

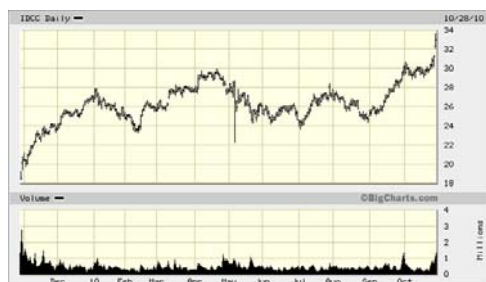
INTERDIGITAL INC. (IDCC-Q)

Rating: Buy
12-Month Target: \$48.00

Q3'10 RESULTS

MARKET INFO: IDCC-Q			
Closing Price			\$33.04
Target Price			\$48.00
Potential ROI			45.3%
52 Week Range (\$)	\$19.40 /	\$31.32	
Market Cap (\$mm)			\$1,455.51
Cash (mm)			\$563.58
Debt (mm)			\$11.04
Enterprise Value (mm)			\$902.98
Shares o/s (mm)			44.1
Avg Volume (previous 3 months)			422,520
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	3.0X	2.3X	2.2X
EV/EBITDA	4.9X	3.4X	3.1X
P/E	16.9X	9.6X	9.0X

Source: Capital IQ, M Partners



SOLID PERFORMANCE, DIVIDEND COMING

- InterDigital reported its Q3'10 results after market close on Wednesday and held a conference call yesterday morning. In addition to reporting solid financial performance for the quarter, the company indicated that it would be announcing a quarterly dividend for the first time in its history during Q4'10. While the company did not provide specifics as to the amount, management stated that it would be in-line with other technology companies. We expect that the annual yield could be in the range of 2% to 3%.
- Total reported revenue of \$91.9M (+21.7% Y/Y; +0.8% Q/Q) was in-line to slightly ahead of our expectations and ahead of both consensus and guidance. Revenue growth was driven by a 29% Y/Y increase in per-unit royalty streams of \$35.8M, attributed to increased global 3G handset sales as well new customer agreements. 3G device sales by Sharp in Japan increased significantly and contributed to 11% of revenues for the quarter.
- Adjusted EBITDA of \$61.4M was reported above of our \$58.6M estimate and considerably ahead of consensus expectations of \$54.0M. The company's better than expected EBITDA margin was partially impacted by a decline in Y/Y litigation expenses (\$1.4M in Q3'10 vs. \$3.3 in Q3'09).
- IDCC generated FCF of \$74.8M during the quarter resulting in an ending cash and equivalents balance of \$563.6M. The company disclosed that the outstanding \$100M receivable collected from Samsung was impacted by various taxes including a 16.5% Korean withholding tax. Management is confident that a quarterly dividend would not impact current cash and equivalent balance, or impede future growth, possibly indicating that dividends will be funded by ongoing FCF.

(\$mm)	Actuals		Q3'10 Estimates		Change	
	Q3'10A	Q3'09A	M Partners	Consensus	Y/Y	Q/Q
Revenue	\$91.9	\$75.5	\$90.5	\$88.7	21.7%	0.8%
Adj. EBITDA	\$61.4	\$53.9	\$58.6	\$54.0	14.0%	3.1%
EBITDA (%)	66.8%	71.3%	64.7%	60.8%	- 451 bps	+ 147 bps
EPS	\$0.79	\$0.69	\$0.73	\$0.71	14.5%	1.3%

Source: M Partners, Capital IQ

OUTLOOK

CEO Bill Merritt expressed confidence in IDCC's future performance, stating that the company's prospects have never been better. This confidence is reflected in the initiation of a quarterly dividend and also supported by the following data points:

- Nokia:** IDCC's federal court appeal of the ITC's decision in the Nokia case is scheduled for Dec 9, 2010. Management indicated that while they felt very optimistic about their chances in court, they believe that ongoing discussions with Nokia are "positive" and hope to conclude an out of court settlement prior to Dec 9.
- 3G Licensing should drive performance in 2011:** Management indicated that they expect to see a 20% Y/Y increase in 3G handset sales for the next four years. IDCC has 55% of 3G handsets worldwide under license and continues to target 100%. A settlement with Nokia would represent about a 34% increment, and its licensing team is larger than ever with a focus on adding new licensees.
- M2M:** IDCC continues to develop critical solutions that could drive the rapid adoption of M2M communications. Recent demonstrations are being well received by ETSI M2M technical standards committees. IDCC already has licensing agreements that cover over 50% of the M2M cellular module market.

October 29, 2010

- **LG Renewal:** Management indicated that they are currently having very “productive” license renewal discussions with LG. Although still aiming to conclude an LG license renewal prior to expiry on Dec 31, 2010, management stated that they are more concerned with getting the right deal even if it means extending negotiations beyond year end. Any lapse period would be covered by a past infringement “catch-up” payment. Importantly, management disclosed that 4G/LTE licensing arrangements are being incorporated into the discussion.
- **Nortel Patents:** IDCC is now formally an active participant in the Nortel LTE patent auction and expects to have an update by H1’11. Management emphasized that the initiation of a dividend will not impair its ability to bid for the Nortel IP.
- **Acquisitions of Infineon and Beceem:** Management indicated that the Intel acquisition of Infineon should not impact IDCC’s licensing arrangements and that IDCC continues to work closely with Infineon on modem designs. In contrast, management expects to lose Beceem as a SlimChip licensee since Broadcom has its own 3G modem designs. However, there will likely be a break-fee which should benefit IDCC in H1’11. This will not impact our valuation or forecast as we did not incorporate any contribution from Beceem into our model.

VALUATION AND RECOMMENDATION

- Guidance for Q4’10 will not be provided for a few more days as the company has not received all of the Q3’10 royalty reports from its per-unit licensees. Consequently, we will not be making any material revisions to our Q4’10 or FY’10 forecasts until then.

Sum of Parts	Value (In MM)	Per Share
Cash and Equivalents	\$563.6	\$12.79
Existing Per-Unit Agreements	\$709.1	\$16.10
LG and Samsung Renewal	\$371.0	\$8.42
4G/LTE Opportunity	\$694.3	\$15.76
Less: LT Debt	\$0.6	\$0.01
TOTAL	\$2,338.6	\$53.09
Add: Nokia	???	???

Source: M Partners

- We do not include a possible Nokia licensing agreement in our forecast, or in our sum-of-parts share price target.
- IDCC currently trades at 3.1x and 2.9x our FY’10 and FY’11 EBITDA estimates compared to its peer set which trades at 14.2x and 13.0x respectively. Despite the recent run-up in its share price, we believe that IDCC continues to be undervalued on an absolute and relative basis and maintain our BUY recommendation with a \$48.00 target price based on a 10% discount to our sum-of-parts analysis.

Company Name	Market Cap (mm)	Ent. Value (mm)	LTM Revenues (mm)	Cash & Equiv. (mm)	LTM EBITDA (mm)	LTM EBITDA Margin (%)	Valuation Multiples			
							FY’10 TEV/ EBITDA	FY’11 TEV / EBITDA	FWD P/E	TEV/ LTM Revenues
QUALCOMM Incorporated (NasdaqGS:QCOM)	\$71,399.1	\$62,709.1	\$10,729.0	\$9,968.0	\$3,984.0	37.1	14.2x	12.9x	19.2x	5.8x
Tessera Technologies Inc. (NasdaqGS:TSRA)	\$976.6	\$539.3	\$261.4	\$437.3	\$121.7	46.6	5.4x	6.8x	17.8x	2.1x
CEVA Inc. (NasdaqGM:CEVA)	\$384.5	\$282.5	\$42.1	\$102.0	\$8.1	19.3	25.0x	19.9x	34.5x	6.7x
Rambus Inc. (NasdaqGS:RMBS)	\$2,209.1	\$1,843.1	\$263.3	\$484.9	\$124.4	47.2	8.3x	166.0x	21.4x	7.0x
Acacia Research Corporation (NasdaqGM:ACTG)	\$936.0	\$852.5	\$138.6	\$83.4	\$48.3	34.9	15.5x	13.0x	23.2x	6.2x
Wi-Lan Inc. (TSX:WIN)	\$491.4	\$399.1	\$30.5	\$94.8	\$14.8	48.3	43.2x	16.0x	44.8x	13.1x
MOSAID Technologies Inc. (TSX:MSD)	\$321.7	\$218.1	\$73.4	\$103.6	\$42.3	57.7	5.2x	4.7x	11.6x	3.0x
Average							16.7x	34.2x	24.7x	6.3x
Median							14.2x	13.0x	21.4x	6.2x
InterDigital, Inc. (NasdaqGS:IDCC)	\$1,378.0	\$825.4	\$375.7	\$563.6	\$243.5	64.8	3.1x	2.9x	9.0x	2.2x

Source: Capital IQ, Bloomberg, M Partners

Note: M Partners has published this morning note on all the above companies except InterDigital Inc. (IDCC-O), for which it does not and may not choose to provide continuous research coverage. We do not provide a formal recommendation or target price. Bulletins are unrelated to our normal rating system described in our disclosures.

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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	26	88%
Sell	1	3%
Hold	2	6%
Under Review	1	3%
Total	32	100%