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Rating: Buy
Suitability: 4
Technology

InterDigital, Inc.

(IDCC-NASDAQ)

	Value	Blend	Growth
Large			
Mid			
Small			

Nokia Wins Round at International Trade Commission. InterDigital Intends to Appeal to attempt to Overturn Ruling on at Least One of Sixteen Claims. Reiterate Buy Rating.

Recent Price	\$22.41	December Fiscal Year	2008A	2009E	2010E
52-Week High Price	\$33.69	Earnings Per Share	\$0.54	\$2.23	\$4.18
52-Week Low Price	\$16.20	P/E Multiple	41.5x	10.0x	5.4x
Indicated Dividend	NA	Weighted Return on Equity ('08)			40%
Annual Yield	NA	Long Term Debt/ Total Cap. (06/09)			12%
Market Cap.	\$965 million	Est. 3-Year EPS Growth Rate			25%
Price Target	\$36	Insider / Institutional Ownership			3%/50%

Company Description: InterDigital designs and develops technology content and systems solutions for advanced digital wireless communications applications. The company licenses 2G and 3G technology to wireless communications firms. Please see p. 4 for a Wireless Glossary.

- **Administrative Law Judge (ALJ) Paul Luckern of the International Trade Commission (ITC) ruled that Nokia does not infringe on four of InterDigital's patents.** He ruled that the four patents (covering sixteen claims in the patent infringement case) are valid, but that Nokia's 3G handsets do not infringe. It was a curious ruling, in our view, as our understanding is that one of the patents, '579, is part of the 3GPP WCDMA/UMTS standard. A redacted version of Judge Luckern's ruling is not yet available, so we are not sure why he ruled non-infringement on this patent. Nokia may have argued that the patent relates to infrastructure more than handsets. It appears the breakdown for InterDigital was in claims construction, where the parties opine on what IDCC's patents accomplish, and where said patents may or may not intersect with a Nokia handset.
- **InterDigital intends to appeal the ruling.** The firm has twelve days after receiving the full report to petition for a review, or till August 31, 2009. The International Trade Commission (ITC) has 60 days to decide whether to review, to October 16, 2009. The ITC can review some, all, or none of the case. No new evidence is allowed. If the ITC decides to review, it will rule whether to affirm Judge Luckern's ruling, revise part of it, or revise all of it by December 14, 2009. The ITC is flexible regarding due dates, so it could give itself an extension. If the ITC rules against Nokia on at least one of the sixteen claims, Nokia could face an import ban for its 3G handsets into the U.S. If the ITC decides not to review the case, we believe InterDigital will appeal the case to the Federal Circuit Court of Appeals. We believe there is greater than 50% likelihood that the ITC reviews the case. Please see Table II for a timeline of the ITC process.
- **Claims construction is an increasingly appealable and winnable issue at the ITC.** Until the past couple of years, it was an uphill battle to revise and/or overturn an ALJ's ruling. Studies we've viewed had the revision rate at approximately 15%. In recent years (perhaps due to increasing

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complexity of patents) the study we saw showed the revision rate has climbed to 43%. Please see Table 1 for a summary of a recent study. Interestingly, InterDigital appealed a Judge Luckern finding to the ITC during its 337-601 patent infringement case against Samsung, whereby Judge Luckern ruled the patent '791 was invalid based on the definition of the word "if." InterDigital argued that "if" does indeed mean if, while Judge Luckern and the staff attorney had a more liberal definition that "if" means when. The ITC overruled Judge Luckern, and patent '791 was allowed to move forward in the Samsung patent infringement case. In a case that offers hope to InterDigital, Tessera received a "no infringement" ruling from an ALJ in December 2008. Tessera appealed, and in May 2009, the ITC reversed the ruling.

- **We would like to see InterDigital's management do two things: 1) Sign Nokia to a combined 3G and 4G license and 2) Buy shares in the open market with their own funds.** Spending two years (1.5 years and counting) and tens of millions of dollars on legal fees is not our idea of a good time, especially with the end result in doubt. We recognize that the potential payoff is high – we believe a five-year \$300 million + license is achievable – but, we wonder if there is a middle ground, which benefits shareholders more than it does patent attorneys. We estimate InterDigital has spent approximately \$100 million dollars (maybe more) since 2003 in its prolonged legal battles with Nokia over 2G and 3G licenses (Nokia has been just as much a provocateur, filing ten or more suits against IDCC in the United States and the United Kingdom). We have written reports on InterDigital since May 2001. During that time, we have not seen management buy shares in the open market with their own funds. We recognize that management teams can be incentivized with options, restricted stock units (RSUs), and cash bonuses, but it would be nice to see management march in step with shareholders, and show their faith in the company through open market purchases.
- **InterDigital can file a new patent infringement case against Nokia while the existing one is ongoing.** This is not in our top ten options (and may lead us to go to law school and become a patent attorney), but if Nokia and IDCC cannot agree upon a 3G rate, it may be necessary. InterDigital would likely file what is called continuation patents on some of the four patents it filed in the current case, both at the ITC and in the Nokia/IDCC case in Delaware Court. IDCC's management has stated that these continuation claims make the wording for the '579 patent more explicit regarding handsets, and thus, less wiggle room for a handset manufacturer to claim it does not infringe on the patent during claims construction. This could be a 1.5 year process from filing of a claim at the ITC to a final ruling. The current case was held up for several months due to an erroneous ruling by Judge Batts that temporarily allowed Nokia to go to arbitration. The Second Circuit Court of Appeals unanimously overturned her ruling.
- **If InterDigital and Nokia settle, we believe a deal could be worth over \$300 million for 3G.** A 3G license with Sony Ericsson could soon follow an IDCC/NOK agreement. Combined, we estimate the two licensees could generate over \$500 million in new 3G revenue to InterDigital. If InterDigital licenses Nokia for its 3G patents, we believe the rate will be between \$0.35 per handset and \$0.50 per handset. This translates into a potential \$360 million to \$514 million revenue contribution for InterDigital for the years 2010-2014. A 3G license with Sony Ericsson (at \$0.50 to \$0.75 per handset), which has approximately 7% market share, could generate \$200 million over five years, in our view. Given healthy dialogue (and no legal actions between the firms over the past five years), we believe InterDigital and Sony Ericsson will sign a 3G agreement soon after InterDigital and Nokia finalize an agreement.
- **InterDigital may expand its business model over the next 12 months.** We expect InterDigital to acquire patent families in wireless and related areas to add to its licensing business. In the past, InterDigital has only licensed its entire patent portfolio, never in pieces. Going forward, we believe the firm may segment its licensing (offering a license for a certain segment vs. the entire portfolio) if it adds patent families that are outside its core technology. We are in favor of this strategy, because licensing rates for InterDigital's and Qualcomm's patent portfolios appear to be declining as 3G

technology matures. Our view is that 4G patents are more widely dispersed than 3G patents, which could lead to further erosion in royalty rates for 4G handsets. That said, if InterDigital can add to the \$0.60 to \$0.75 royalty that we estimate it averages for 3G handsets, it could mean significant incremental revenue. The firm could add another \$0.10 to \$0.35 per phone (one billion 3G handsets in 2012) if it expands its patents into related electronic devices (tens of millions or possibly hundreds of millions of devices). Possibilities include wireless security, machine to machine (M2M – see recent Qualcomm and Verizon partnership), mobile payments, batteries, displays, and Wi-Fi.

- **We believe there is value to be unlocked at InterDigital given its \$6 per share cash position (no debt), \$3 net cash due from Samsung in 2010, 3G and 4G licenses still to be signed.** InterDigital's \$282 million cash position as of mid-July 2009 gives the firm flexibility to repurchase shares, pay a recurring dividend, and develop new revenue streams organically or through acquisitions (mobile payments, displays, machine-to-machine, batteries, Wi-Fi, etc). The cash position, untapped licensing potential, and a 3,000 (9,000 patent applications) patent portfolio encompassing 2G, 3G, 4G, and Wi-Fi could make InterDigital attractive to: 1) A private equity firm, 2) Handset manufacturers seeking to lessen its cross licensing royalties, 3) Another licensing firm, or 4) A firm looking to expand into wireless.
- **We expect InterDigital's \$282 million cash position (\$6 per share) to grow.** The \$282 million counts the first two of Samsung's four \$100 million payments, which IDCC received in 1Q09 and July 2009. We believe the two subsequent \$100 million payments will be in early and mid-2010. Samsung's \$400 million in payments represents \$9 per share to InterDigital (pre-tax). Combined with our estimated \$550 million in potential license payments from Nokia and Sony Ericsson, InterDigital could have a mid to high teens per share cash balance, assuming it doesn't use the cash in the interim for patent acquisitions, going private, dividends, share repurchases, etc. We are in favor of the firm implementing a modest dividend, acquiring 4G patents, acquiring media independent handover technology, acquiring patent families that enable the firm to segment its licensing efforts, going private, or tactically repurchasing shares. InterDigital announced a \$100 million share repurchase program on March 11, 2009, which if done at current prices would retire 8% of outstanding shares. The firm repurchased 600,000 shares for \$14.7 million during 2Q09. Given InterDigital's potential for a high cash position relative to its market capitalization, we believe the firm could attract interest from private equity firms. Our view is that InterDigital's management prefers to use cash on share repurchases and ancillary non-cellular patent acquisitions, attempting to increase either the: 1) Dollar amount of its future licenses or 2) Number of licensees.
- **We believe Nokia and Qualcomm's 3G and 4G settlement and InterDigital's 3G agreement with Samsung provide a framework for InterDigital and Nokia to agree upon a 3G royalty rate.** There are many confidential terms in the Nokia/Qualcomm settlement, but it appears that the blended 3G royalty rate that Nokia is paying Qualcomm is approximately 2%, or a little over \$4 per phone at today's average selling price per 3G handset. We believe InterDigital will receive between \$0.35 to \$0.50 per phone from Nokia once the firms finalize a 3G agreement. Our forward estimates have always modeled \$0.35 per 3G phone from Nokia. Although a modest rate, it would mean hundreds of millions of dollars of royalty revenue to InterDigital over a five-year period, which is a common length of InterDigital licenses. The licenses then renew for another five years, and so on. Please see Exhibits I, II, and III for the impact of potential licensing agreements with Nokia, Samsung, and Sony Ericsson on IDCC's financials.
- **Investors may ask about InterDigital's patents in 4G and its ability to license handset manufacturers for the next generation of wireless technology.** We believe InterDigital has a large number of patents in 4G and 802.xx technology, as well as a greater number of patent applications. The firm has licensed a few small manufacturers to its 802.xx patents, but has not licensed any manufacturers to Long Term Evolution (LTE), which appears to be the main air interface standard to 4G. Over the next two years, we expect InterDigital to begin licensing its 4G patents to manufacturers. A key issue, in our view, will be the firm's success in licensing manufacturers to 4G

without legal means. Given that the firm licensed all the main Japanese handset manufacturers, along with Apple, LG Electronics, and Research in Motion to its 3G technology through negotiations, we believe the firm can license a majority of the 4G handset providers without using the court system. Another key issue will be the royalty rate. We believe 4G rates will be lower due to a greater dispersion of patents among patent holders than in 3G technology. However, it appears many more devices than just handsets could use 4G and 802.xx technology, possibly increasing the number of potential licensees and revenue base.

- **We reiterate our Buy rating, but are lowering our price target by \$2, to \$36.** We are positive on InterDigital's ability to sign 3G licensing agreements with Nokia, Sony Ericsson, and Motorola (if it remains a viable handset manufacturer). We believe InterDigital's case against Nokia at the ITC, ultimately results in a settlement. 3G agreements with Nokia, Sony Ericsson, and Motorola could add hundreds of millions of dollars of licensing revenue to InterDigital over a five year period, and this leads us to project InterDigital's earnings power at over \$3.50 per share if it signs Nokia and Sony Ericsson, and if the licensing terms are structured as fixed payment/ratable deals. We derive our \$38 price target by applying a 16x multiple to our adjusted 2009 EPS estimate of \$2.23. Our target multiple is in line with the 17x multiple for the Nasdaq Composite. Note: our 2009 adjusted EPS of \$2.23 includes revenue from Samsung, but not from Nokia or Sony Ericsson. It also excludes the nonrecurring 1Q09 charge. Our 2010 EPS estimate of \$4.18 includes revenue from Samsung, Nokia, and Sony Ericsson. If one chooses to exclude from our 2010 EPS estimate the \$37.5 million of 2010 revenue that we account for as past money for Samsung's 2G obligation, the adjusted EPS estimate is \$3.63.

RISKS

Risks to our Buy rating include:

- InterDigital loses its 3G patent infringement case at the ITC against Nokia.
- Nokia delays the proceedings at the ITC.
- Nokia pays InterDigital less than \$0.35 per 3G phone.

Additional information available upon request.

Prices of other companies mentioned in this report:

Apple (AAPL - \$164.60 – not rated)
 Ericsson (ERIC - \$9.27 – not rated)
 Motorola (MOT - \$7.29 – Long-term Buy)
 Nokia (NOK - \$12.15– Long-term Buy)
 Qualcomm (QCOM - \$45.72 – Long-term Buy)
 Research in Motion (RIMM - \$73.44 – not rated)
 Sony (SNE - \$26.68 – not rated)
 Tessera (TSRA - \$26.01 – not rated)
 Verizon (VZ - \$30.43- Buy)

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 – 3rd 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.

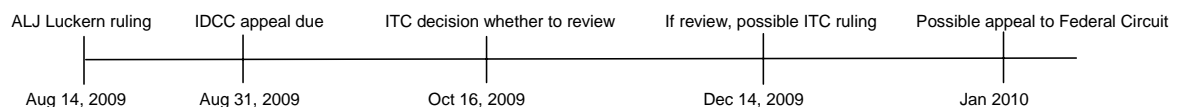
Table: I – Claim Construction Modification by ITC

	1996-2000	2001-2004	2005-2007
Number of claims constructions reviewed	12	22	28
Number of claim constructions altered	2	3	12
Percent of cases altered	16.7%	13.6%	42.9%

Source: Schwartz, David L. *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*. William and Mary Law Review, 2009.

Note: The data only includes claim construction by six ALJ's in the ITC investigation database. These ALJs handled 84% of the ITC investigations during the relevant time period.

Table II: Timeline for InterDigital's Appeal of ALJ Ruling



Source: Company data

Exhibit I: Nokia, Samsung, and Sony Ericsson Estimated Sales and Royalties to IDCC

Nokia		← Pay as you go model →							
Year		2008	2009	2010	2011	2012	2013	2014	5-Yr. Total
Industry Shipments		1,213	1,100	1,183	1,260	1,335	1,415	1,486	
Nokia Market Share		38%	38%	36%	36%	35%	35%	35%	
Nokia 3G phone %		20%	26%	37%	48%	65%	70%	75%	
Nokia 3G Phones		92	107	159	218	304	347	390	
Rate/phone	0.35	32	38	56	76	106	121	137	360
Rate/phone	0.5	46	54	80	109	152	173	195	514
Rate/phone	0.75	69	80	119	163	228	260	293	771
Rate/phone	1.00	92	107	159	218	304	347	390	1027

Samsung		← Pay as you go model →							
Year		2008	2009	2010	2011	2012	2013	2014	5-Yr. Total
Industry Shipments		1,213	1,100	1,183	1,260	1,335	1,415	1,486	
Samsung Market Share		16.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	
Samsung 3G phone %		36%	43%	52%	64%	75%	75%	75%	
Samsung 3G phones		72	83	108	141	175	186	195	579
Rate/phone	0.35	25	29	38	49	61	65	68	203
Rate/phone	0.5	36	41	54	71	88	93	98	289
Rate/phone	0.75	54	62	81	106	131	139	146	434
Rate/phone	1.00	72	83	108	141	175	186	195	579

Note: Samsung 3G percentage is higher due to Samsung's high market share in CDMA 2000 1X phones

Sony Ericsson		← Pay as you go model →							
Year		2008	2009	2010	2011	2012	2013	2014	5-Yr. Total
Industry Shipments		1,200	1,296	1,387	1,484	1,588	1,699	1,818	
Sony Ericsson Market Share		8.0%	7.5%	7.0%	7.0%	7.0%	7.0%	7.0%	
Sony Ericsson 3G phone %		27%	33%	44%	53%	70%	70%	70%	
Sony Ericsson 3G Phones		26	32	43	55	78	83	89	
Rate/phone	0.35	9	11	15	19	27	29	31	122
Rate/phone	0.5	13	16	21	28	39	42	45	174
Rate/phone	0.75	19	24	32	41	58	62	67	261
Rate/phone	1.00	26	32	43	55	78	83	89	348

Notes:

- 1) Rates per phone are estimates. Actual dollars can vary due to prepayment discounts and caps per phone. Companies can also use a royalty rate % instead of dollar amount per phone. Dollar amount per phone is easier to explain.
- 2) Pay as you go model entails a phone manufacturer paying InterDigital every time it sells a 3G phone. As 3G phones represented approximately 15% of units shipped in 2007, initial payments are lower while 3G shipment represent a smaller part of overall market shipments.
- 3) Ratable involves taking the total over five years and dividing it by five. It gives a manufacturer a fixed payment, giving it certainty if its market share increases.
- 4) Numbers in millions
- 5) Nokia and Sony Ericsson 5-year totals are for 2010-2014
- 6) Samsung signed a \$400 million agreement covering 2009-2012. The table with Samsung's numbers is for comparative purposes only. InterDigital will recognize \$100 million per year from Samsung.

Source: Hilliard Lyons estimates

Exhibit II: InterDigital Quarterly Earnings: 2008A – 2009E**InterDigital (IDCC)****Earnings Model** in thousands, except per share data

Fiscal Year (ends Dec)	Q1-09A	Q2-09A	Q3-09E	Q4-09E
Calendar Year	Mar-09	Jun-09	Sep-09	Dec-09
Revenue				
Recurring Licensing & Royalty	69,300	72,728	73,050	75,100
Product	1,261	2,200	2,000	2,000
Engineering Development	-	-	-	-
Other/one-time	-	-	-	-
Total Revenue	70,561	74,928	75,050	77,100
EXPENSES				
<i>Cost of Revenues</i>				
<i>Total Cost of Revenues</i>				
Gross Profit	70,561	74,928	75,050	77,100
<i>Operating Expenses</i>				
Research and Development	26,870	13,226	13,248	13,417
Selling, General, and Administrative	8,254	5,987	5,907	6,068
General & Administrative				
Patent Admin. & Licensing	12,137	15,580	15,103	13,202
Other	37,063	(93)		
<i>Total Operating Expenses</i>	<i>84,324</i>	<i>34,700</i>	<i>34,257</i>	<i>32,687</i>
Operating Income	(13,763)	40,228	40,793	44,413
Interest, net	829	625	700	755
Extraordinary Income (Expense)				
<i>Net Income Before Taxes</i>	<i>(12,934)</i>	<i>40,853</i>	<i>41,493</i>	<i>45,168</i>
Income Taxes	(4,248)	14,408	14,523	14,906
<i>Income Tax Rate</i>	<i>33%</i>	<i>35%</i>	<i>35%</i>	<i>33%</i>
<i>Net Income</i>	<i>(8,686)</i>	<i>26,445</i>	<i>26,971</i>	<i>30,263</i>
<i>Preferred stock Dividends</i>				
Net Income	(8,686)	26,445	26,971	30,263
EBITDA	27,723	47,409	46,493	50,113
EBIT	(13,763)	40,228	40,793	44,413
Average Shares Outstanding	43,501	43,479	43,262	43,045
Fully Diluted Shares Outst.	44,460	44,313	44,091	43,871
Earnings Per Share	(0.20)	0.60	0.61	0.69
Adj. Earnings Per Share	0.34	0.59	0.61	0.69
EBITDA Per Share	0.62	1.07	1.05	1.14
Margin Analysis				
Gross Profit	100%	100%	100%	100%
Operating	-20%	54%	54%	58%
Net Profit	-12%	35%	36%	39%
EBITDA	39%	63%	62%	65%
EBIT	-20%	54%	54%	58%
Percentage of Revenues				
Research & Development	38%	18%	18%	17%
Selling & Marketing	12%	8%	8%	8%
General & Administrative	0%	0%	-1%	-1%
Patent Admin. & Licensing	17%	21%	20%	17%
Goodwill & Other Intangibles	0%	0%	0%	0%
Year/Year Growth Rates				
Licensing Revenue	30%	30%	42%	62%
Product Revenue	-43%	-12%	-9%	-61%
Total Revenues	26%	28%	36%	31%
Operating Expenses	87%	-32%	-18%	-39%
EBITDA	44%	195%	119%	276%
Net Income	NM	352%	193%	690%
Diluted EPS	162%	368%	337%	393%
Quarter/Quarter Growth Rates				
Total Revenues	20%	6%	0%	3%
EBITDA	108%	71%	-2%	8%
Net Income	NM	352%	193%	690%
Diluted EPS	143%	74%	4%	13%

Source: company data, Hilliard Lyons estimates

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

Fiscal Year (ends Dec) Calendar Year	FY F2009E	FY F2010E	FY 2010E V2
Revenue			
Recurring Licensing & Royalty	290,178	400,000	362,500
Product	7,461	10,000	10,000
Engineering Development	-	-	-
Other/one-time	-	-	-
Total Revenue	297,639	410,000	372,500
EXPENSES			
<i>Cost of Revenues</i>			
<i>Total Cost of Revenues</i>			
Gross Profit	297,639	410,000	372,500
<i>Operating Expenses</i>			
Research and Development	66,760	62,811	62,811
Selling, General, and Administrative	26,216	26,179	26,179
General & Administrative	-	-	-
Patent Admin. & Licensing	56,022	41,468	41,468
Other	-	-	-
<i>Total Operating Expenses</i>	<i>148,997</i>	<i>130,458</i>	<i>130,458</i>
Operating Income	148,642	279,542	242,042
Interest, net	2,909	4,800	4,800
Extraordinary Income (Expense)	-	-	-
<i>Net Income Before Taxes</i>	<i>151,551</i>	<i>284,342</i>	<i>246,842</i>
Income Taxes	39,588	102,363	88,863
<i>Income Tax Rate</i>	<i>35%</i>	<i>36%</i>	<i>36%</i>
<i>Net Income</i>	<i>111,962</i>	<i>181,979</i>	<i>157,979</i>
<i>Preferred stock Dividends</i>	<i>-</i>	<i>-</i>	<i>-</i>
Net Income	74,992	181,979	157,979
EBITDA	171,739	304,542	267,042
EBIT	111,672	279,542	242,042
Average Shares Outstanding	43,322	42,672	42,672
Fully Diluted Shares Outst.	44,184	43,521	43,521
Earnings Per Share	1.70	4.18	3.63
Adj. Earnings Per Share	2.23	4.18	3.63
EBITDA Per Share	3.89	7.00	6.14
Margin Analysis			
Gross Profit	100%	100%	100%
Operating	50%	68%	65%
Net Profit	25%	44%	42%
EBITDA	58%	74%	72%
EBIT	38%	68%	65%
Percentage of Revenues			
Research & Development	32%	15%	17%
Selling & Marketing	6%	6%	7%
General & Administrative	8%	4%	0%
Patent Admin. & Licensing	12%	10%	11%
Goodwill & Other Intangibles	0%	0%	0%
Year/Year Growth Rates			
Licensing Revenue	40%	38%	-9%
Product Revenue	-38%	NM	NM
Total Revenues	30%	38%	-9%
Operating Expenses	-24%	-12%	0%
EBITDA	166%	77%	-12%
Net Income	218%	143%	-13%
Diluted EPS	194%	146%	-13%

Source: company data, Hilliard Lyons estimates

Note: Our model for 2009 incorporates payments from Samsung.

Our 2010 estimate incorporates payments from Nokia, Samsung, and Sony Ericsson under fixed/ratable terms.

Our 2010E V2 estimates exclude \$37.7 million of revenue from Samsung.

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 Hilliard Lyons' 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.

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.

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	46	27%	2%	98%
Long-term Buy	39	23%	3%	97%
Neutral	73	43%	4%	96%
Underperform	9	5%	11%	89%
Suspended	2	1%	0%	100%

As of 10 August 2009

