	0%	0%
<b>Year/Year Growth Rates</b>		
Licensing Revenue	39%	7%
Product Revenue	-19%	29%
Total Revenues	30%	19%
Operating Expenses	-6%	-13%
EBITDA	180%	24%
Net Income	260%	55%
Diluted EPS	234%	53%

Source: Company data and Hilliard Lyons estimates

## Exhibit II: InterDigital Quarterly Income Statement

**InterDigital (IDCC)****Earnings Model** in thousands, except per share data

Fiscal Year (ends Dec)	Q1-09A	Q2-09A	Q3-09A	Q4-09A	Q1-10A	Q2-10E	Q3-10E	Q4-10E
Calendar Year	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
<b>Revenue</b>								
Recurring Licensing & Royalty	69,300	72,728	73,000	72,629	78,087	75,100	76,800	77,000
Product	1,261	2,200	2,486	3,800	2,400	2,800	3,400	4,000
Engineering Development	-	-	-	-	-	-	-	-
Other/one-time	-	-	-	-	35,700	-	-	-
<b>Total Revenue</b>	<b>70,561</b>	<b>74,928</b>	<b>75,486</b>	<b>76,429</b>	<b>116,187</b>	<b>77,900</b>	<b>80,200</b>	<b>81,000</b>
<b>EXPENSES</b>								
<i>Cost of Revenues</i>								
<i>Total Cost of Revenues</i>								
<b>Gross Profit</b>	<b>70,561</b>	<b>74,928</b>	<b>75,486</b>	<b>76,429</b>	<b>116,187</b>	<b>77,900</b>	<b>80,200</b>	<b>81,000</b>
<i>Operating Expenses</i>								
Research and Development	26,870	13,226	10,659	13,252	16,164	16,446	16,611	16,777
Selling, General, and Administrative	8,254	5,987	4,925	5,611	7,519	6,521	6,674	6,659
General & Administrative	-	-	-	-	-	-	-	-
Patent Admin. & Licensing	12,137	15,580	13,320	15,090	17,823	15,611	16,072	16,151
Other	37,063	(93)	-	1,634	-	-	-	-
<i>Total Operating Expenses</i>	<i>84,324</i>	<i>34,700</i>	<i>28,904</i>	<i>35,587</i>	<i>41,506</i>	<i>38,579</i>	<i>39,357</i>	<i>39,587</i>
<b>Operating Income</b>	<b>(13,763)</b>	<b>40,228</b>	<b>46,582</b>	<b>40,842</b>	<b>74,681</b>	<b>39,321</b>	<b>40,843</b>	<b>41,413</b>
Interest, net	829	625	531	(3,171)	600	650	700	740
Extraordinary Income (Expense)	-	-	-	-	-	-	-	-
<i>Net Income Before Taxes</i>	<i>(12,934)</i>	<i>40,853</i>	<i>47,113</i>	<i>37,671</i>	<i>75,281</i>	<i>39,971</i>	<i>41,543</i>	<i>42,153</i>
Income Taxes	(4,248)	14,408	16,492	1,205	26,454	13,790	14,125	13,278
Income Tax Rate	33%	35%	35%	3%	35%	35%	34%	32%
<i>Net Income</i>	<i>(8,686)</i>	<i>26,445</i>	<i>30,621</i>	<i>36,466</i>	<i>48,827</i>	<i>26,181</i>	<i>27,418</i>	<i>28,874</i>
<i>Preferred stock Dividends</i>								
<b>Net Income</b>	<b>(8,686)</b>	<b>26,445</b>	<b>30,621</b>	<b>36,466</b>	<b>48,827</b>	<b>26,181</b>	<b>27,418</b>	<b>28,874</b>
<b>EBITDA</b>	<b>27,723</b>	<b>47,409</b>	<b>53,859</b>	<b>52,055</b>	<b>81,802</b>	<b>46,502</b>	<b>47,894</b>	<b>48,423</b>
<b>EBIT</b>	<b>(13,763)</b>	<b>40,228</b>	<b>46,582</b>	<b>40,842</b>	<b>74,681</b>	<b>39,321</b>	<b>40,843</b>	<b>41,413</b>
<b>Average Shares Outstanding</b>	<b>43,501</b>	<b>43,479</b>	<b>43,083</b>	<b>43,124</b>	<b>43,614</b>	<b>43,527</b>	<b>43,440</b>	<b>43,353</b>
<b>Fully Diluted Shares Outst.</b>	<b>44,460</b>	<b>44,313</b>	<b>43,819</b>	<b>43,735</b>	<b>44,237</b>	<b>44,325</b>	<b>44,414</b>	<b>44,503</b>
<b>Earnings Per Share</b>	<b>(0.20)</b>	<b>0.60</b>	<b>0.70</b>	<b>0.83</b>	<b>1.09</b>	<b>0.59</b>	<b>0.62</b>	<b>0.65</b>
<b>Adj. Earnings Per Share</b>	<b>0.34</b>	<b>0.59</b>	<b>0.69</b>	<b>0.61</b>	<b>0.58</b>	<b>0.59</b>	<b>0.62</b>	<b>0.65</b>
<b>EBITDA Per Share</b>	<b>0.62</b>	<b>1.07</b>	<b>1.23</b>	<b>1.19</b>	<b>1.85</b>	<b>1.05</b>	<b>1.08</b>	<b>1.09</b>
<b>Margin Analysis</b>								
Gross Profit	100%	100%	100%	100%	100%	100%	100%	100%
Operating	-20%	54%	62%	53%	64%	50%	51%	51%
Net Profit	-12%	35%	41%	48%	42%	34%	34%	36%
EBITDA	39%	63%	71%	68%	70%	60%	60%	60%
EBIT	-20%	54%	62%	53%	64%	50%	51%	51%
<b>Percentage of Revenues</b>								
Research & Development	38%	18%	14%	17%	14%	21%	21%	21%
Selling & Marketing	12%	8%	7%	7%	6%	8%	8%	8%
Patent Admin. & Licensing	17%	21%	18%	20%	15%	20%	20%	20%
Goodwill & Other Intangibles	0%	0%	0%	0%	0%	0%	0%	0%
<b>Year/Year Growth Rates</b>								
Licensing Revenue	30%	30%	41%	57%	13%	3%	5%	6%
Product Revenue	-43%	-12%	13%	-25%	90%	27%	37%	5%
Total Revenues	26%	28%	37%	30%	65%	4%	6%	6%
Operating Expenses	87%	-32%	-31%	-34%	-51%	11%	36%	11%
EBITDA	44%	195%	153%	291%	195%	-2%	-11%	-7%
Net Income	NM	352%	233%	852%	NM	-1%	-10%	-21%
Diluted EPS	162%	368%	393%	336%	71%	0%	-11%	6%
<b>Quarter/Quarter Growth Rates</b>								
Total Revenues	20%	6%	1%	1%	52%	-33%	3%	1%
EBITDA	108%	71%	14%	-3%	57%	-43%	3%	1%
Net Income	NM	-404%	16%	19%	34%	-46%	5%	5%
Diluted EPS	143%	74%	17%	-12%	-5%	2%	5%	5%

Source: Company data and Hilliard Lyons estimates

### Analyst Certification

I, Tom Carpenter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on the firms' profitability. They do not receive direct payments from investment banking activity.

### Investment Ratings

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

**Income Stocks** - Stocks in this group are expected to provide greater income but less growth potential than stocks in other categories on this list.

### Suitability Ratings

**1** - A large cap, core holding with a solid history

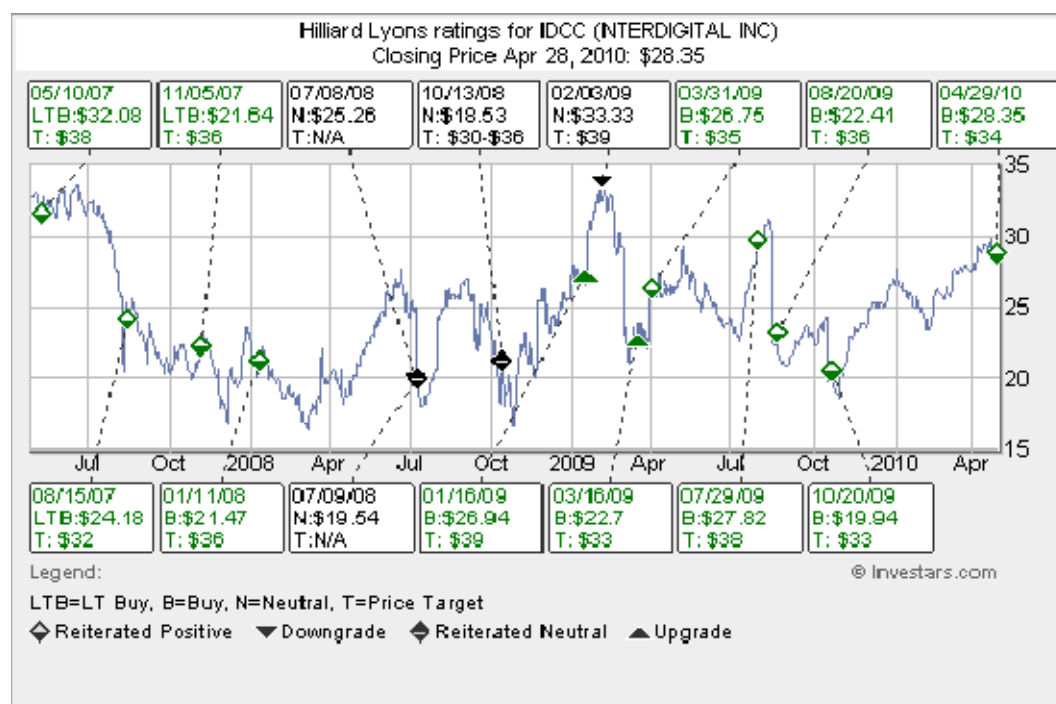
**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

<u>Rating</u>	<u>Hilliard Lyons Recommended Issues</u>		<u>Investment Banking Provided in Past 12 Mo.</u>	
	<u># of Stocks Covered</u>	<u>% of Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
<b>Buy</b>	46	26%	2%	98%
<b>Long-term Buy</b>	38	22%	0%	100%
<b>Neutral</b>	83	48%	6%	94%
<b>Underperform</b>	6	3%	0%	100%
<b>Not Rated</b>	1	1%	0%	100%

*As of 12 April 2010*



### Other Disclosures

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