

RAMBUS INC  
Form 10-Q  
October 17, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-22339

---

**RAMBUS INC.**

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of

incorporation or organization)

4440 El Camino Real, Los Altos, CA 94022

(Address of principal executive offices) (zip code)

94-3112828  
(I.R.S. Employer

Identification No.)

Edgar Filing: RAMBUS INC - Form 10-Q

Registrant's telephone number, including area code: (650) 947-5000

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share, was 103,820,383 as of September 30, 2007.

---

---

**Table of Contents**

RAMBUS INC.

**FORM 10-Q**

**INDEX**

	<b>PAGE</b>
<u>Special Note Regarding Forward-Looking Statements</u>	3
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	4
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	46
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	48
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
Item 3. <u>Defaults Upon Senior Securities</u>	62
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	62
Item 5. <u>Other Information</u>	62
Item 6. <u>Exhibits</u>	62
<u>Signature</u>	63
<u>Exhibit Index</u>	64

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q ( Quarterly Report ) contains forward-looking statements. These forward-looking statements include, without limitation, predictions regarding the following aspects of our future:

Outcome and effect of current and potential future intellectual property litigation;

Resolution of the Federal Trade Commission and European Commission matters involving us;

Accounting, tax, regulatory, legal and other outcomes and effects of the stock option investigation;

Consequences of the derivative, class-action and other lawsuits related to the stock option investigation;

The actions of our Special Litigation Committee;

Actions of governmental authorities and other regulators, including Nasdaq, the SEC and the IRS;

Sources, amounts and concentration of revenue, including royalties;

Product development;

Improvements in technology;

Engineering, marketing and general and administration expenses;

Litigation expenses;

Success in the markets of our or our licensees products;

Terms of our licenses;

Success in renewing license agreements;

Pricing policies of our licensees;

## Edgar Filing: RAMBUS INC - Form 10-Q

Sources of competition;

Protection of intellectual property;

International licenses and operations, including our design facility in Bangalore, India;

Indemnification and technical support obligations;

Likelihood of paying dividends;

Cash and cash equivalents position;

Lease commitments;

Ability to attract and retain qualified personnel;

Internal control environment;

Adoption of new accounting pronouncements;

Trading price of our Common Stock;

Continued listing of our Common Stock on The Nasdaq Global Select Market;

Operating results;

Realization of deferred tax assets;

Accounting estimates and procedures;

The level and terms of our outstanding debt;

Interest and other income, net;

Effective tax rates;

## Edgar Filing: RAMBUS INC - Form 10-Q

Amortization of intangible assets; and

Planned remediation of the material weakness in internal control over financial reporting.

You can identify these and other forward-looking statements by the use of words such as may, should, expects, plans, anticipates, believes, estimates, predicts, intends, potential, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements include the assumptions underlying or relating to any of the foregoing statements.

## Edgar Filing: RAMBUS INC - Form 10-Q

Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Part II, Item 1A, Risk Factors. All forward-looking statements included in this document are based on our assessment of information available to us at this time. We assume no obligation to update any forward-looking statements.

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****RAMBUS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

<i>(In thousands, except share and per share amounts)</i>	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 56,776	\$ 73,304
Marketable securities	382,271	351,055
Accounts receivable	976	846
Unbilled receivables	163	1,748
Deferred and prepaid taxes	11,388	11,388
Prepays and other current assets	6,650	4,403
<b>Total current assets</b>	<b>458,224</b>	<b>442,744</b>
Marketable securities, long-term	5,997	11,982
Restricted cash	2,293	2,287
Deferred taxes, long-term	104,457	98,193
Intangible assets, net	17,377	18,697
Property and equipment, net	25,192	26,019
Goodwill	4,454	3,315
Other assets	3,306	1,380
<b>Total assets</b>	<b>\$ 621,300</b>	<b>\$ 604,617</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 12,773	\$ 10,429
Accrued salaries and benefits	14,940	12,788
Accrued litigation expenses	23,986	23,143
Other accrued liabilities	9,177	5,878
Convertible notes	160,000	160,000
Deferred revenue	6,596	6,003
Income taxes payable	454	197
<b>Total current liabilities</b>	<b>227,926</b>	<b>218,438</b>
Deferred revenue, less current portion	112	1,554
Long-term taxes payable	3,133	
Other long-term liabilities	2,256	2,337
<b>Total liabilities</b>	<b>233,427</b>	<b>222,329</b>

Commitments and contingencies (see notes 13 and 14)

**STOCKHOLDERS EQUITY**



Edgar Filing: RAMBUS INC - Form 10-Q

Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at March 31, 2007 and December 31, 2006		
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 103,820,383 shares at March 31, 2007 and December 31, 2006	104	104
Additional paid-in capital	559,081	550,210
Accumulated deficit	(170,952)	(167,396)
Accumulated other comprehensive loss	(360)	(630)
<b>Total stockholders' equity</b>	<b>387,873</b>	<b>382,288</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 621,300</b>	<b>\$ 604,617</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****RAMBUS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenue		
Contract revenues	\$ 6,404	\$ 5,664
Royalties	43,746	41,681
Total revenues	50,150	47,345
Costs and expenses:		
Cost of contract revenues*	6,215	7,368
Research and development*	23,430	18,017
Marketing, general and administrative*	24,965	24,872
Costs of restatement and related legal activities	7,009	
Total costs and expenses	61,619	50,257
Operating loss	(11,469)	(2,912)
Interest and other income, net	5,194	3,445
Income (loss) before income taxes	(6,275)	533
Benefit from income taxes	(2,387)	(119)
Net income (loss)	\$ (3,888)	\$ 652
Net income (loss) per share:		
Basic	\$ (0.04)	\$ 0.01
Diluted	\$ (0.04)	\$ 0.01
Weighted average shares used in per share calculation		
Basic	103,820	101,142
Diluted	103,820	109,289

\* Includes stock-based compensation:

Cost of contract revenues	\$ 1,091	\$ 1,982
Research and development	\$ 3,383	\$ 4,170
Marketing, general and administrative	\$ 4,943	\$ 4,857

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****RAMBUS INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (3,888)	\$ 652
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Stock-based compensation	9,417	11,009
Depreciation	3,116	2,596
Amortization of intangible assets and note issuance costs	1,320	1,492
Tax shortfall from equity incentive plans		(42)
<b>Change in operating assets and liabilities:</b>		
Accounts receivable and unbilled receivables	1,455	(854)
Prepays, deferred taxes and other assets	(7,407)	(2,629)
Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities	14,565	5,328
Increases in deferred revenue	5,554	5,627
Decreases in deferred revenue	(6,403)	(5,664)
<b>Net cash provided by operating activities</b>	<b>17,729</b>	<b>17,515</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, equipment and leasehold improvements	(2,289)	(3,148)
Cash paid for acquisition of business		(1,000)
Purchases of marketable securities	(152,033)	(4,000)
Maturities of marketable securities	127,050	24,494
Increase in restricted cash	(6)	(19)
<b>Net cash provided by (used in) investing activities</b>	<b>(27,278)</b>	<b>16,327</b>
<b>Cash flows from financing activities:</b>		
Payments under installment arrangement	(7,001)	(400)
Net proceeds from issuance of Common Stock under equity incentive plans		43,342
Repurchase of Common Stock		(20,955)
<b>Net cash provided by (used in) financing activities</b>	<b>(7,001)</b>	<b>21,987</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>22</b>	<b>3</b>
<b>Net increase in cash and cash equivalents</b>	<b>(16,528)</b>	<b>55,832</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>73,304</b>	<b>42,391</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 56,776</b>	<b>\$ 98,223</b>
<b>Non-cash investing activity:</b>		
Increase in goodwill due to earn-out on GDA acquisition	\$ 1,139	\$

See Notes to Unaudited Condensed Consolidated Financial Statements.



---

**Table of Contents**

**RAMBUS INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Rambus Inc. ( Rambus or the Company ) and its wholly-owned subsidiaries, Rambus K.K., located in Tokyo, Japan, Rambus Deutschland GmbH, located in Pforzheim , Germany, Rambus, located in George Town, Grand Caymans, BWI, Rambus Chip Technologies (India) Private, Limited located in Bangalore, India and Rambus Korea, located in Seoul, Korea. All intercompany accounts and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. Investments in entities with less than 20% ownership by Rambus and in which Rambus does not have the ability to significantly influence the operations of the investee are being accounted for using the cost method and are included in other assets.

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring items) necessary to state fairly the financial position and results of operations for each interim period shown. Interim results are not necessarily indicative of results for a full year.

The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC ) applicable to interim financial information. Certain information and footnote disclosures included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements pursuant to such SEC rules and regulations. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto in Form 10-K for the year ended December 31, 2006.

**2. Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 is effective for the Company in the fiscal year beginning January 1, 2008. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of this statement on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the Company beginning January 1, 2008. The Company is currently evaluating the potential impact of the adoption of SFAS 157.

In June 2006, the FASB issued FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes ( SFAS 109 ), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. Rambus adopted the provisions of FIN 48 on January 1, 2007.

As a result of the adoption of FIN 48, the Company s unrecognized tax benefits decreased by \$0.3 million, which was accounted for as a decrease of \$0.3 million to the opening balance of accumulated deficit. In addition, upon the adoption of FIN 48, \$2.7 million of unrecognized tax benefits were reclassified from long-term deferred tax assets to long-term taxes payable. The Company s policy to include interest and penalties related to unrecognized tax benefits within the provision for (benefit from) income taxes did not change as a result of adopting the provisions of FIN 48.

---

## **Table of Contents**

### **3. Revenue Recognition**

#### ***Overview***

Rambus' revenue recognition policy is based on the American Institute of Certified Public Accountants Statement of Position 97-2, Software Revenue Recognition (SOP 97-2) as amended by Statement of Position 98-4 (SOP 98-4) and Statement of Position 98-9 (SOP 98-9). For certain of Rambus' revenue contracts, revenue is recognized according to Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1).

In application of the specific authoritative literature cited above, Rambus complies with Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 5 and 6. Rambus recognizes revenue when persuasive evidence of an arrangement exists, Rambus has delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, Rambus defers recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

Rambus' revenues consist of royalty revenues and contract revenues generated from agreements with semiconductor companies, system companies and certain reseller arrangements. Royalty revenues consist of patent license royalties and product license royalties. Contract revenues consist of fixed license fees, fixed engineering fees and service fees associated with integration of Rambus' chip interface products into its customers' products. Contract revenues may also include support or maintenance. Reseller arrangements generally provide for the pass-through of a percentage of the fees paid to the reseller by its customer for use of Rambus' patent and product licenses. Rambus does not recognize revenue for these arrangements until it has received notice of revenue earned by and paid to the reseller, accompanied by the pass-through payment from the reseller. Rambus does not pay commissions to the reseller for these arrangements.

Many of Rambus' licensees have the right to cancel their licenses. In such arrangements, revenue is only recognized to the extent that is consistent with the cancellation provisions. Cancellation provisions within such contracts generally provide for a prospective cancellation with no refund of fees already remitted by customers for products provided and payment for services rendered prior to the date of cancellation. Unbilled receivables represent enforceable claims and are deemed collectible in connection with the Company's revenue recognition policy.

#### ***Royalty Revenues***

Rambus recognizes royalty revenues upon notification by its licensees and only if collectibility is assured. The terms of the royalty agreements generally either require licensees to give Rambus notification and to pay the royalties within 60 days of the end of the quarter during which the sales occur or are based on a fixed royalty that is due within 45 days of the end of the quarter. From time to time, Rambus engages accounting firms other than its independent registered public accounting firm to perform, on Rambus' behalf, periodic audits of some of the licensee's reports of royalties to Rambus and any adjustment resulting from such royalty audits is recorded in the period such adjustment is determined. Rambus has two types of royalty revenues: (1) patent license royalties and (2) product license royalties.

*Patent licenses.* Rambus licenses its broad portfolio of patented inventions to semiconductor and systems companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of Rambus' patent portfolio. Rambus generally recognizes revenue from these arrangements as amounts become due and payable. The contractual terms of the agreements generally provide for payments over an extended period of time.

*Product licenses.* Rambus develops proprietary and industry-standard chip interface products, such as RDRAM and XDR that Rambus provides to its customers under product license agreements. These arrangements include royalties, which can be based on either a percentage of sales or number of units sold. Rambus recognizes revenue from these arrangements upon notification from the licensee and only if collectibility is reasonably assured.

#### ***Contract Revenues***

Rambus generally recognizes revenue in accordance with the provisions of SOP 81-1 for development contracts related to licenses of its chip interface products, such as XDR and FlexIO that involve significant engineering and integration services. Revenues derived from such license and engineering services may be recognized using the completed contract or percentage-of-completion method. For all license and service agreements accounted for using the percentage-of-completion method, Rambus determines progress to completion using input measures based upon labor-hours incurred. Rambus has evaluated use of output measures versus input



**Table of Contents**

measures and has determined that its output is not sufficiently uniform with respect to cost, time and effort per unit of output to use output measures as a measure of progress to completion. Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by Rambus or production of chips by the licensee. The remaining fees may be due on pre-determined dates and include significant up-front fees.

A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. If Rambus determines that it is necessary to revise the estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the newly estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees will be recognized over a longer period. If there is significant uncertainty about the time to complete, or the deliverables by either party, Rambus evaluates the appropriateness of applying the completed contract method of accounting under SOP 81-1. Such evaluation is completed by Rambus on a contract-by-contract basis. For all contracts where revenue recognition must be delayed until the contract deliverables are substantially complete, Rambus evaluates the realizability of the assets which the accumulated costs would represent and defers or expenses as incurred based upon the conclusions of its realization analysis.

If application of the percentage-of-completion method results in recognizable revenue prior to an invoicing event under a customer contract, the Company will recognize the revenue and record an unbilled receivable. Amounts invoiced to Rambus customers in excess of recognizable revenues are recorded as deferred revenues. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenues or unbilled receivables in any given period.

Rambus also recognizes revenue in accordance with SOP 97-2, SOP 98-4 and SOP 98-9 for development contracts related to licenses of its chip interface products that involve non-essential engineering services and post contract support ( PCS ). These SOPs apply to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. Contract fees for the products and services provided under these arrangements are comprised of license fees and engineering service fees which are not essential to the functionality of the product. Rambus rates for PCS and for engineering services are specific to each development contract and not standardized in terms of rates or length. Because of these characteristics, the Company does not have a sufficient population of contracts from which to derive vendor specific objective evidence.

Therefore, as required by SOP 97-2, after Rambus delivers the product, if the only undelivered element is PCS, Rambus will recognize revenue ratably over either the contractual PCS period or the period during which PCS is expected to be provided. Rambus reviews assumptions regarding the PCS periods on a regular basis. If Rambus determines that it is necessary to revise the estimates of the support periods, the total amount of revenue to be recognized over the life of the contract would not be affected. However, if the new estimated periods were shorter than the original assumptions, the contract fees would be recognized ratably over a shorter period. Conversely, if the new estimated periods were longer than the original assumptions, the contract fees would be recognized ratably over a longer period.

**4. Comprehensive Income (Loss)**

Rambus comprehensive income (loss) consists of its net income (loss) plus other comprehensive income (loss) consisting of foreign currency translation adjustments and unrealized gains and losses on marketable securities, net of taxes.

The components of comprehensive income (loss), net of tax, are as follows:

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net income (loss)	\$ (3,888)	\$ 652
Other comprehensive income (loss):		
Foreign currency translation adjustments	22	3
Unrealized gain (loss) on marketable securities, net of tax	248	(77)
<b>Other comprehensive income (loss)</b>	<b>270</b>	<b>(74)</b>
Total comprehensive income (loss)	\$ (3,618)	\$ 578





**Table of Contents****5. Stock-Based Compensation**

For the three months ended March 31, 2007 and 2006, the Company maintained stock plans covering a broad range of potential equity grants including stock options, restricted stock, performance stock and stock units. In addition, the Company sponsors an Employee Stock Participation Plan ( ESPP ), whereby eligible employees were entitled to purchase Common Stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the Common Stock as of specific dates. See Note 6, Employee Stock Option Plans, for more information on the Company's plans.

Effective January 1, 2006, Rambus adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ( SFAS 123(R) ), which is a revision of SFAS No. 123 Accounting for Stock-Based Compensation ( SFAS 123 ). SFAS 123(R) requires the measurement and recognition of compensation expense in the Company's statement of operations for all share-based payment awards made to Rambus employees and directors, including employee stock options, nonvested equity stock and equity stock units, and employee stock purchases related to all Rambus stock-based compensation plans. Stock-based compensation expense is measured at grant date, based on the estimated fair value of the award, reduced by an estimate of the annualized rate of stock option forfeitures, and is recognized as expense over the employees' expected requisite service period, using the straight-line method.

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchase grants, and other equity grants under SFAS 123(R) for the three months ended March 31, 2007 and 2006:

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Stock-based compensation expense by type of award:		
Employee stock options	\$ 8,839	\$ 9,914
Employee stock purchase plan	166	1,000
Nonvested equity stock and equity stock units	412	95
<b>Total stock-based compensation expense</b>	<b>9,417</b>	<b>11,009</b>
Tax effect on the stock-based compensation expense	3,648	3,970
<b>Net effect of stock-based compensation expense on results of operations</b>	<b>\$ 5,769</b>	<b>\$ 7,039</b>

*Stock Options:* During the three months ended March 31, 2007, Rambus granted 2,697,100 stock options with an estimated total grant-date fair value of \$33.6 million. During the three months ended March 31, 2007, Rambus recorded stock-based compensation expense related to stock options of \$8.8 million for all unvested options granted prior to and after the adoption of SFAS 123(R), including the modification charge for the extension of expiring options discussed below.

The effect of recording stock-based compensation for the quarter ended March 31, 2007 includes a charge resulting from the Company's modifying the terms of 17 grants during the quarter by offering an extension of time to exercise. An additional charge was taken during the quarter to extend the time of the extension of the 59 grants previously extended in 2006. Because the Company suspended all stock option exercises as of July 19, 2006 in connection with the stock option investigation, substantially all of the Company's employees and directors whose options were expiring and terminating employees whose remaining time to exercise vested options would have expired were given extensions of time to exercise those options during the period that their options approached expiration. The total modification charge of \$2.0 million during the quarter is included in the above table under the caption Employee stock options.

There were no option exercises in the first quarter of 2007. Total intrinsic value of options exercised was \$78.8 million for the three months ended March 31, 2006. Intrinsic value is the total value of exercised shares on the date of exercise less the cash received from the employees to exercise the options.

The total cash received from employees as a result of employee stock option exercises was \$43.3 million for the three months ended March 31, 2006.



**Table of Contents**

There were no tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units for the three months ended March 31, 2007 and 2006 calculated in accordance with SFAS 123 (R). The Company does not expect to be able to use any tax benefit from stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units to reduce its taxes for the year 2007.

*Employee Stock Purchase Plan ( ESPP )*: Compensation expense in connection with the 1997 Purchase Plan for the three months ended March 31, 2006 includes a charge resulting from the Company's modifying prior offerings. In accordance with the terms of the plan, if the fair market value on any given purchase date is less than the fair market value on the grant date, the grant offering is cancelled and all participants are enrolled in the next subsequent grant offering. A modification charge is recorded as a result of this grant offering cancellation and the issuance of a new grant offering. During the three months ended March 31, 2006, the Company recorded \$0.2 million in modification charges related to the ESPP which is included in the table above under the caption Employee Stock Purchase Plan.

As of July 19, 2006, the ESPP plan was suspended in connection with the stock option investigation. No further purchases will be made under this plan until the Company is current with its SEC filings.

*Valuation Assumptions*

Rambus estimates the fair value of stock options using the Black-Scholes-Merton model ( BSM ). This is the same model which it previously used in preparing its pro forma disclosure required under SFAS 123. The BSM model determines the fair value of stock-based compensation and is affected by Rambus' stock price on the date of the grant as well as assumptions regarding a number of highly complex and subjective variables. These variables include expected volatility, expected life of the award, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. The BSM option-pricing model was developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, if actual results differ significantly from these estimates, stock-based compensation expense and Rambus' results of operations could be materially impacted.

The fair value of stock awards is estimated as of the grant date using the BSM option-pricing model assuming a dividend yield of 0% and the additional weighted-average assumptions as listed in the following table:

	Three Months Ended	
	March 31, 2007	2006
<b>Stock Option Plans</b>		
Expected stock price volatility	62% - 69%	61%
Risk-free interest rate	4.51% - 4.84%	4.40%
Expected term (in years)	6.2	6.6
Weighted-average fair value of stock options granted	\$12.45	\$15.88

No grants were made under the employee stock purchase plan during the quarters ended March 31, 2007 and 2006.

*Expected stock price volatility*: Effective January 1, 2006, Rambus evaluated the assumptions used to estimate volatility and determined that under SAB 107, given the volume of market activity in its market traded options greater than one year, it would use the implied volatility of its nearest-to-the-money traded options. The Company believes that the use of implied volatility is more reflective of market conditions and a better indicator of expected volatility. If there is not sufficient volume in its market traded options for any period, the Company will use an equally weighted blend of historical and implied volatility.

*Risk-free interest rate*: Rambus bases the risk-free interest rate used in the BSM valuation method on implied yield currently available on the U.S. Treasury zero-coupon issues with an equivalent term. Where the expected terms of Rambus' stock-based awards do not correspond with the terms for which interest rates are quoted, Rambus used the nearest rate from the available maturities.

**Table of Contents**

*Expected term:* The expected term of options granted represents the period of time that options granted are expected to be outstanding. Prior to the adoption of SFAS 123(R), the Company used only historical data to estimate option exercise and employee termination within the model. For the three months ended March 31, 2007 and 2006, the average expected life was determined using a Monte Carlo simulation model.

*Tax effects of stock-based compensation*

Rambus will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized. In addition, Rambus has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credits, through the statement of operations as part of the tax effect of stock-based compensation.

For stock-based compensation expense recognized during the three months ended March 31, 2007, Rambus has recognized the tax effects of stock-based compensation under the long method in accordance with FASB Staff Position No. SFAS 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. On January 1, 2006, Rambus adopted the long method in accordance with FAS 123(R)-3 to calculate the excess tax credit pool. The long method requires a detailed calculation of the January 1, 2006 balance of the portion of the excess/shortfall tax benefit credits recorded in the additional paid-in capital account. The tax effect on stock-based compensation is calculated as the stock-based compensation that the Company believes is deductible, multiplied by the applicable statutory tax rate.

**6. Employee Stock Option Plans***Stock Option Plans*

The Company has three stock option plans under which grants are currently outstanding: the 1997 Stock Option Plan (the 1997 Plan), the 1999 Non-statutory Stock Option Plan (the 1999 Plan) and the 2006 Equity Incentive Plan (the 2006 Plan). Grants under all plans typically have a requisite service period of 60 months, have straight-line or graded vesting schedules (the 1997 and 1999 plans only) and expire not more than ten years from date of grant. Effective with stockholder approval of the 2006 Plan in May 2006, no further awards will be made under the 1997 Plan and the 1999 Plan but the plans will continue to govern awards previously granted under those plans.

The 2006 Plan was approved by the stockholders in May 2006. The 2006 Plan, as amended, provides for the issuance of the following types of incentive awards: (i) stock options; (ii) stock appreciation rights; (iii) restricted stock; (iv) restricted stock units; (v) performance shares and performance units; and (vi) other stock or cash awards. This plan provides for the granting of awards at less than fair market value, but such grants would be counted against the numerical limits of available shares at a ratio of 1.5 to 1.

As of March 31, 2007, 5,209,510 shares of the 8,400,000 shares approved under the 2006 Plan remain available for grant. The 2006 Plan is now Rambus' only plan for providing stock-based incentive compensation to eligible employees, executive officers and non-employee directors and consultants.

A summary of shares available for grant under the Company's plans is as follows:

	<b>Shares Available for Grant</b>
Shares available as of December 31, 2006	7,866,200
Stock options granted	(2,697,100)
Stock options forfeited	480,136
Stock options expired under former plans	(439,726)
<b>Total available for grant as of March 31, 2007</b>	<b>5,209,510</b>

**Table of Contents***General Stock Option Information*

The following table summarizes stock option activity under the 1997, 1999 and 2006 Plans for the three months ended March 31, 2007 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of March 31, 2007.

<i>(Dollars in thousands, except per share amounts)</i>	Options Outstanding		Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	Number of Shares	Weighted Average Exercise Price Per Share		
Outstanding as of December 31, 2006	18,672,877	\$ 18.32		
Options granted	2,697,100	18.77		
Options exercised				
Options forfeited	(480,136)	19.14		
Outstanding as of March 31, 2007	20,889,841	\$ 18.43	6.35	\$ 128,647
Vested or expected to vest at March 31, 2007	18,560,683	\$ 18.85	6.25	\$ 111,286
Options exercisable at March 31, 2007	10,379,780	\$ 18.04	4.65	\$ 84,847

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for in-the-money options at March 31, 2007, based on the \$21.25 closing stock price of Rambus Common Stock on March 30, 2007 on the Nasdaq Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of March 31, 2007 was 14,770,174 and 7,479,518, respectively.

The following table summarizes the information about stock options outstanding and exercisable as of March 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.25 - \$ 4.86	3,797,877	4.06	\$ 4.08	3,008,542	\$ 4.40
5.93 - 13.75	2,371,194	4.73	11.00	1,840,753	10.84
13.91 - 15.23	2,521,988	7.53	14.81	758,689	14.64
15.26 - 16.84	2,345,738	5.58	15.97	1,445,672	15.83
16.98 - 18.44	1,022,127	7.54	17.56	421,462	17.77
18.69 - 18.69	2,228,050	9.84	18.69		
18.90 - 24.15	2,102,539	8.66	22.06	410,679	22.45
24.66 - 32.84	2,282,128	7.03	26.98	660,935	27.83
35.00 - 66.69	2,147,200	4.53	44.51	1,762,048	45.11
75.69 - 83.00	71,000	3.46	77.98	71,000	77.98
\$ 1.25 - \$ 83.00	20,889,841	6.35	\$ 18.43	10,379,780	\$ 18.04

As of March 31, 2007, there was \$95.5 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested share-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 3.3 years. The total fair value of shares vested as of March 31, 2007 was \$191.7 million.

*Employee Stock Purchase Plans*

The Company has two employee stock purchase plans, the 1997 Employee Stock Purchase Plan, (the 1997 Purchase Plan ) and the 2006 Employee Stock Purchase Plan, (the 2006 Purchase Plan ). The 1997 Purchase Plan provided for offerings of four consecutive overlapping six month offering periods. Under the 1997 Purchase plan, employees were able to purchase stock at the lower of 85% of the fair market value on the first day of the 24 month

**Table of Contents**

offering period (the enrollment date), or the purchase date (the exercise date). Employees generally were not able to purchase more than the number of shares having a value greater than \$25,000 in any calendar year, as measured at the beginning of the offering period. This plan was suspended effective July 19, 2006 due to the stock options investigation. For all participants electing to stay in the plan, contributions made through that date are being held and will be applied towards the first purchase date subsequent to the reinstatement of the plan. It is the Company's intention to reinstate this plan as soon as practicable after it is current on its filings with the Securities and Exchange Commission. No further offerings will be made under this plan and the plan will terminate effective with the October 31, 2007 purchase date in accordance with its governing documents.

Due to the fact that the 1997 Purchase Plan was suspended effective July 19, 2006, no purchases were made subsequent to the most recent purchase date of April 30, 2006. Under the 1997 Purchase Plan, the Company did not issue any shares of Common Stock in the three months ended March 31, 2007 or 2006. As of March 31, 2007, there were 1,391,180 shares available for issuance under the 1997 Plan. The majority of these shares are not expected to be issued. Any shares not used in the October 31, 2007 purchase will expire according to the plan's terms.

The 2006 Purchase Plan provides for six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees may purchase stock at the lower of 85% of the beginning of the offering period (the enrollment date), or the end of each offering period (the exercise date). Employees generally may not purchase more than the number of shares having a value greater than \$25,000 in any calendar year, as measured at the purchase date. There have been no offerings under this plan and as such there has been no shares issued under this plan. As of March 31, 2007, there were 1,600,000 shares available for issuance under this Plan. The first offering under this plan will be made as soon as practicable after the Company has become current with its SEC filings and the underlying shares have been registered with the SEC.

As of March 31, 2007, there was \$0.4 million of total unrecognized compensation cost related to share-based compensation arrangements granted under the ESPP Plans. That cost is expected to be recognized over seven months.

**7. Stockholders' Equity***Preferred and Common Stock*

In February 1997, Rambus established a Stockholder Rights Plan pursuant to which each holder of Rambus' Common Stock shall receive a right to purchase one-thousandth of a share of Series E Preferred Stock for \$125 per right, subject to a number of conditions. Such rights are subject to adjustment in the event of a takeover or commencement of a tender offer not approved by the Board of Directors. In July 2000, the Rambus Board of Directors agreed to restate the exercise price to \$600 per right in an Amended and Restated Preferred Shares Rights Agreement. In November 2002, the Rambus Board of Directors agreed to restate the exercise price to \$60 per right in an Amended and Restated Preferred Shares Rights Agreement.

*Contingent Unvested Options*

As of December 31, 2006, there were 721,846 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM 850E chipsets. Intel has since phased out the 850E chipset and as a result the unvested options will never vest. The impact of the unvested options has been excluded from the calculation of net income per share.

During the three months ended March 31, 2007, 61,248 contingent unvested options were forfeited. The forfeitures of the contingent unvested options are included in the forfeitures in the table summarizing stock option activity in Note 6, Employee Stock Option Plans.

As of March 31, 2007, there were 660,598 contingent unvested options. As per above, none are expected to vest.

*Nonvested Equity Stock and Stock Units*

On February 1, 2006, Rambus entered into an amended and restated employment agreement with its then Senior Vice President and General Counsel, John Danforth. Pursuant to the terms of the Agreement, Mr. Danforth was granted 36,603 and 26,780 nonvested equity stock units on February 1, 2006 and May 2, 2006, respectively.



**Table of Contents**

The nonvested equity stock units were valued at fair market value at the date of grant, assuming no shares would be forfeited, giving each a valuation of \$1.0 million which will be attributed to expense over the 21 and 18 month vesting periods beginning February 1, 2006 and May 2, 2006, respectively. For the three months ended March 31, 2007 and 2006, Rambus recorded stock-based compensation expense of approximately \$0.3 million and \$0.1 million, respectively. Unrecognized stock-based compensation cost related to these grants was \$0.7 million at March 31, 2007.

On April 11, 2006, Rambus granted its Chief Financial Officer, Satish Rishi, 40,000 shares of nonvested equity stock at an exercise price of \$.001 per share. These shares are not transferable until vested and any unvested shares are subject to repurchase upon termination. The nonvested equity stock grant was valued at fair market value at the date of grant, assuming no shares would be forfeited, giving it a valuation of \$1.6 million which will be attributed to expense over the 4 year vesting period beginning April 11, 2006. For the three months ended March 31, 2007, Rambus recorded stock-based compensation expense of approximately \$0.1 million related to this grant. Unrecognized stock-based compensation cost related to this grant was \$1.2 million at March 31, 2007.

The following table reflects the activity related to nonvested equity stock and stock units for the three months ended March 31, 2007:

	Shares	Weighted Average Grant- Date Fair Value
Nonvested at December 31, 2006	73,770	\$ 36.14
Granted		
Vested	(9,692)	31.93
Forfeited		
Nonvested at March 31, 2007	64,078	\$ 36.78

*Share Repurchase Program*

In October 2001, Rambus Board of Directors (the Board) approved a share repurchase program of its Common Stock, principally to reduce the dilutive effect of employee stock options. To date, the Board has approved the authorization to repurchase up to 19.0 million shares of the Company's outstanding Common Stock over an undefined period of time. As of March 31, 2007, Rambus had repurchased a cumulative total of 13.2 million shares of its Common Stock at an average price per share of \$13.95 since the commencement of this program. As of March 31, 2007, there remained an outstanding authorization to repurchase 5.8 million shares of Rambus' outstanding Common Stock. In connection with the recently completed stock option investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. Therefore, there were no repurchases during the three months ended March 31, 2007. The Company will not repurchase additional shares until after it is current with its SEC filings.

Rambus records stock repurchases as a reduction to stockholders' equity. As prescribed by APB Opinion No. 6, Status of Accounting Research Bulletins, Rambus records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the cost of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock.

**8. Earnings (Loss) Per Share**

Earnings (loss) per share is calculated in accordance with Statement of Financial Accounting Standard No. 128, Earnings Per Share (SFAS 128). Basic earnings per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of incremental common shares issuable upon exercise of stock options, employee stock purchases, restricted stock and restricted stock units and shares issuable upon the conversion of convertible notes. The dilutive effect of the convertible notes is calculated under the if-converted method. The dilutive effect of outstanding shares is reflected in diluted earnings per share by application of the treasury stock method. This method includes consideration of the amounts to be paid by the employees, the amount of excess tax benefits that would be recognized in equity if the instrument was exercised and the amount of unrecognized stock-based compensation related to future services. No potential dilutive common shares are included in the computation of any diluted per share amount when a net loss is reported.



**Table of Contents**

The following table sets forth the computation of basic and diluted earnings per share:

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Numerator:</b>		
Net income (loss)	\$ (3,888)	\$ 652
<b>Denominator:</b>		
Weighted average shares used to compute basic EPS	103,820	101,142
Dilutive potential shares from stock options, ESPP, restricted stock and restricted stock units		8,147
Weighted average shares used to compute diluted EPS	103,820	109,289
<b>Earnings per share:</b>		
Basic	\$ (0.04)	\$ 0.01
Diluted	\$ (0.04)	\$ 0.01

For the three months ended March 31, 2007, approximately 5.9 million shares that would be issued upon the conversion of the contingently issuable convertible debt were excluded from the calculation of earnings per share because the conversion price was higher than the average market price of the Common Stock during the period. For the three months ended March 31, 2007 and 2006, options to purchase approximately 11.2 and 6.0 million shares, respectively, were excluded from the calculation because they were antidilutive after considering proceeds from exercise, taxes, and related unamortized compensation. For the three months ended March 31, 2007, an additional 3.6 million shares that would be dilutive have been excluded from weighted diluted EPS because there is a net loss for the period.

**9. Business Segments, Exports and Major Customers**

Rambus operates in a single industry segment: the design, development and licensing of chip interface technologies and architectures. Three customers accounted for 26%, 14% and 13%, respectively, of revenues in the three months ended March 31, 2007. Five customers accounted for 21%, 12%, 12%, 11% and 10%, respectively, of revenues in the three months ended March 31, 2006. Rambus expects that its revenue concentration will decrease over the long term as Rambus licenses new customers.

Rambus sells its chip interfaces and licenses to customers in the Far East, North America, and Europe. Revenues from customers in the following geographic regions were recognized as follows:

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Japan	\$ 36,181	\$ 23,818
North America	6,340	17,275
Taiwan	100	150
Korea	424	175
Europe	7,105	5,927
	\$ 50,150	\$ 47,345

Revenues are attributed to individual countries according to the countries in which the licensees are headquartered. At March 31, 2007, of the \$25.2 million of total long-lived assets, approximately \$20.2 million are located in the United States and \$4.2 million are located in India.

**10. Acquisition**

## Edgar Filing: RAMBUS INC - Form 10-Q

On April 15, 2005, Rambus completed the acquisition of a portion of GDA Technologies ( GDA ) including certain proprietary digital core designs for a preliminary total of \$6.4 million in cash, including transaction

**Table of Contents**

costs. Rambus did not have a pre-existing relationship with GDA before the acquisition. Under the terms of the purchase agreement, Rambus paid a total of \$5.3 million in cash to GDA at the initial closing. Rambus was contractually obligated to pay out an additional \$1.0 million in conjunction with its acquisition of intellectual property from GDA, and paid this amount in the quarter ended March 31, 2006. In addition, Rambus paid \$0.2 million for legal fees incurred in connection with this transaction. The acquisition has been recorded using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations, ( SFAS 141 ). As a result of the acquisition, Rambus recorded \$3.7 million of purchased intangible assets and \$2.7 million of goodwill.

In addition to the \$6.4 million preliminary purchase price, the purchase agreement calls for an earn-out payment that is based on future performance and events. Under the terms of the purchase agreement, the earn-out payment is computed on cash collections from the sale or license of acquired GDA products. Effective April 11, 2006, Rambus and GDA entered into an amendment to the original agreement that extended the earn-out period from one year from the initial closing date to March 31, 2007. The amendment also reduced the maximum earn-out amount from \$5.0 million to \$3.8 million. In March 2007, the Company was notified, and later confirmed, that cash collections from the sale or license of these products had exceeded the minimum amount as defined in the purchase agreement and that additional payments were due GDA. As a result, Rambus recorded a liability for the earn-out payment and an increase to goodwill of approximately \$1.1 million in the first quarter of fiscal 2007. Total goodwill related to this acquisition is \$3.9 million. See Note 11 Amortizable Intangible Assets for more information on the purchased intangible assets.

**Table of Contents****11. Amortizable Intangible Assets**

The components of the Company's intangible assets as of March 31, 2007 and December 31, 2006 were as follows:

<i>(In thousands)</i>	<b>Gross Carrying Amount</b>	<b>March 31, 2007 Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Patents	\$ 9,911	\$ (3,492)	\$ 6,419
Intellectual property	10,084	(5,863)	4,221
Customer contracts and contractual relationships	8,000	(2,676)	5,324
Existing technology	2,700	(1,322)	1,378
Non-competition agreement	100	(65)	35
	\$ 30,795	\$ (13,418)	\$ 17,377

<i>(In thousands)</i>	<b>Gross Carrying Amount</b>	<b>December 31, 2006 Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Patents	\$ 9,911	\$ (3,202)	\$ 6,709
Intellectual property	10,084	(5,232)	4,852
Customer contracts and contractual relationships	8,000	(2,454)	5,546
Existing technology	2,700	(1,153)	1,547
Non-competition agreement	100	(57)	43
	\$ 30,795	\$ (12,098)	\$ 18,697

Amortization expense for intangible assets for the three months ended March 31, 2007 and 2006 was \$1.3 million and \$1.3 million, respectively.

The estimated future amortization expense of intangible assets as of March 31, 2007 was as follows (amounts in thousands):

<b>Fiscal year ending December 31:</b>	<b>Amount</b>
2007 (remaining 9 months)	\$ 3,961
2008	4,346
2009	2,948
2010	1,916
2011	1,593
Thereafter	2,613
	\$ 17,377

**12. Convertible Notes**

On February 1, 2005, Rambus issued \$300.0 million aggregate principal amount of zero coupon convertible senior notes due February 1, 2010 to Credit Suisse First Boston LLC and Deutsche Bank Securities in a private offering that were then sold to institutional investors.

The convertible notes are unsecured senior obligations, ranking equally in right of payment with all of Rambus' existing and future unsecured senior indebtedness, and senior in right of payment to any future indebtedness that is expressly subordinated to the convertible notes.



---

**Table of Contents**

The convertible notes are convertible at any time prior to the close of business on the maturity date into, in respect of each \$1,000 principal of convertible notes:

cash in an amount equal to the lesser of

- (1) the principal amount of each note to be converted and
  
- (2) the conversion value, which is equal to (a) the applicable conversion rate, multiplied by (b) the applicable stock price, as defined.

if the conversion value is greater than the principal amount of each note, a number of shares of Rambus Common Stock (the net shares ) equal to the sum of the daily share amounts, calculated as defined. However, in lieu of delivering net shares, Rambus, at its option, may deliver cash, or a combination of cash and shares of its Common Stock, with a value equal to the net shares amount.

The initial conversion price is \$26.84 per share of Common Stock (which represents an initial conversion rate of 37.2585 shares of Rambus Common Stock per \$1,000 principal amount of convertible notes). The initial conversion price is subject to adjustment as defined.

The convertible notes are carried at par at March 31, 2007 and December 31, 2006 due to the cash settlement feature. The convertible notes are subject to repurchase in cash in the event of a fundamental change involving Rambus at a price equal to 100% of the principal amount. Rambus may be obligated to pay an additional premium (payable in shares of Common Stock) in the event the convertible notes are converted following a fundamental change. The premium is based on numerous factors and could be up to 33% per \$1,000 principal amount of convertible notes.

Upon the occurrence of an event of default, Rambus obligations under the convertible notes may become immediately due and payable. An event of default is defined as:

default in the payment when due of any principal of any of the convertible notes at maturity, upon exercise of a repurchase right or otherwise;

default in the payment of liquidated damages, if any, which default continues for 30 days;

default in Rambus obligation to provide notice of the occurrence of fundamental change when required by the indenture;

failure to comply with any of Rambus other agreements in the convertible notes or the indenture upon its receipt of notice to it of such default from the trustee or to Rambus and the trustee from holders of not less than 25% in aggregate principal amount at maturity of the convertible notes, and Rambus fails to cure (or obtain a waiver of) such default within 60 days after it receives such notice;

failure to pay when due the principal of, or acceleration of, any indebtedness for money borrowed by Rambus or any of its subsidiaries in excess of \$30.0 million principal amount, if such indebtedness is not discharged, or such acceleration is not annulled, by the end of a period of ten days after written notice to Rambus by the trustee or to Rambus and the trustee by the holders of at least 25% in principal amount of the outstanding convertible notes; and



## Edgar Filing: RAMBUS INC - Form 10-Q

certain events of bankruptcy, insolvency or reorganization relating to Rambus. Rambus may not redeem the convertible notes prior to their maturity date.

During 2005, Rambus repurchased \$140.0 million face value of the outstanding convertible notes, for a price of approximately \$113.0 million, leaving a net balance of \$160.0 million at December 31, 2005. These repurchases were financed from Rambus' investment portfolio. At the time of the issuance, Rambus recorded \$7.2 million of related note issuance costs in long-term other assets related to these repurchases, which was subsequently reduced to \$4.2 million. Amortization of note issuance costs was \$0.2 million for the three months ended March 31, 2006. There is no amortization of note issuance costs in 2007 due to the acceleration of the remaining amortization into the fourth quarter of 2006 in connection with the notice of acceleration relative to the convertible notes as discussed below.

On August 17, 2006, Rambus received a notice of default from U.S. Bank National Association, as trustee (the "Trustee") for the convertible notes. The notice asserted that the Company's failure to file its Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the indenture, dated as of February 1, 2005 between Rambus and the Trustee (the "Indenture"). The notice stated that per Section 9.1 of the Indenture, if Rambus did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, Rambus received a notice from the Trustee stating that since the Company had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, Rambus received an additional notice of default from the Trustee relating to the Company's failure to file its Form 10-Q for the quarter ended September 30, 2006. On

## **Table of Contents**

July 31, 2007, Rambus received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable.

On September 20, 2007, Rambus received a notice from the Trustee for the convertible notes, rescinding the acceleration of the convertible notes contained in the letter from the Trustee dated July 31, 2007 and waiving all existing Events of Default as defined in the Indenture. The notice indicated that the Trustee had received direction from holders holding a majority in aggregate principal amount of the convertible notes outstanding to waive all existing Events of Default and to rescind the acceleration of the convertible notes.

As of December 31, 2006, Rambus had reclassified the aggregate principal amount of the convertible notes of \$160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. In addition, all remaining related issuance costs of approximately \$2.4 million were accelerated into the quarter ended December 31, 2006, such that no unamortized note issuance costs remained outstanding as of December 31, 2006. As of March 31, 2007, the convertible notes are classified as current liabilities as the Company continued to be delinquent in its SEC filings.

### **13. Litigation and Asserted Claims**

#### ***Stock option investigation related claims***

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and related accounting issues. The investigation was completed in August 2007. As a result of this investigation, the Company restated its financial statements through March 31, 2006 and recorded additional stock-based compensation of \$172.0 million through that date. See the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for more information.

On May 31, 2006, the first of three shareholder derivative actions was filed in the Northern District of California against Rambus (as a nominal defendant) and certain current and former executives and board members. On August 9, 2006, these actions were consolidated for all purposes under the caption, *In re Rambus Inc. Derivative Litigation*, Master File No. C-06-3513-JF (N.D. Cal.), and Howard Chu and Gaetano Ruggieri were appointed lead plaintiffs. On October 2, 2006, a consolidated complaint was filed. On November 3, 2006, plaintiffs filed an amended consolidated complaint. The complaint alleges violations of certain federal and state securities laws as well as other state law causes of action. The complaint seeks disgorgement and damages in an unspecified amount, unspecified equitable relief, and attorneys' fees and costs.

On July 24, 2006, another shareholder derivative action was filed in Santa Clara Superior Court against Rambus (as a nominal defendant) and certain current and former executives and board members (*Soffer v. Tate et al.*, 1-06-cv-067853 (Santa Clara Sup. Court)). Rambus filed a motion to dismiss this suit on August 23, 2006. On October 10, 2006, the California court heard oral argument on Rambus' motion. In an order filed on October 20, 2006, the California court granted Rambus' motion and dismissed the complaint.

On August 22, 2006, another shareholder derivative action was filed in Delaware Chancery Court against Rambus (as a nominal defendant) and certain current and former executives and board members (*Bell v. Tate et al.*, 2366-N (Del. Chancery)). Pursuant to agreement of the parties, no deadline for Rambus to respond to the complaint has been set.

On October 18, 2006, the Board of Directors formed a Special Litigation Committee (the "SLC") to evaluate potential claims or other actions arising from the stock option granting activities. The Board of Directors has appointed J. Thomas Bentley, Chairman of the Audit Committee, and Abraham Sofaer, a retired federal judge and Chairman of the Legal Affairs Committee, both of whom joined the Rambus Board of Directors in 2005, to comprise the SLC.

On August 24, 2007, the final written report setting forth the findings of the Special Litigation Committee was filed with the California court. As set forth in its report, the SLC determined that all claims should be terminated and dismissed against the named defendants in *In re Rambus Inc. Derivative Litigation* with the exception of claims against named defendant Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in *In re Rambus Inc. Derivative Litigation*. The aggregate value of the settlements to the Company exceeds \$6.5 million in cash and cash equivalents as well as

**Table of Contents**

substantial additional value to the Company relating to the relinquishment of claims to over 2.7 million stock options. The SLC stated its intent to assert control over the litigation. The conclusions and recommendations of the SLC are subject to review by the California court. On October 5, 2007, Rambus filed a motion to terminate in accordance with the SLC's recommendations. Plaintiffs have stated their intention to oppose Rambus' motion and to file a motion for leave to amend their complaint. The California court scheduled a hearing on both motions for January 18, 2008.

On August 30, 2007, another shareholder derivative action was filed in the Southern District of New York against Rambus (as a nominal defendant) and PricewaterhouseCoopers LLP. On September 25, 2007, PricewaterhouseCoopers LLP filed a motion to transfer the action to the Northern District of California. Rambus joined the motion of PricewaterhouseCoopers LLP. Rambus believes that this action should be made part of *In re Rambus Inc. Derivative Litigation*, Master File No. C-06-3513-JF (N.D. Cal.), pursuant to the consolidation order dated August 9, 2006. A response to the complaint is due within twenty days after the motion to transfer is decided. Plaintiff may file an opposition to the transfer motion by October 23, 2007, and reply papers may be filed by October 30, 2007. No hearing has been scheduled for this motion.

On July 17, 2006, the first of six class action lawsuits was filed in the Northern District of California against Rambus and certain current and former executives and board members. On September 26, 2006, these class action suits were consolidated under the caption, *In re Rambus Inc. Securities Litigation*, C-06-4346-JF (N.D. Cal.). On November 9, 2006, Ronald L. Schwarcz was appointed lead plaintiff. An amended consolidated complaint was filed on February 14, 2007, naming as defendants Rambus, certain of its current and former executives and board members, and PricewaterhouseCoopers LLP. The complaint alleges violations of various federal securities laws. The complaint seeks damages in an unspecified amount as well as attorneys' fees and costs. On April 2, 2007, Rambus and certain individual defendants filed a motion to dismiss the lawsuit. PricewaterhouseCoopers LLP filed a motion to dismiss on May 7, 2007. Per agreement of the parties, briefing on the motions to dismiss has been suspended, and a hearing on the motion to dismiss previously scheduled for June 22, 2007 was taken off the court's calendar. No new date for the hearing has been set. Subject to approval by the California court, the parties have agreed in principle to settle this dispute. The settlement, which is subject to final documentation as well as review by the California court, provides for a payment by Rambus of \$18.0 million and would lead to a dismissal with prejudice of all claims against all defendants in the class action litigation.

On March 1, 2007, a pro se lawsuit was filed in the Northern District of California by two alleged Rambus shareholders against Rambus, certain current and former executives and board members and PricewaterhouseCoopers LLP (*Kelley et al. v. Rambus, Inc. et al.* C-07-01238-JF (N.D. Cal.)). On April 25, 2007, the plaintiffs filed an amended complaint adding Wilson Sonsini Goodrich & Rosati, P.C., as a defendant. The plaintiffs filed second and third amended complaints without leave of court on May 8 and 14, 2007, respectively. On May 14, 2007 this case was related to the class action, *In re Rambus Inc. Securities Litigation*, C-06-4346-JF. Rambus and the other named defendants filed or joined various motions to dismiss the third amended complaint on June 4 and 5, 2007. On May 8, 2007, a substantially identical pro se lawsuit was filed in the Northern District of California by another purported Rambus shareholder against the same parties. These two pro se lawsuits each allege violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. The two lawsuits were consolidated into a single action by court order dated June 25, 2007. Rambus' pending motion to dismiss was taken off calendar, and plaintiffs filed a consolidated amended complaint on July 25, 2007. Rambus and other defendants filed motions to dismiss on August 10, 2007. The California court heard oral argument on these motions on September 7, 2007. On October 15, 2007, the California court granted Rambus' motion with leave to file an amended complaint within 30 days.

All of these cases relate to stock options issues. There can be no assurance that additional claims or actions arising out of or related to stock option issues will not be asserted against Rambus and its current or former executives and board members.

***FTC Complaint***

On June 19, 2002, the Federal Trade Commission, or FTC, filed a complaint against Rambus. The FTC alleged that through Rambus' action and inaction at a standards setting organization called JEDEC, Rambus violated Section 5 of the FTC Act in a way that allowed Rambus to obtain monopoly power in-or that by acting with intent to monopolize it created a dangerous probability of monopolization in synchronous DRAM technology markets. The FTC also alleged that Rambus' action and practices at JEDEC constituted unfair methods of competition in violation of Section 5 of the FTC Act. As a remedy, the FTC sought to enjoin Rambus' right to enforce patents with priority dates prior to June 1996 as against products made pursuant to certain existing and future JEDEC standards.

---

**Table of Contents**

On February 17, 2004, the FTC Chief Administrative Law Judge issued his initial decision dismissing the FTC's complaint against Rambus on multiple independent grounds (the Initial Decision). The FTC's Complaint Counsel (Complaint Counsel) appealed this decision.

On August 2, 2006, the FTC released its July 31, 2006, opinion and order reversing and vacating the Initial Decision and determining that Rambus violated Section 5 of the Federal Trade Commission Act. The FTC characterized Complaint Counsel's proposal for a full ban on enforcement of Rambus' patents as "extreme[]" and ordered further briefing on issues relating to remedy. Rambus and Complaint Counsel each filed simultaneous briefs on September 15 and 29, 2006. Following submission of briefs by Complaint Counsel, Rambus, and various amici curiae, the FTC heard oral argument on remedy issues on November 15, 2006.

On February 5, 2007, the FTC released its February 2, 2007, opinion and order on remedy. The remedy order sets the maximum royalty rate that Rambus can collect on the manufacture, use or sale in the United States of certain JEDEC-compliant parts after the Order becomes effective, as follows: 0.25% for SDRAM products; 0.5% for DDR SDRAM products; 0.5% for SDRAM memory controllers or other non-memory chip components; and 1.0% for DDR SDRAM memory controllers or other non-memory chip components. The order specifies that these maximum rates will be in effect for three years, after which time the maximum rates for these products will be 0%. The order also mandates that Rambus offer a license for these products at rates no higher than the maximums set by the FTC, including a further cap on rates for the affected non-memory products. The order further requires Rambus to take certain steps to comply with the terms of the order and applicable disclosure rules of any standard setting organization of which it may become a member.

The FTC's order explicitly does not set maximum rates or other conditions with respect to Rambus' royalty rates for DDR2 SDRAM, other post-DDR JEDEC standards, or for non-JEDEC-standardized technologies such as those used in RDRAM or XDR DRAM.

On February 16, 2007, Rambus filed with the FTC: i) a motion for a stay of the remedy order pending its appeal; and ii) a petition for reconsideration of the remedy order. On February 26, 2007, Complaint Counsel filed an opposition in part to Rambus' motion to stay and a response to Rambus' petition for reconsideration.

On March 16, 2007, the FTC issued an order granting in part and denying in part Rambus' motion for a stay. The March 16 order permits Rambus to acquire rights to royalty payments for use of the patented technologies affected by the February 2 remedy order during the period of the stay in excess of the FTC-imposed maximum royalty rates on SDRAM and DDR SDRAM products, provided that funds above the maximum allowed rates be placed into an escrow account to be distributed in accordance with the ultimate decision of the court of appeals. In an opinion accompanying its order, the FTC clarified that it intended its remedy to be forward-looking and prospective only, and therefore unlikely to be construed to require Rambus to refund royalties already paid or to restrict Rambus from collecting royalties for the use of its technologies during past periods.

On April 4, 2007, Rambus filed a petition for review of the FTC's liability and remedy orders in the United States Court of Appeals for the District of Columbia.

On April 27, 2007, the FTC issued an order granting in part and denying in part Rambus' petition for reconsideration of the remedy order. The FTC's order and accompanying opinion on Rambus' petition for reconsideration clarified the remedy order in certain respects. For example, a) the FTC explicitly stated that the remedy order does not require Rambus to make refunds or prohibit it from collecting royalties in excess of maximum allowable royalties that accrue up to the effective date of the remedy order (i.e., April 12, 2007); b) the remedy order was modified to specifically permit Rambus to seek damages in litigation up to three times the specified maximum allowable royalty rates on the ground of willful infringement and any allowable attorneys' fees; and c) under the remedy order, licensees may pay Rambus a flat fee in lieu of running royalties, even if this resulted in payments above the FTC's rate caps in certain circumstances.

On May 3, 2007, Rambus filed a petition for review of the FTC's order granting in part and denying in part Rambus' petition for reconsideration of the remedy order in the United States Court of Appeals for the District of Columbia. On June 27, 2007, this petition was consolidated with its earlier-filed petition appealing the FTC's liability and remedy orders. Rambus filed its opening appellate brief on September 21, 2007. The Commission may file an opposition by November 21, 2007; any reply by Rambus is due by December 21, 2007. No hearing date has been set.

---

## **Table of Contents**

### ***Infineon Litigation***

On August 8, 2000, Rambus filed suit in the U.S. District Court for the Eastern District of Virginia (the Virginia court) against Infineon, and its North American subsidiary for infringement of two U.S. patents. In February 2005, the Virginia court held a four-day bench trial on Infineon's unclean hands defense, which included allegations of litigation misconduct and spoliation of evidence. On March 1, 2005, the Virginia court orally stated that Infineon had proven that Rambus had unclean hands, that Rambus had spoliated evidence, and that dismissal of Rambus' patent infringement case was the appropriate sanction. On March 21, 2005, before the Virginia court issued written findings of fact and conclusions of law, the parties reached a global settlement of all disputes between them, and dismissed with prejudice all outstanding lawsuits between the companies worldwide. Although the parties settled their dispute, in one patent infringement action in Germany, Infineon's attorneys disputed the amount of court fees that Rambus is required to pay under German law following the European Patent Office's dismissal of a Rambus European patent, EP 0 525 068 (the 068 patent). On August 21, 2006, the Mannheim court issued decisions setting Rambus' owed court costs at approximately 330,000 Euros, and applying a statutory multiple. Rambus appealed the issue of whether the statutory multiple is properly applied. On June 20, 2007, Rambus' appeal was denied, resulting in an aggregate liability of 840,000 Euros. Payment of this amount in August 2007 has now finally resolved all liabilities arising out of the disputes between Rambus and Infineon worldwide.

### ***Hynix Litigation***

#### *U.S. District Court of the Northern District of California*

On August 29, 2000, Hynix (formerly Hyundai) and various subsidiaries filed suit against Rambus in the U.S. District Court for the Northern District of California. The case was assigned to the Honorable Ronald M. Whyte. The complaint, as amended, asserts claims for breach of contract, fraud, negligent misrepresentation, and violations of federal antitrust laws and deceptive practices in connection with Rambus participation in JEDEC, and seeks a declaratory judgment that the Rambus patents-in-suit are invalid and not infringed by Hynix, compensatory and punitive damages, and attorneys' fees. Rambus denied Hynix's claims and filed counterclaims alleging that Hynix has infringed and is infringing 59 patent claims in 15 Rambus patents.

The California court divided the case into three phases: (1) Hynix's unclean hands and spoliation of evidence defenses; (2) Rambus' patent infringement case and Hynix's patent-related affirmative defenses; and (3) Hynix's claims arising from Rambus' conduct at JEDEC and other alleged misconduct not directly tied to patent issues.

Relying on the Virginia court's oral ruling in the *Infineon* case in March 2005, Hynix moved to dismiss this case on the grounds of collateral estoppel. The California court denied Hynix's motion on April 25, 2005.

The first phase of the Hynix-Rambus trial on unclean hands and spoliation began on October 17, 2005 and concluded on November 1, 2005. On January 4, 2006, the California court issued its Findings of Fact and Conclusions of Law. Among other things, the court found that Rambus did not adopt its document retention policy in bad faith, did not engage in unlawful spoliation of evidence, and that while Rambus disposed of some relevant documents pursuant to its document retention policy, Hynix was not prejudiced by the destruction of Rambus documents. Accordingly, the California court held that Hynix's unclean hands defense failed. On February 23, 2006, the California court denied a motion filed by Hynix for a new trial and its request for an immediate appeal. On September 15, 2006, Hynix moved to certify for interlocutory appeal (1) the April 25, 2005, order denying Hynix's motion to dismiss for unclean hands on the basis of collateral estoppel; and (2) the January 4, 2006, Findings of Fact and Conclusions of Law rejecting Hynix's unclean hands defense. The California court denied Hynix's motion on December 19, 2006.

The second phase of the Hynix-Rambus trial on patent infringement, validity and damages began on March 15, 2006, and was submitted to the jury on April 13, 2006. On April 24, 2006, the jury returned a verdict in favor of Rambus on all issues, and awarded Rambus a total of approximately \$307 million in damages, excluding prejudgment interest. Specifically, the jury found that each of the ten selected patent claims was supported by the written description, and was not anticipated or rendered obvious by prior art; therefore, none of the patent claims were invalid. The jury also found that Hynix infringed all eight of the patent claims for which the jury was asked to determine infringement; the California court had previously determined on summary judgment that Hynix infringed the other two claims at issue in the trial. The jury further found that Rambus suffered approximately \$31 million in damages as a result of infringement by Hynix's SDR SDRAM products and approximately \$276 million in damages as a result of infringement by Hynix's DDR SDRAM products.

---

**Table of Contents**

On May 5, 2006, Hynix filed motions for judgment as a matter of law and new trial on certain issues relating to validity, infringement, and damages; Rambus filed a motion for prejudgment interest. The California court held a hearing on the parties' post-trial motions on June 27, 2006, and took them under submission. On July 17, 2006, the California court granted Hynix's motion for a new trial on the issue of damages unless Rambus agreed within 30 days to a reduction of the total jury award to approximately \$134 million. The California court found that while the royalty rates in certain negotiated Rambus patent licenses (.75% for SDR SDRAM and 3.5% for DDR SDRAM) were conservative and could be adjusted upward to calculate damages, the evidence did not support the adjustment applied by the jury. Rather, the California court found that the record supported a maximum royalty rate of 1% for SDR SDRAM and 4.25% for DDR SDRAM, which the court applied to the stipulated U.S. sales of infringing Hynix products through December 31, 2005 to reach the approximately \$134 million. On July 27, 2006, Rambus elected remittitur of the jury's award to approximately \$134 million. No opinion has issued to date on any of the parties' other post-trial motions.

The third phase of the Hynix-Rambus trial involves Hynix's allegations that Rambus engaged in misconduct in connection with, *inter alia*, a standard setting body. On February 24, 2006, Rambus filed four motions relating to this phase of the trial. The California court heard oral argument on these motions on March 31, 2006. On July 6, 2006, the California court granted Rambus' motion for summary adjudication on Hynix's antitrust and unfair competition claims to the extent they were based on Hynix's alleged theories of RDRAM dominance and DDR suppression, but denied Rambus' motion for judgment on the pleadings on Hynix's equitable estoppel defense. On July 7, 2006, the California court granted Rambus' motion for summary adjudication that Rambus' use or threats of litigation to enforce its patents is protected petitioning activity, and that Hynix's claims are thus barred to the extent they are solely based on Rambus' litigation activities. On July 17, 2006, the California court issued an order (i) granting Rambus' motion for summary judgment on Hynix's breach of contract, promissory estoppel, and constructive fraud claims; (ii) denying Rambus' motion for summary judgment on Hynix's actual fraud claim; (iii) granting summary adjudication on certain issues relating to Rambus' alleged duty to disclose; and (iv) denying summary adjudication on certain other issues relating to Rambus' alleged duty to disclose, including whether any alleged breach caused no injury to Hynix.

The third phase of the trial was scheduled to begin on August 21, 2006. However, prior to the start of trial, the Federal Trade Commission (the FTC) issued its liability opinion finding that Rambus engaged in deceptive conduct at JEDEC in violation of Section 5 of the Federal Trade Commission Act (see above). At a pretrial conference hearing on August 3, 2006, the California court ordered the parties to submit briefs addressing the issue of what effect, if any, the FTC's liability opinion might have on the third phase of the trial. On August 22, 2006, the California court stayed the third phase of the trial until the earlier of February 2, 2007, or issuance of a final order of the FTC. The stay was conditioned upon (a) Hynix's agreement to post security adequate to ensure payment of previously awarded damages, prejudgment interest, and royalties for infringing sales between January 1, 2006 and February 2, 2007; and (b) Hynix's designation within ninety days of any specific findings by the FTC that Hynix contends should be accorded prima facie evidentiary effect in the third phase of the trial. Hynix formally agreed to the conditions of the stay on August 24, 2006, and posted a bond in the amount of approximately \$192 million on September 22, 2006. The California court has since granted Hynix's motion for release of the bond following the automatic expiration of the stay on February 2, 2007.

In the latter half of 2006, the parties filed several motions relating to the impact, if any, of the FTC's liability opinion on the third phase of the Hynix trial. On October 16, 2006, Hynix filed its brief seeking to give prima facie evidentiary effect to certain findings by the FTC in the third phase of the Hynix trial. Hynix also filed a motion in which it argued that the FTC had made findings entitling it to summary judgment on its state unfair competition claim and its equitable estoppel defense. On October 16, 2006, Rambus filed a motion for partial reconsideration of the California court's August 22 order to the extent that it had suggested that any portion of the FTC's opinion could be given evidentiary effect in the third phase of the trial. On December 1, 2006, Hynix filed a motion for new trial on patent damages based on the FTC's liability opinion. The California court heard oral argument on all four of these motions on January 26, 2007. At the hearing, the California court indicated that it would deny Rambus' motion for partial reconsideration. On August 15, 2007, the California court denied without prejudice Hynix's motion for a new trial on patent damages based on the FTC's liability opinion. On September 25, 2007, the California court denied Hynix's motion for summary judgment. The California court has not yet issued an order on Hynix's motion to give prima facie evidentiary effect to certain findings by the FTC.

On April 4, 2007, the California court held a case management conference involving Rambus, Hynix, Micron, Samsung, and Nanya to discuss how each of the various actions involving Rambus and these other parties should proceed. On April 24, 2007, the California court ordered that this action (*Hynix v Rambus*, Case No. C 00-20905 RMW)

---

## **Table of Contents**

and three others pending before the same court (*Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.*, Case No. C 06-00244 RMW, each described in further detail below) shall have a coordinated trial beginning on January 22, 2008, of certain common claims and defenses related to the claims set to be tried in the third phase of the *Hynix* 00-20905 action. The order states that it is the California court's intention that the *Hynix* 00-20905 action will be ready for entry of final judgment shortly after the conclusion of the January 22, 2008 trial.

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to be tried in the January 22, 2008 trial (see below).

On June 27, 2007, the California court granted Hynix's request to file a brief regarding what effect, if any, the Supreme Court's decision in *KSR* has on the patent verdict. Hynix filed its opening brief on July 6, 2007. Rambus filed an opposition brief on August 3, 2007. No decision has been issued to date.

### *European Patent Infringement Case*

Beginning on September 4, 2000, Rambus filed suit against Hynix in multiple European jurisdictions for infringement of the '068 patent. Rambus later filed a further infringement action against Hynix in Mannheim, Germany on a second patent, EP 1 004 956 (the '956 patent). Both patents were opposed by Hynix, Micron, and Infineon in the European Patent Office (EPO). The '068 patent was revoked by an Appeal Board in 2004, and the '956 patent was revoked in the first instance by an Opposition Board on January 13, 2005. The decision with respect to the '956 patent is being appealed.

### *Micron Litigation*

#### *U.S District Court in Delaware: Case No. 00-792-SLR*

On August 28, 2000, Micron filed suit against Rambus in the U.S. District Court in Delaware (the Delaware court). The suit asserts violations of federal antitrust laws, deceptive trade practices, breach of contract, fraud and negligent misrepresentation in connection with Rambus participation in JEDEC. Micron seeks a declaration of monopolization by Rambus, compensatory and punitive damages, attorneys' fees, a declaratory judgment that eight Rambus patents are invalid and not infringed, and the award to Micron of a royalty-free license to the Rambus patents. Rambus has filed an answer and counterclaims disputing Micron's claims and asserting infringement by Micron of twelve U.S. patents.

On January 13, 2006, the Delaware court issued an order lifting the stay that had prevented Rambus from filing certain new patent litigation against Micron since February 27, 2002. Also on January 13, 2006, the Delaware court issued an order confirming that the trial there will proceed in three phases in the same general order as in the *Hynix* case: (1) unclean hands; (2) patent infringement; and (3) antitrust, equitable estoppel, and related issues (conduct).

On April 25, 2006, the Virginia court transferred Micron's RICO and conspiracy case (described below as *U.S District Court in Delaware: Case No. 06-269*) to the District of Delaware. On May 8, 2006, Micron filed a motion to consolidate its RICO and conspiracy action into the Delaware unclean hands trial. Rambus filed an opposition to Micron's motion to consolidate on May 22, 2006. During a hearing on June 14, 2006, Micron withdrew its motion to consolidate.

On June 29, 2006, Micron moved for leave to file a second amended complaint to add new factual allegations and a claim for unfair competition under California Business & Professions Code sections 17200 *et seq.*, to be tried as part of the conduct phase. On July 13, 2007, the Delaware court granted Micron's motion to amend. Micron filed a second amended complaint on September 5, 2007, and Rambus filed an answer to Micron's new allegations on September 19, 2007.

On September 18, 2006, the Delaware court postponed the unclean hands trial previously scheduled for October 23, 2006, and later reset the trial date to May 2007 in view of Judge Kent A. Jordan's nomination to the United States Court of Appeals for the Third Circuit. On December 15, 2006, this action was reassigned to the vacant judicial position left by the elevation of Judge Jordan to the Third Circuit, and the trial dates were subsequently vacated. On March 26, 2007, Rambus filed a renewed motion to transfer this case to the Northern District of California. On April 2, 2007, this case was reassigned to Judge Joseph J. Farnan. On June 14, 2007, the Delaware court denied Rambus' motion to transfer. On July 16, 2007, this case was reassigned to Judge Sue L. Robinson. A bench trial on Micron's unclean hands defense is scheduled to begin on November 8, 2007.





---

**Table of Contents**

*U.S. District Court in Delaware: Case No. 06-269*

On February 21, 2006, Micron filed suit against Rambus in the U.S. District Court in the Eastern District of Virginia, asserting claims for violation of the federal civil Racketeer Influenced and Corrupt Organizations Act (RICO) and Virginia state conspiracy laws. Among other things, the complaint alleges document spoliation and litigation misconduct. Rambus believes these claims lack merit. On February 28, 2006, Rambus filed a motion to enjoin Micron from pursuing its RICO and conspiracy suit in the Eastern District of Virginia. On March 29, 2006, the Delaware court granted Rambus' motion to enjoin Micron's suit in the Eastern District of Virginia. On April 10, 2006, the parties notified the Virginia court that the Delaware court had granted Rambus' motion to enjoin Micron from pursuing its suit in the Eastern District of Virginia. On April 21, 2006, the Virginia court entered an order transferring the case to the U.S. District Court in Delaware.

On May 26, 2006, Rambus moved to dismiss Micron's complaint on the grounds that, among other things: (1) Micron's claims are barred by the statute of limitations; (2) Micron's claims fail on the merits; and (3) Micron's claims are barred by the *Noerr-Pennington* doctrine. Briefing on this motion is complete. Micron has requested oral argument, but no hearing date has been set. On December 15, 2006, this action was reassigned to the vacant judicial position left by the elevation of Judge Kent A. Jordan to the United States Court of Appeals for the Third Circuit.

*U.S. District Court of the Northern District of California*

Following the lifting of the stay by the Delaware court, Rambus filed suit against Micron in the U.S. District Court in the Northern District of California on January 13, 2006. In its amended complaint, filed April 7, 2006, Rambus alleges that 14 Rambus patents are infringed by Micron's DDR2, GDDR3, and other advanced memory products. Rambus seeks compensatory and punitive damages, attorneys' fees, and injunctive relief. On June 2, 2006, Micron filed an answer denying Rambus' allegations and alleging counterclaims for violations of federal antitrust laws, unfair trade practices, equitable estoppel, breach of contract, fraud and negligent misrepresentation in connection with Rambus' participation in JEDEC. Micron seeks a declaration of monopolization by Rambus, injunctive relief, compensatory and punitive damages, attorneys' fees, and a declaratory judgment of invalidity, unenforceability, and noninfringement of the 14 patents in suit.

Following a case management conference held on October 6, 2006, the California court temporarily stayed this action until February 2, 2007, upon which the stay automatically expired. On March 23, 2007, Rambus filed a motion to dismiss certain of Micron's counterclaims. On June 19, 2007, the California court issued an order denying Rambus' motion. On July 9, 2007, Rambus filed its reply to Micron's amended counterclaims, as well as its own counterclaims asserting infringement by Micron's DDR3 products. On July 30, 2007, Micron filed a motion to strike, or alternatively to stay, Rambus' infringement counterclaims in reply. Rambus filed an opposition to Micron's motion on September 25, 2007. A hearing on Micron's motion is currently set for October 26, 2007.

On April 24, 2007, the California court ordered that *Hynix v Rambus*, Case No. C 00-20905 RMW, *Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.*, Case No. C 06-00244 RMW, shall have a coordinated trial beginning on January 22, 2008, of certain common claims and defenses related to the claims set to be tried in the third phase of the *Hynix* 00-20905 action. The California court also coordinated these cases for certain other purposes, including discovery and preparation (but not trial) of the patent infringement claims and defenses. A claim construction hearing is currently scheduled for March 25-26, 2008, and one or more trials on Rambus' patent infringement claims is set to begin on January 19, 2009.

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to be tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix's motion for summary judgment in the *Hynix* 00-20905 action on Hynix's state unfair competition claim and equitable estoppel defense based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007. Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. On September 25, 2007, the California court denied Hynix's motion for summary judgment. The California court has not yet issued an order on the motions to give prima facie evidentiary effect to certain findings by the FTC.

---

**Table of Contents**

On September 21, 2007, Rambus filed a motion to strike Micron's demand that certain of its claims and affirmative defenses be tried to a jury in the January 22, 2008 trial. Micron filed an opposition on October 5, 2007 and Rambus filed a reply on October 12, 2007. A hearing on this motion is scheduled for October 26, 2007.

On October 5, 2007, the parties filed cross-motions for summary judgment on infringement and validity. These motions will be heard as part of the claim construction hearing currently scheduled for March 25-26, 2008.

*European Patent Infringement Cases*

On September 11, 2000, Rambus filed suit against Micron in multiple European jurisdictions for infringement of its 068 patent (described above), which was later revoked. Additional suits were filed pertaining to the 956 patent and a third Rambus patent, EP 1 022 642 (the 642 patent). Rambus' suit against Micron for infringement of the 642 patent in Mannheim, Germany, has not been active.

One proceeding in Italy relating to the 642 patent was adjourned at a hearing on June 15, 2007, each party bearing its own costs. In a second proceeding in Italy relating to the 956 patent, the court has scheduled a hearing for November 8, 2007, regarding continuation of the proceedings. On September 29, 2005, Rambus received a letter from Micron seeking to toll a statute of limitations period in Italy for a purported cause of action resulting from a seizure of evidence in Italy in 2000 carried out by Rambus pursuant to a court order. Micron asserts that its damages allegedly caused by this seizure equal or exceed \$30.0 million. Micron formally filed suit against Rambus relating to this seizure in February 2006. Rambus filed its written defense on April 24, 2006. The Italian court has ordered further briefing on issues related to Rambus' suit in Italy for infringement of its 068 patent. A hearing in the Italian court is set for October 30, 2007, on both proceedings involving the 068 patent and Micron's claim for damages related to seizure of evidence.

***DDR2, GDDR2 & GDDR3 Litigation ( DDR2 )***

*U.S. District Court in the Northern District of California*

On January 25, 2005, Rambus filed a patent infringement suit in the U.S. District Court in the Northern District of California court against Hynix, Infineon, Nanya, and Inotera regarding DDR2 and GDDR2, and GDDR3 products. Pursuant to the settlement with Infineon noted above, Rambus dismissed Infineon with prejudice from this litigation. Rambus added Samsung as a defendant on June 6, 2005. Inotera was dismissed from the lawsuit without prejudice by way of stipulated order on October 5, 2005. Accordingly, this case is currently pending against Hynix, Samsung, and Nanya only. These defendants have all filed answers denying Rambus' claims and asserting counterclaims against Rambus.

On February 21, 2006, Rambus filed a motion to dismiss certain of Samsung's amended defenses and counterclaims. A hearing on Rambus' motion was held on April 7, 2006. On January 4, 2007, the California court granted Rambus' motion with leave to amend. On January 31, 2007, Samsung filed second amended defenses and counterclaims.

Following a case management conference held on October 6, 2006, the California court temporarily stayed this action until February 2, 2007, upon which the stay automatically expired. On March 23, 2007, Rambus filed motions to dismiss certain of Samsung's, Hynix's, and Nanya's counterclaims. On June 19, 2007, the California court issued orders denying Rambus' motions as to Hynix's and Nanya's counterclaims. No opinion on the motion to dismiss Samsung's counterclaims has issued to date. On July 9, 2007, Rambus filed replies to Hynix, Nanya, and Samsung's respective amended counterclaims, as well as its own counterclaims asserting infringement by defendants' respective DDR3 products as well as the GDDR4 products of Hynix and Samsung. On July 30, 2007, Hynix filed an answer to Rambus' counterclaims and a motion to strike certain of Rambus' affirmative defenses. On August 2, 2007, Samsung and Nanya filed separate motions to strike Rambus' infringement counterclaims in reply. On August 20, 2007, Rambus filed a response to Hynix's counterclaims in reply, and on September 6, 2007, Hynix filed a further motion to strike certain of Rambus' affirmative defenses. Rambus filed an opposition to Samsung and Nanya's motion on September 25, 2007, and an opposition to Hynix's motions to strike on October 1, 2007. A hearing on these motions to strike is currently set for October 26, 2007.

On April 4, 2007, Samsung filed a motion for summary judgment on the ground that findings in the proceeding before the U.S. District Court in the Eastern District of Virginia (described below) should be given collateral estoppel effect in this action. A hearing on each of those motions was held on May 24, 2007. On June 19, 2007, the California court issued an order deferring any ruling on Samsung's motion for summary judgment until after the Federal Circuit issues its decision in the matter Rambus is appealing from the U.S. District Court in the Eastern District of Virginia, described below.



---

**Table of Contents**

On April 24, 2007, the California court ordered that *Hynix v Rambus*, Case No. C 00-20905 RMW, *Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.*, Case No. C 06-00244 RMW, shall have a coordinated trial beginning on January 22, 2008, of certain common claims and defenses related to the claims set to be tried in the third phase of the *Hynix* 00-20905 action. The California court also coordinated these cases for certain other purposes, including discovery and preparation (but not trial) of the patent infringement claims and defenses. A claim construction hearing is currently scheduled for March 25-26, 2008, and one or more trials on Rambus' patent infringement claims is set to begin on January 19, 2009.

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to be tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix's motion for summary judgment in the *Hynix* 00-20905 action on Hynix's state unfair competition claim and equitable estoppel defense based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007, and Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. On September 25, 2007, the California court denied Hynix's motion for summary judgment. The California court has not yet issued an order on the motions to give prima facie evidentiary effect to certain findings by the FTC.

On September 21, 2007, Rambus filed (1) a motion to strike the manufacturer parties' demand that certain of their claims and defenses be tried to a jury in the January 22, 2008 trial; and (2) a motion for summary judgment on Samsung's claims for unfair competition and unenforceability of Rambus' patents on the ground that Samsung's claims are barred pursuant to the release in the patent license agreement between Rambus and Samsung executed in 2000. Opposition briefs to these motions were filed on October 5, 2007, and Rambus filed replies on October 12, 2007. A hearing on both of these motions is scheduled for October 26, 2007.

On October 5, 2007, the parties filed cross-motions for summary judgment on infringement and validity. These motions will be heard as part of the claim construction hearing currently scheduled for March 25-26, 2008.

***Samsung Litigation***
***U.S. District Court in the Northern District of California***

On June 6, 2005, Rambus filed a lawsuit against Samsung in the U.S. District Court in the Northern District of California. The suit alleges that Samsung's manufacture, use and sale of SDRAM and DDR SDRAM parts infringe 9 of Rambus' patents. Samsung has denied Rambus' claims and asserted counterclaims for non-infringement, invalidity and unenforceability of the patents, violations of various antitrust and unfair competition statutes, breach of license, and breach of duty of good faith and fair dealing. Samsung has also counterclaimed that Rambus aided and abetted breach of fiduciary duty and intentionally interfered with Samsung's contract with a former employee by knowingly hiring a former Samsung employee who allegedly misused proprietary Samsung information. On July 15, 2005, Rambus denied Samsung's counterclaims and moved to dismiss certain of Samsung's defenses and counterclaims. On October 28, 2005, the California court granted Rambus' motion and gave Samsung leave to amend its pleading. On November 17, 2005, Samsung filed amended defenses and counterclaims.

On February 21, 2006, Rambus filed a motion to dismiss certain of Samsung's amended defenses and counterclaims. A hearing on Rambus' motion was held on April 7, 2006. On January 4, 2007, the California court granted Rambus' motion with leave to amend. On January 24, 2007, Samsung filed second amended defenses and counterclaims.

Following a case management conference held on October 6, 2006, the California court temporarily stayed this action until February 2, 2007, upon which the stay automatically expired. On March 23, 2007, Rambus filed a motion to dismiss certain of Samsung's amended counterclaims. The court has not yet ruled on Rambus' motion. On July 9, 2007, Rambus filed its reply to Samsung's amended counterclaims. On August 2, 2007, Samsung filed a motion to strike Rambus' infringement counterclaims in reply. On September 25, 2007, Rambus filed an opposition to Samsung's motion to strike. A hearing on Samsung's motion is currently set for October 26, 2007.

**Table of Contents**

On April 4, 2007, Samsung filed a motion for summary judgment on the ground that findings in the proceeding before the U.S. District Court in the Eastern District of Virginia (described below) should be given collateral estoppel effect in this action. A hearing on each of those motions was held on May 24, 2007. On June 19, 2007, the California court issued an order deferring any ruling on Samsung's motion for summary judgment until after the Federal Circuit issues its decision in the matter Rambus is appealing from the U.S. District Court in the Eastern District of Virginia, described below.

On April 24, 2007, the California court ordered that *Hynix v Rambus*, Case No. C 00-20905 RMW, *Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.*, Case No. C 06-00244 RMW, shall have a coordinated trial beginning on January 22, 2008, of certain common claims and defenses related to the claims set to be tried in the third phase of the Hynix 00-20905 action. The California court also coordinated these cases for certain other purposes, including discovery and preparation (but not trial) of the patent infringement claims and defenses. A claim construction hearing is currently scheduled for March 25-26, 2008, and one or more trials on Rambus' patent infringement claims is set to begin on January 19, 2009.

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to be tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix's motion for summary judgment in the Hynix 00-20905 action on Hynix's state unfair competition claims and equitable estoppel defenses based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007. Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. On September 25, 2007, the California court denied Hynix's motion for summary judgment. The California court has not yet issued an order on the motions to give prima facie evidentiary effect to certain findings by the FTC.

On September 21, 2007, Rambus filed (1) a motion to strike Micron, Nanya, and Samsung's demand that certain of their claims and defenses be tried to a jury in the January 22, 2008 trial; and (2) a motion for summary judgment on Samsung's claims for unfair competition and unenforceability of Rambus' patents on the ground that Samsung's claims are barred pursuant to the release in the patent license agreement between Rambus and Samsung executed in 2000. Samsung filed opposition briefs to these motions on October 5, 2007, and Rambus filed replies on October 12, 2007. A hearing on both of these motions is scheduled for October 26, 2007.

On October 5, 2007, the parties filed cross-motions for summary judgment on infringement and validity. These motions will be heard as part of the claim construction hearing currently scheduled for March 25-26, 2008.

*U.S. District Court in the Eastern District of Virginia*

On June 7, 2005, Samsung sued Rambus in the U.S. District Court in the Eastern District of Virginia seeking a declaratory judgment that four Rambus patents are invalid, unenforceable and/or not infringed. Rambus answered the complaint, disputing Samsung's claims. Rambus granted Samsung two separate covenants not to sue Samsung for infringement of the four patents for which Samsung sought declaratory relief: one covenant for U.S. patent nos. 5,954,804 and 6,032,214, and a second covenant for U.S. patent nos. 5,953,263 and 6,034,918.

On September 27, 2005, Rambus filed a motion to dismiss this action on the ground that the two covenants not to sue divested the Virginia court of subject matter jurisdiction. On October 3, 2005, Rambus submitted an offer to Samsung to pay its attorneys' fees; Rambus believes that this offer mooted any claim by Samsung for attorneys' fees. Samsung did not accept the offer and opposed Rambus' motion to dismiss on October 5, 2005, arguing that it was entitled to a judicial determination of whether this litigation was exceptional warranting the payment of its attorneys' fees under 35 U.S.C. § 285. Samsung sought to recover more than \$476,000 in attorneys' fees. On November 8, 2005, the Virginia court issued orders (1) granting Rambus' motion to dismiss with respect to Samsung's claims for declaratory judgment but denying the motion with respect to Samsung's claim for attorney's fees pursuant to 35 U.S.C. § 285; and (3) ordering that the *Rambus v. Infineon* record shall be made part of the record in this action for purposes of deciding the exceptional case issue.

Rambus notified the Virginia court that it made a Rule 68 offer of judgment to Samsung on November 30, 2005, and that this offer divested the court of any remaining subject matter jurisdiction. Samsung did not accept the Rule 68 offer. A hearing on the jurisdiction issue and supplemental argument on the exceptional case issue was held

---

**Table of Contents**

on February 21, 2006. The court subsequently ordered that the *Hynix v. Rambus* record from the phase one unclean hands trial in California should be made part of the record in the Samsung action and took the jurisdictional issue and the exceptional case issue under submission.

On July 19, 2006, the Virginia court issued orders filed the day before on the jurisdictional and exceptional case issues. The court found that: (1) it had subject matter jurisdiction over Samsung's motions; (2) Samsung is a prevailing party; (3) Rambus had spoliated evidence in anticipation of litigation against DRAM manufacturers such as Samsung; (4) Rambus' spoliation rendered the case exceptional; (5) Rambus did not assert its counterclaims in subjective bad faith or for the purpose of vexation; (6) Rambus' counterclaims were not objectively baseless at the time they were filed; and (7) Samsung was not entitled to an award of attorneys' fees.

Rambus filed a notice of appeal to the Federal Circuit on August 16, 2006. On September 11, 2006, Rambus moved for a preliminary ruling that it lacked standing to appeal on the ground that Rambus was the prevailing party on the issue of Samsung's request for attorneys' fees and that the Virginia court's determinations could have no future preclusive effect. Samsung opposed Rambus' motion. In an order dated October 12, 2006, the Federal Circuit denied Rambus' motion for preliminary ruling without prejudice.

Rambus filed its opening appellate brief on December 5, 2006, Samsung filed its opposition brief on March 2, 2007, and Rambus filed its reply brief on April 2, 2007. Oral argument was heard on August 7, 2007. No opinion has issued to date.

*Delaware Chancery Court*

On June 23, 2005, Samsung sued Rambus in the Delaware Chancery Court asserting claims similar to its counterclaims in the Northern District of California action. The suit seeks a declaration that Rambus patents claiming a priority date prior to the termination of its former employee's employment with Samsung be declared unenforceable as against Samsung as a result of Samsung's allegations charging Rambus with aiding and abetting breach of fiduciary duty and intentional interference with contract. Rambus filed an answer on July 18, 2005, denying Samsung's claims. On September 6, 2006, Rambus filed a motion for summary judgment on the ground that Samsung's claims are barred because it released its claims pursuant to the patent license agreement between Rambus and Samsung executed in 2000. At the conclusion of oral argument on December 4, 2006, the Delaware Chancery Court indicated that it would deny Rambus' motion for summary judgment without prejudice to the reassertion of the motion after the completion of further discovery and that it would stay the action until after the next status conference in the actions with similar counterclaims pending in the Northern District of California. At the request of the Delaware Chancery Court, the parties submitted separate updates on the status of this matter on September 7, 2007.

*Indirect Purchaser Class Action*

On August 10, 2006, the first of nine class action lawsuits were filed against Rambus in 2006 alleging violations of federal and state antitrust laws, violations of state consumer protection laws, and various common law claims based almost entirely on the same conduct which was the subject of the FTC's July 31, 2006, opinion. Five of these lawsuits were filed in the Northern District of California (*Chernomoretz v. Rambus*, C-06-4852 JCS (filed August 10, 2006), *Grande v. Rambus*, C-06-4853 RS (filed August 10, 2006), *Seley v. Rambus*, C-06-4937 PVT (filed August 17, 2006), *Alvarez v. Rambus*, C-06-4997 RS (filed August 18, 2006), *Winder v. Rambus*, C-06-5455 RS (filed September 6, 2006)). Those five cases have been consolidated under the caption, *In re Rambus Antitrust Litigation*, 06-4852 RMW (N.D. Cal.). On January 12, 2007, plaintiffs filed a consolidated complaint. The complaint seeks injunctive and declaratory relief, disgorgement, restitution and compensatory and punitive damages in an unspecified amount, and attorneys' fees and costs. On March 28, 2007, Rambus filed a motion to dismiss the consolidated complaint. Plaintiffs filed an opposition brief on May 25, 2007, and Rambus filed a reply on June 25, 2007. At a hearing on Rambus' motion on July 27, 2007, the California court heard oral argument and took the matter under submission. No final order has issued to date.

Two substantially similar class action lawsuits were filed in the Southern District of New York (*Ratanyake v. Rambus*, 06cv6418 (filed August 23, 2006) and *Rhodes v. Rambus*, 06cv6551 (filed August 30, 2006)), and another was filed in the Eastern District of Michigan (*Austin v. Rambus*, 06cv13666 (filed August 17, 2006)). Pursuant to agreement of the parties, these three cases have been dismissed without prejudice to refile in the Northern District of California.

---

## **Table of Contents**

A ninth substantially similar class action lawsuit was filed on April 2, 2007, in the Northern District of California. That case was consolidated into the *In re Rambus Antitrust Litigation* proceeding pursuant to the California court's earlier consolidation order.

### ***European Commission Competition Directorate-General***

On or about April 22, 2003, Rambus was notified by the European Commission Competition Directorate-General (Directorate) (the European Commission) that it had received complaints from Infineon and Hynix. Rambus answered the ensuing requests for information prompted by those complaints on June 16, 2003. Rambus obtained a copy of Infineon's complaint to the European Commission in late July 2003, and on October 8, 2003, at the request of the European Commission, filed its response. The European Commission sent Rambus a further request for information on December 22, 2006, which Rambus answered on January 26, 2007. On August 1, 2007, Rambus received a statement of objections from the European Commission. The statement of objections alleges that through Rambus' participation in the JEDEC standards setting organization and subsequent conduct, Rambus violated European Union competition law. Rambus is evaluating the statement of objections and plans to respond in due course.

### ***Price-Fixing Case***

#### ***Superior Court of California for the County of San Francisco***

On May 5, 2004, Rambus filed a lawsuit against Micron, Hynix, Infineon and Siemens in San Francisco Superior Court (the San Francisco court) seeking damages for conspiring to fix prices (California Bus. & Prof. Code §§ 16720 *et seq.*), conspiring to monopolize under the Cartwright Act (California Bus. & Prof. Code §§ 16720 *et seq.*), intentional interference with prospective economic advantage, and unfair competition (California Bus. & Prof. Code §§ 17200 *et seq.*). This lawsuit alleges that there were concerted efforts beginning in the 1990s to deter innovation in the DRAM market and to boycott Rambus and/or deter market acceptance of Rambus' RDRAM product.

Pursuant to its settlement with Infineon, Rambus dismissed with prejudice Infineon and Siemens from this action on March 21, 2005. On May 23, 2005, Hynix filed a motion to compel arbitration of Rambus' dispute with the Hynix defendants. The San Francisco court denied Hynix's motion to compel arbitration at a hearing on July 12, 2005.

On June 15, 2005, after receiving access to documents produced by Micron and Hynix to the Department of Justice (the DOJ) Rambus added three Samsung-related entities as defendants. On September 29, 2005, Samsung filed a motion to compel arbitration of Rambus' dispute with the Samsung defendants. The San Francisco court denied Samsung's motion on October 31, 2005, and entered its Statement of Decision on January 3, 2006.

Hynix and Samsung appealed the San Francisco court's denial of their respective motions to compel arbitration. The California appellate court heard oral argument on November 15, 2006, and on January 3, 2007, it affirmed the San Francisco court's denial of the motions to compel arbitration. On February 13, 2006, Hynix filed, and Samsung joined, a petition for review of the appellate court's affirmance in the California Supreme Court. On March 21, 2007, the California Supreme Court denied the petition for review. On March 26, 2007, the California appellate court issued a remittitur returning full jurisdiction of the case to the San Francisco court. On June 20, 2007, Hynix filed a petition seeking review of the denial of its motion to compel arbitration by the U.S. Supreme Court. Rambus filed an opposition to this petition on August 17, 2007 and Hynix filed a reply on September 5, 2007. On October 1, 2007, the U.S. Supreme Court denied certiorari.

The San Francisco court had held that certain limited discovery could be conducted during the pendency of the arbitration appeals. Now that the denial of arbitration has been finally affirmed by the state courts, full discovery is ongoing. On April 2, 2007, Hynix filed a motion for summary judgment on the ground that Rambus' claims should have been brought as compulsory counterclaims in its pending patent infringement litigation with Hynix. After hearing oral argument on Hynix's motion on July 16, 2007, the San Francisco court denied Hynix's motion for summary judgment.

### ***Alberta Telecommunications Research Centre Litigation***

On November 15, 2005, Alberta Telecommunications Research Centre, dba TR Labs, a Canadian company, filed suit against Rambus in the U.S. District Court in the Eastern District of Virginia. The complaint

**Table of Contents**

alleges that Alberta is the owner of U.S. patent no. 5,361,277 (the 277 patent ), and asserts claims for interferences-in-fact pursuant to 35 U.S.C. § 291 between the 277 patent and Rambus U.S. patent nos. 5,243,703 (the 703 patent ) and 5,954,804 (the 804 patent ); infringement of the patent by Rambus; and unjust enrichment. Alberta seeks an order assigning the claims of the 703 and 804 patent to Alberta, disgorgement of Rambus profits from licensing the 703 and 804 patents, compensatory and punitive damages, attorneys fees, and injunctive relief. Rambus filed an answer on February 10, 2006, denying Alberta s claims.

Rambus moved to dismiss Alberta s claims on January 26, 2006, and to transfer the action to the Northern District of California. On April 13, 2006, the Virginia court ordered that this matter be transferred to the Northern District of California in its entirety (without deciding Rambus motion to dismiss). The case was filed in the Northern District of California on April 17, 2006. On October 23, 2006, the California court granted in part Rambus motion to dismiss with leave to amend. Alberta filed an amended complaint on November 8, 2006, and Rambus moved to dismiss the amended complaint 19 days later. On August 2, 2007, the California court denied Rambus motion to dismiss. On August 30, 2007, Rambus filed an answer denying the allegations in the complaint. Discovery in this case is ongoing.

***General Litigation Matters***

The Company is a party from time to time to lawsuits. Litigation, in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict. The Company has accrued its best estimate of settlements and/or judgments in the cases noted above when such outcome is deemed by the Company as probable, as that term is defined in SFAS 5, including the \$18.0 million to settle the shareholder class action lawsuit related to the stock option investigation which was accrued in accrued litigation expenses as of the period ended September 30, 2006.

In addition to all of the litigation described above, participants in the DRAM and controller markets continue to adopt Rambus technologies into various products. Rambus has notified many of these companies of their use of Rambus technology and continues to evaluate how to proceed on these matters. There can be no assurance that any ongoing or future litigation will be successful. Rambus spends substantial company resources defending its intellectual property in litigation, which may continue for the foreseeable future given the multiple pending litigations. The outcomes of these litigations, as well as any delay in their resolution, could affect Rambus ability to license its intellectual property going forward.

**14. Commitments and Contingencies**

Rambus leases its present office facilities in Los Altos, California, under an operating lease agreement through December 31, 2010. As part of this lease transaction, the Company provided a letter of credit restricting \$600,000 of its cash as collateral for certain obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under the Company s investment policy. Rambus also leases a facility in Mountain View, California, through November 11, 2009, Chapel Hill, North Carolina through November 15, 2009 and leases a facility for the Company s design center in Bangalore, India through November 30, 2009. In addition, as a result of the Company s acquisition of GDA in 2005, it entered into a lease for an additional facility in Bangalore, India through March 31, 2007, which was recently extended to mid-November 2007. The Company also leases office facilities in Austin, Texas and various international locations under non-cancelable leases that range in terms from month-to-month to one year.

In May 2006, Rambus signed an agreement to lease a new office facility in Bangalore, India into which it intends to consolidate all of the Company s Bangalore operations. Rambus is currently awaiting receipt of a certificate of occupancy or confirmation of deemed occupancy under local statutes in order for Rambus to occupy the building.

As discussed more fully in Note 12, Convertible Notes, the Company has \$160.0 million zero coupon convertible senior notes (the convertible notes ) outstanding at March 31, 2007.

On August 17, 2006, Rambus received a notice of default from U.S. Bank National Association, as trustee (the Trustee ) for the convertible notes. The notice asserted that the Company s failure to file its Form 10-Q for the



**Table of Contents**

quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the indenture, dated as of February 1, 2005 between Rambus and the Trustee (the Indenture). The notice stated that per Section 9.1 of the Indenture, if Rambus did not cure the default within sixty days of August 17, 2006, an event of default would occur.

On October 25, 2006, Rambus received a notice from the Trustee stating that since the Company had not cured the default that had been asserted by the Trustee within the sixty-day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, Rambus received an additional notice of default from the Trustee relating to the Company's failure to file its Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, Rambus received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable.

On September 20, 2007, Rambus received a notice from the Trustee for the convertible notes, rescinding the acceleration of the convertible notes contained in the letter from the Trustee dated July 31, 2007 and waiving all existing Events of Default as defined in the Indenture. The notice indicated that the Trustee had received direction from holders holding a majority in aggregate principal amount of the convertible notes outstanding to waive all existing Events of Default and rescind the acceleration of the convertible notes.

In connection with the notice in October 2006 of the purported event of default, the Company reclassified the aggregate principal amount of the convertible notes of \$160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. As of March 31, 2007, the convertible notes are classified as current liabilities. See Note 12, Convertible Notes, for a detailed discussion of this matter.

In connection with certain German litigation, the German courts have requested that the Company set aside adequate funds to cover potential court cost claims. Accordingly, approximately \$1.7 million is restricted as to withdrawal, managed by a third party subject to certain limitations under our investment policy and included in restricted cash to cover the German court requirements.

As of March 31, 2007, Rambus' material contractual obligations are:

<i>(In thousands)</i>	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
<b>Contractual Obligations (2)</b>					
Operating Leases	\$ 21,339	\$ 6,019	\$ 11,521	\$ 3,799	\$
Convertible Debt	160,000	160,000			
Purchased software and licenses (1)	3,994	3,326	668		
<b>Total</b>	<b>\$ 185,333</b>	<b>\$ 169,345</b>	<b>\$ 12,189</b>	<b>\$ 3,799</b>	<b>\$</b>

- (1) Rambus has commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of March 31, 2007, which are also recorded on Rambus' balance sheet under current and other long-term liabilities.
- (2) The above table does not reflect possible payments in connection with income tax contingencies associated with FIN 48. As noted below, although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time.

The Compensation Committee approved the granting of a total of 160,000 restricted stock units (RSUs) to executives in December 2006 and February 2007. These RSUs will be granted as soon as practicable after the Company becomes current with its SEC filings and registers its 2006 Equity Incentive Plan under which these units would be granted.

*Indemnifications*

Rambus enters into standard license agreements in the ordinary course of business. Although Rambus does not indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnifications cover customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement claim by any third party with respect to Rambus products. The maximum amount of indemnification Rambus could be required to make under these agreements is generally limited to fees received by Rambus. Rambus estimates the fair value of its indemnification obligation as insignificant, based upon its history of litigation

## Edgar Filing: RAMBUS INC - Form 10-Q

concerning product and patent infringement claims. Accordingly, Rambus has no liabilities recorded for indemnification under these agreements as of March 31, 2007 or December 31, 2006.

Several securities fraud class actions, private lawsuits and shareholder derivative actions were filed in state and federal courts against certain of the Company's current and former officers and directors related to the stock

---

**Table of Contents**

option granting actions under investigation in 2006. As permitted under Delaware law, Rambus has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at Rambus' request in such capacity. The term of the indemnification period is for the officer's or director's term in such capacity. The maximum potential amount of future payments Rambus could be required to make under these indemnification agreements is unlimited. Rambus has a director and officer insurance policy that reduces Rambus' exposure and enables Rambus to recover a portion of amounts paid. As a result of these indemnification agreements, Rambus has made and continues to make payments on behalf of current and former officers and recognize the expense in the statements of operations. Through March 31, 2007, the Company has made payments of approximately \$2.3 million on their behalf, including \$1.4 million during the quarter ended March 31, 2007. During the second quarter of 2007, the Company made additional payments of approximately \$2.1 million.

*Warranties*

Rambus offers some of its customers a warranty that its products will conform to their functional specifications. To date, there have been no payments or material costs incurred related to fulfilling these warranty obligations. Accordingly, Rambus has no liabilities recorded for these warranties as of March 31, 2007 or December 31, 2006. Rambus assesses the need for a warranty accrual on a quarterly basis, and there can be no guarantee that a warranty accrual will not become necessary in the future.

*Income Tax Contingencies*

Rambus maintains liabilities for uncertain tax benefits within its income taxes payable accounts. These liabilities involve considerable judgment and estimation and are monitored by management based on the best information available including changes in tax regulations, the outcome of relevant court cases and other information. Rambus is currently under examination by various taxing authorities. Although the outcome of any tax audit is uncertain, the Company believes it has adequately provided for any additional taxes that may be required to be paid as a result of such examinations. If the Company determines that no payment will ultimately be required, the reversal of these tax liabilities would result in tax benefits being recognized in the period when that conclusion is reached. However, if an ultimate tax assessment exceeds the recorded tax liability for that item, an additional tax provision may need to be recorded. The impact of such adjustments in the Company's tax accounts could have a material impact on the consolidated results of operations in future periods.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the adoption of FIN 48, the Company's unrecognized tax benefits decreased by \$0.3 million, which was accounted for as a decrease to the opening balance of accumulated deficit. In addition, upon the adoption of FIN 48, \$2.7 million of unrecognized tax benefits were reclassified from long-term deferred tax assets to long-term taxes payable.

On January 1, 2007 the Company had \$12.4 million of unrecognized tax benefits, including \$7.4 million in long-term deferred tax assets, which is net of approximately \$2.3 million of federal tax benefits. If recognized, approximately \$10.1 million, net of federal benefits, would be recorded as an income tax benefit in the consolidated statements of operations.

As of March 31, 2007, the Company had \$12.7 million of unrecognized tax benefits, including \$7.4 million in long-term deferred tax assets, net of approximately \$2.3 million of federal tax benefits. The additional unrecognized tax benefits recorded in 2007 are included in long-term taxes payable.

Although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time.

Rambus recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision (benefit). At January 1, 2007 and March 31, 2007, an insignificant amount of interest and penalties are included in long-term taxes payable.

**Table of Contents**

Rambus files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company is subject to general examination by the Internal Revenue Service ( IRS ) for tax years 2004 through 2006. The Company is also subject to general examination by the State of California for tax years March 31, 2003 through December 31, 2006. In addition, any R&D credit carryforward generated in prior years and utilized in these or future years may also be subject to examination by the IRS and the State of California. The Company is also subject to examination in various other jurisdictions for various periods.

**15. Subsequent Events**

In connection with the recently completed stock option investigation, the Board of Directors established a Special Litigation Committee (the SLC ) to evaluate potential claims or other actions arising from the Company s stock option granting activities. In August 2007, the SLC concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of the Company s present and former officers and directors. The SLC determined that all claims should be terminated and dismissed against the named defendants in the derivative actions with the exception of claims against Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in the derivative actions. The aggregate value of the settlements to the Company exceeds \$6.5 million in cash and equivalent value, as well as substantial additional value to the Company relating to the relinquishment of claims by these individuals to over 2.7 million stock options. On August 24, 2007, the written report setting out the findings of the SLC was filed with the U.S. District Court for the Northern District of California. The conclusions of the SLC are subject to review by the court.

On August 17, 2007, the Company was notified by the Nasdaq Listings Qualification Panel that it was given an extension until October 17, 2007 to become current on all of its delinquent SEC filings for fiscal periods in 2006 and 2007.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion contains forward-looking statements, including, without limitation, our expectations regarding revenues, expenses and results of operations. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in the Special Note Regarding Forward-Looking Statements, Item 1A of Part II, Risk Factors, and below. We assume no obligation to update the forward-looking statements or such risk factors.

Rambus, RDRAM, XDR, FlexIO and FlexPhase are trademarks or registered trademarks of Rambus Inc. Other trademarks that may be mentioned in this quarterly report on Form 10-Q are the property of their respective owners.

Industry terminology, used widely throughout this quarterly report, has been abbreviated and, as such, these abbreviations are defined below for your convenience:

Advanced Backplane	ABP
Double Data Rate	DDR
Dynamic Random Access Memory	DRAM
Fully Buffered Dual Inline Memory Module	FB-DIMM
Gigabytes per second	Gb/s
Graphics Double Data Rate	GDDR
Input/Output	I/O
Peripheral Component Interconnect	PCI
Rambus Dynamic Random Access Memory	RDRAM
Single Data Rate	SDR
Synchronous Dynamic Random Access Memory	SDRAM
eXtreme Data Rate	XDR

From time to time we will refer to the abbreviated names of certain companies and, as such, have provided a chart to indicate the full names of those companies for your convenience.

Advanced Micro Devices Inc.	AMD
ARM Holdings plc	ARM
Cadence Design Systems, Inc.	Cadence
Cisco Systems, Inc.	Cisco
Elpida Memory, Inc.	Elpida
Fujitsu Limited	Fujitsu
GDA Technologies, Inc.	GDA
Hewlett-Packard Company	Hewlett-Packard
Hynix Semiconductor, Inc.	Hynix
Infineon Technologies AG	Infineon
Inotera Memories, Inc.	Inotera
Intel Corporation	Intel
International Business Machines Corporation	IBM
Joint Electron Device Engineering Council	JEDEC
Juniper Networks, Inc.	Juniper
Matsushita Electrical Industrial Co.	Matsushita
Micron Technologies, Inc.	Micron
Nanya Technology Corporation	Nanya
NEC Electronics Corporation	NECEL
Optical Internetworking Forum	OIF
Qimonda AG (formerly Infineon's DRAM operations)	Qimonda
Peripheral Component Interconnect Special Interest Group	PCI-SIG
Renesas Technology Corporation	Renesas
S3 Graphics, Inc.	S3 Graphics

Edgar Filing: RAMBUS INC - Form 10-Q

Samsung Electronics Co., Ltd.  
Sony Computer Electronics  
Spansion, Inc.  
ST Microelectronics  
Synopsys Inc.  
Tessera Technologies, Inc.  
Texas Instruments Inc.  
Toshiba Corporation  
Velio Communications

Samsung  
Sony  
Spansion  
ST Micro  
Synopsys  
Tessera  
Texas Instruments  
Toshiba  
Velio

---

## **Table of Contents**

### **Business Overview**

We design, develop and license chip interface technologies and architectures that are foundational to nearly all digital electronics products. Our chip interface technologies are designed to improve the time-to-market, performance and cost-effectiveness of our customers' semiconductor and system products for computing, communications and consumer electronics applications.

As of September 30, 2007, our chip interface technologies are covered by more than 650 U.S. and international patents. Additionally, we have approximately 500 patent applications currently pending. These patents and patent applications cover important inventions in memory and logic chip interfaces, in addition to other technologies. We believe that our chip interface technologies provide a higher performance, lower risk, and more cost-effective alternative for our customers than can be achieved through their own internal research and development efforts.

We offer our customers two alternatives for using our chip interface technologies in their products:

First, we license our broad portfolio of patented inventions to semiconductor and system companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of our patent portfolio. Patent license agreements are royalty bearing.

Second, we develop leadership (which are Rambus-proprietary products widely licensed to our customers) and industry-standard chip interface products that we provide to our customers under license for incorporation into their semiconductor and system products. Because of the often complex nature of implementing state-of-the-art chip interface technology, we offer our customers a range of engineering services to help them successfully integrate our chip interface products into their semiconductors and systems. Product license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Engineering services are customarily bundled with our product licenses, and are generally performed on a fixed price basis. Further, under product licenses, our customers may receive licenses to our patents necessary to implement the chip interface in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts.

We derive the majority of our annual revenues by licensing our broad portfolio of patents for chip interfaces to our customers. Such licenses may cover part or all of our patent portfolio. Leading semiconductor and system companies such as AMD, Elpida, Fujitsu, Qimonda, Intel, Matsushita, NECEL, Renesas, Spansion and Toshiba have licensed our patents for use in their own products.

We derive additional revenues by licensing our leadership and industry-standard chip interface products to our customers for use in their semiconductor and system products. Our customers include leading companies such as Elpida, Fujitsu, IBM, Intel, Matsushita, Texas Instruments, Sony, ST Micro, Qimonda and Toshiba. Due to the complex nature of implementing our technologies, we provide engineering services under certain of these licenses to help successfully integrate our chip interface products into their semiconductors and systems. Additionally, product licensees may receive, as an adjunct to their chip interface license agreements, patent licenses as necessary to implement the chip interface in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts.

Royalties represent a substantial portion of our total revenues. The remaining part of our revenue is engineering services revenue which includes license fees and engineering services fees. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenues or unbilled receivables in any given period.

We have a high degree of revenue concentration, with our top five licensees representing 69% and 67% of our revenues for the three months ended March 31, 2007 and 2006, respectively. For the three months ended March 31, 2007, revenues from Fujitsu, Qimonda and Elpida each accounted for 10% or more of our total revenues. For the three months ended March 31, 2006, revenues from Intel, Infineon, Elpida, Fujitsu and AMD each accounted for 10% or more of total revenues.

**Table of Contents**

Our revenue from companies headquartered outside of the United States accounted for 87% and 64% of our total revenues for the three months March 31, 2007 and 2006, respectively. We expect that we may continue to experience significant revenue concentration and have significant revenues from sources outside the United States for the foreseeable future.

Historically, we have been involved in significant litigation stemming from the unlicensed use of our inventions. Our litigation expenses have been high and difficult to predict and we anticipate future litigation expenses to continue to be significant, volatile and difficult to predict. If we are successful in the litigation and/or related licensing, our revenue could be substantially higher in the future; if we are unsuccessful, our revenue would likely decline.

We expect that revenues derived from international licensees will continue to represent a significant portion of our total revenues in the future. To date, all of the revenues from international licensees have been denominated in U.S. dollars. However, to the extent that such licensees' sales to systems companies are not denominated in U.S. dollars, any royalties that we receive as a result of such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of licensed semiconductors sold by our foreign licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for licensed semiconductors could fall, which in turn would reduce our royalties. We do not use financial instruments to hedge foreign exchange rate risk.

**Results of Operations**

The following table sets forth, for the periods indicated, the percentage of total revenues represented by certain items reflected in our unaudited condensed consolidated statements of operations:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Contract revenues	12.8 %	12.0 %
Royalties	87.2	88.0
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>
<b>Costs and expenses:</b>		
Cost of contract revenues *	12.4	15.6
Research and development *	46.7	38.1
Marketing, general and administrative *	49.8	52.5
Costs of restatement and related legal activities	14.0	
<b>Total costs and expenses</b>	<b>122.9</b>	<b>106.2</b>
<b>Operating loss</b>	<b>(22.9)</b>	<b>(6.2)</b>
Interest and other income, net	10.4	7.2
<b>Income (loss) before income taxes</b>	<b>(12.5)</b>	<b>1.0</b>
Benefit from income taxes	(4.8)	(0.3)
<b>Net income (loss)</b>	<b>(7.8)%</b>	<b>1.3 %</b>

\* Includes stock-based compensation:

Cost of contract revenues	2.2 %	4.2 %
Research and development	6.7	8.8
Marketing, general and administrative	9.9	10.3
<b>Total stock-based compensation</b>	<b>18.8 %</b>	<b>23.3 %</b>





**Table of Contents**

The following table presents the split of total revenues between contract revenues and royalties:

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>		<b>Variance in</b>	<b>Variance in</b>
	<b>2007</b>	<b>2006</b>	<b>Dollars</b>	<b>Percent</b>
<b>Total Revenues</b>				
Contract revenues	\$ 6.4	\$ 5.6	\$ 0.8	14.3%
Royalties	43.8	41.7	2.1	5.0%
 Total revenues	 \$ 50.2	 \$ 47.3	 \$ 2.9	 6.1%

**Contract Revenue***Percentage-of-Completion Contracts*

Percentage of completion contract revenue decreased approximately \$0.1 million for the three months ended March 31, 2007 as compared to the same period in 2006 due to the completion of leadership chip interface contracts during 2006. We believe that percentage-of-completion contract revenues recognized will continue to fluctuate over time based on our ongoing contractual requirements, the amount of work performed, and by changes to work required, as well as new contracts booked in the future.

*Other Contracts*

Revenue for other contracts increased approximately \$0.9 million for the three months ended March 31, 2007 as compared to the corresponding period in 2006 due to increased revenue from leadership chip interface contracts including FlexIO and XDR, offset in part by a decrease in revenue from industry standard chip interface contracts. We believe that other contracts revenue will continue to fluctuate over time based on our ongoing contract requirements, the timing of completing engineering deliverables, as well as new contracts booked in the future.

**Royalty Revenues***Patent Licenses*

In the three months ended March 31, 2007, our largest source of royalties was related to the license of our patents for SDR and DDR-compatible products. Royalties increased approximately \$9.5 million for SDR and DDR-compatible products in the three months ended March 31, 2007, as compared to the same period in 2006, primarily due to increased revenue from Fujitsu and Matsushita.

As of March 31, 2007, we had both variable and fixed royalty agreements for our SDR and DDR-compatible licenses. On December 31, 2005, we entered into a five-year patent license agreement with AMD. We are recognizing royalty revenues under the AMD agreement on a quarterly basis as amounts become due and payable because the contractual terms of the agreement provide for payments on an extended term basis. We expect to recognize royalty revenues of \$15.0 million in fiscal years 2007 through 2009 and \$11.3 million in the fiscal year 2010 under the AMD agreement. The AMD agreement provides a license of our patented technology used in the design of DDR2, DDR3, FB-DIMM, PCI Express and XDR controllers as well as other current and future high-speed memory and logic controller interfaces.

On March 16, 2006, we entered into a five-year patent license agreement with Fujitsu. We expect to recognize royalty revenues under the Fujitsu agreement on a quarterly basis as amounts become due and payable as the contractual terms of the agreement provide for payments on an extended term basis. The Fujitsu agreement provides a license that covers semiconductors, components and systems, but does not include a license to Fujitsu for its own manufacturing of commodity SDRAM other than limited amounts of SDR SDRAM annually.

We are in negotiations with new prospective licensees. We expect SDR and DDR-compatible royalties will continue to vary from period to period based on our success in renewing existing license agreements and adding new licensees, as well as the level of variation in our licensees reported shipment volumes, sales price and mix, offset in part by the proportion of licensee payments that are fixed.

There was no royalty revenue recorded from the Intel patent cross-license in the three months ended March 31, 2007 because the term of the agreement expired in June 2006, but it represented the second largest source of royalties in the three months ended March 31, 2006. Royalties under this agreement decreased by approximately \$10.0 million in the three months ended March 31, 2007 as compared to the same period in

2006.

As explained in more detail in Risk Factors, Part II, Item 1A and Note 13. Litigation and Asserted Claims of the Notes to the Unaudited Condensed Consolidated Financial Statements, the FTC remedy order sets the

**Table of Contents**

maximum royalty rate that we can collect on the manufacture, use or sale in the United States of certain JEDEC-compliant parts after the FTC Order became effective on April 12, 2007. We have provided our licensees with the FTC Order and we are using our best efforts to ensure that our variable royalty rate licensees are paying us royalties as per the requirements of the FTC Order.

*Product Licenses*

In the three months ended March 31, 2007, royalties from XDR, FlexIO, DDR and serial link-compatible products represented the second largest category of royalties. Royalties from XDR, FlexIO, DDR and serial link-compatible products increased approximately \$3.3 million during the three months ended March 31, 2007 as compared to the same period in 2006. This increase was primarily due to higher royalties from FlexIO and XDR products associated with the Sony PLAYSTATION®3 product. In the future, we expect royalties from XDR, FlexIO, DDR and serial link-compatible products will continue to vary from period to period based on our licensees' shipment volumes, sales prices and product mix.

In the three months ended March 31, 2007, royalties from RDRAM-compatible products represented the third largest source of royalties. Royalties from RDRAM memory chips and controllers decreased approximately \$0.7 million during the three months ended March 31, 2007 as compared to the same period in 2006. RDRAM is approaching end-of-life and in the future, we expect RDRAM royalties will continue to decline.

*Engineering expenses:*

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>		<b>Variance in</b>	<b>Variance in</b>
	<b>2007</b>	<b>2006</b>	<b>Dollars</b>	<b>Percent</b>
<b>Engineering expenses</b>				
Cost of contract revenues	\$ 5.1	\$ 5.4	\$ (0.3)	(5.6)%
Stock-based compensation	1.1	2.0	(0.9)	(45.0)%
<b>Total cost of contract revenues</b>	<b>6.2</b>	<b>7.4</b>	<b>(1.2)</b>	<b>(16.2)%</b>
<i>Percentage of total revenues</i>	<i>12.4%</i>	<i>15.6%</i>		
Research and development expenses	20.0	13.8	6.2	44.9%
Stock-based compensation	3.4	4.2	(0.8)	(19.0)%
<b>Total research and development expenses</b>	<b>23.4</b>	<b>18.0</b>	<b>5.4</b>	<b>30.0%</b>
<i>Percentage of total revenues</i>	<i>46.7%</i>	<i>38.1%</i>		
<b>Total engineering expenses</b>	<b>\$ 29.6</b>	<b>\$ 25.4</b>	<b>\$ 4.2</b>	<b>16.5%</b>
<i>Percentage of total revenues</i>	<i>59.1%</i>	<i>53.7%</i>		

Total engineering expenses increased 16.5% for the three months ended March 31, 2007 as compared to the same period in 2006 primarily due to expenses associated with tax reimbursement expenses of approximately \$4.1 million and increased salary expense of approximately \$1.0 million associated with an increase in headcount. The tax reimbursement expenses are associated with the Company's decision to reimburse current and former non-executive employees for the Internal Revenue Code Section 409A penalty taxes imposed on them in connection with their exercise of repriced options in 2006.

In certain periods, the cost of contract revenues may exceed contract revenues. This can be a result of expensing pre-contract costs, expensing completed contract costs where the realizability of an asset is uncertain, and low utilization of project resources.

In the near term, we expect engineering expenses will continue to increase as we make investments in the infrastructure and technologies required to maintain our leadership position in chip interface technologies and increase headcount.

**Table of Contents****Marketing, general and administrative expenses:**

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>		<b>Variance in</b>	<b>Variance in</b>
	<b>2007</b>	<b>2006</b>	<b>Dollars</b>	<b>Percent</b>
<b>Marketing, general and administrative expenses</b>				
Marketing, general and administrative	\$ 15.2	\$ 11.5	\$ 3.7	32.2%
Litigation expense	4.9	8.5	(3.6)	(42.4)%
Stock-based compensation	4.9	4.9		0.0%
<b>Total marketing, general and administrative expenses including stock-based compensation</b>	<b>\$ 25.0</b>	<b>\$ 24.9</b>	<b>\$ 0.1</b>	<b>0.4%</b>

*Percentage of total revenues* 49.8%      52.5%

Total marketing, general and administrative expenses increased 0.4% for the three months ended March 31, 2007 as compared to the same period in 2006 due to expenses associated with tax reimbursement expenses associated with Internal Revenue Code Section 409A of approximately \$2.5 million and increased salary expense of approximately \$1.0 million associated with an increase in headcount, offset in part by decreased litigation expenses of approximately \$3.6 million due delays in litigations and trials in 2007. The tax reimbursement expenses are associated with the Company's decision to reimburse current and former non-executive employees for the Internal Revenue Code Section 409A penalty taxes imposed on them in connection with their exercise of repriced options in 2006.

In the future, marketing, general and administrative expenses will vary from period to period based on the trade shows, advertising, legal, and other marketing and administrative activities undertaken, and the change in sales, marketing and administrative headcount in any given period. Litigation expenses are expected to vary from period to period due to the variability of litigation activities.

**Costs of restatement and related legal activities:**

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>		<b>Variance in</b>	<b>Variance in</b>
	<b>2007</b>	<b>2006</b>	<b>Dollars</b>	<b>Percent</b>
<b>Costs of restatement and related legal activities</b>	<b>\$ 7.0</b>	<b>\$</b>	<b>7.0</b>	<b>N/A</b>
<i>Percentage of total revenues</i>	14.0%	N/A		

Costs of restatement and related legal activities consist primarily of investigation, audit, legal and other professional fees related to the stock option investigation. Costs of restatement and related legal activities were zero for the three months ended March 31, 2006 because the independent investigation regarding the granting of stock options commenced in May 2006. We anticipate that there could be additional costs relating to these matters in the future.

**Interest and other income, net:**

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>		<b>Variance in</b>	<b>Variance in</b>
	<b>2007</b>	<b>2006</b>	<b>Dollars</b>	<b>Percent</b>
<b>Interest and other income, net</b>	<b>\$ 5.2</b>	<b>\$ 3.4</b>	<b>\$ 1.8</b>	<b>52.9%</b>
<i>Percentage of total revenues</i>	10.4%	7.2%		

Interest and other income, net consists of interest income generated from investments in high quality fixed income securities. The increase in interest and other income, net for the three months ended March 31, 2007 as compared to the same period in 2006 was due to an increase in interest income as a result of higher investment yields and higher average cash and investment balances. In addition, the three months ended March 31, 2006 include amortization of note issuance costs of \$0.2 million related to the convertible notes. Note issuance costs were fully amortized as of December 31, 2006.

In the future, we expect that interest and other income, net will vary from period to period based on the amount of cash and marketable securities and interest rates.



**Table of Contents****Benefit from income taxes:**

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Benefit from income taxes	\$ (2.4)	\$ (0.1)
Effective tax rate	(38.0)%	(22.4)%

The effective tax rate for the three months ended March 31, 2007 of (38.0%) differed from the statutory rate primarily due to research and development tax credits, stock compensation expense related to our officers and employees, state income taxes and foreign income taxes. The effective tax rate for the three months ended March 31, 2006 of (22.4%) differed from the statutory rate primarily due to research and development tax credits, stock compensation expense related to our officers and employees, state income taxes and foreign income taxes.

As of March 31, 2007, including the impact of FIN 48, our balance sheet included net deferred tax assets of approximately \$115.8 million, relating primarily to the difference between tax and book treatment of depreciation and amortization, employee stock related compensation expenses, litigation expenses, net operating loss carryovers and tax credits.

The ability to realize our net deferred tax assets is dependent on sufficient levels of future taxable income and other factors. We regularly assess all available evidence, both positive and negative, to determine the realizability of our deferred tax asset and have concluded it is more likely than not that such assets will be realized.

As a result of the adoption of FIN 48 on January 1, 2007, our unrecognized tax benefits decreased by \$0.3 million, which was accounted for as a decrease to the opening balance of accumulated deficit. In addition, upon the adoption of FIN 48, \$2.7 million of unrecognized tax benefits were reclassified from long-term deferred tax assets to long-term taxes payable. Our policy of including interest and penalties related to unrecognized tax benefits within the provision for (benefit from) income taxes did not change as a result of adopting the provisions of FIN 48.

**Liquidity and Capital Resources**

<i>(In millions)</i>	<b>March 31,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 56.8	\$ 73.3
Marketable securities	382.3	351.1
Marketable securities, long-term	6.0	12.0
Total cash, cash equivalents, and marketable securities	\$ 445.1	\$ 436.4

<i>(In millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net cash provided by operating activities	\$ 17.7	\$ 17.5
Net cash provided by (used in) investing activities	\$ (27.3)	\$ 16.3
Net cash provided by (used in) financing activities	\$ (7.0)	\$ 22.0

**Liquidity**

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate positive operating cash flows. We currently use cash generated from operations for capital expenditures, investments and repurchases of our common stock. Based on past performance and current expectations, we believe our current available sources of funds including cash, cash equivalents, and marketable securities, plus the anticipated cash generated from operations, will be adequate to finance our operations and capital expenditures for at least the next year.

Our positive cash flows from operating activities of \$17.7 million for the three months ended March 31, 2007 were primarily attributable to a net loss of \$3.9 million, which included \$7.0 million for the cost of restatement and related legal expenses, offset for non-cash items including stock-based compensation expense of \$9.4 million, depreciation and amortization of \$4.4 million, increased by cash inflows of \$7.8 million primarily from changes in our working capital, excluding cash. Non-cash working capital changes primarily included a \$14.6 million increase in

## Edgar Filing: RAMBUS INC - Form 10-Q

accounts payable and accrued liabilities (including the accrual of our decision to reimburse current and former non-executive employees for \$6.6 million in Internal Revenue Code Section 409A penalty taxes imposed on them in connection with their exercise of repriced options in 2006, the accrual of the liability associated with software



---

## **Table of Contents**

licensing agreements, the earn-out of additional consideration due GDA, and additional restatement and legal expenses), a \$5.6 million increase in deferred revenue, a \$1.5 million decrease in accounts receivable, offset by a \$7.4 million increase to prepaids assets, deferred taxes and other assets (primarily related to increases associated with the \$2.4 million deferred tax asset resulting from our operating loss and \$3.5 million in prepaid software maintenance agreements), and a \$6.4 million decrease in deferred revenue.

Cash used in investing activities for the three months ended March 31, 2007 primarily consisted of purchases of available-for-sale investments of \$152.0 million, offset by proceeds from the maturities of available-for-sale investments of \$127.0 million. During the three months ended March 31, 2007, we spent \$2.3 million on capital expenditures, compared to \$3.1 million in the three months ended March 31, 2006. The decrease was due primarily to completing of capital equipment purchases and improvements to our Bangalore, India facility.

Net cash used by financing activities was \$7.0 million for the three months ended March 31, 2007. We repaid approximately \$7.0 million against an installment payment plan used to acquire capitalized software and related maintenance agreements. No other financing activities occurred in the quarter primarily due to the stock option investigation and restatement, during which the Company suspended its common stock repurchase program and suspended employee stock option exercises and purchases under its employee stock purchase plan. In the same three month period in 2006, net cash provided from financing activities was \$22.0 million. We received proceeds from the issuance of stock from the exercise of stock options of \$43.3 million, paid \$0.4 million under an installment arrangement, and repurchased and retired \$21.0 million of our common stock.

## **Contractual Obligations**

We lease our present office facilities in Los Altos, California, under an operating lease agreement through December 31, 2010. As part of this lease transaction, we provided a letter of credit restricting \$600,000 of our cash as collateral for certain of our obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under our investment policy. We also lease a facility in Mountain View, California, through November 11, 2009, Chapel Hill, North Carolina through November 15, 2009 and lease a facility for our design center in Bangalore, India through November 30, 2009. In addition, as a result of our acquisition of GDA in 2005, we entered into a lease for an additional facility in Bangalore, India through March 31, 2007, which was recently extended through mid-November 2007. The Company also leases office facilities in Austin, Texas and various international locations under non-cancelable leases that range in terms from month-to-month to one year.

In May 2006, we signed an agreement to lease a new office facility in Bangalore, India into which we intend to consolidate all of our Bangalore operations. We are currently awaiting receipt of a certificate of occupancy or confirmation of deemed occupancy under local statutes in order for us to occupy the building.

As discussed more fully in Note 12, Convertible Notes, of the Notes to the Unaudited Condensed Consolidated Financial Statements, we have \$160.0 million zero coupon convertible senior notes (the convertible notes) outstanding at March 31, 2007.

On August 17, 2006, we received a notice of default from U.S. Bank National Association, as trustee (the Trustee) for the convertible notes. The notice asserted that our failure to file our Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the Indenture, dated as of February 1, 2005 between us and the Trustee (the Indenture). The notice stated that per Section 9.1 of the Indenture, if we did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, we received a notice from the Trustee stating that since we had not cured the default that had been asserted by the Trustee within the sixty-day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, we received an additional notice of default from the Trustee relating to our failure to file our Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, we received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable.

**Table of Contents**

On September 20, 2007, we received a notice from the Trustee for the convertible notes, rescinding the acceleration of the convertible notes contained in the letter from the Trustee dated July 31, 2007 and waiving all existing Events of Default as defined in the Indenture. The notice indicated that the Trustee had received direction from holders holding a majority in aggregate principal amount of the convertible notes outstanding to waive all existing Events of Default and rescind the acceleration of the convertible notes.

In connection with the notice in October 2006 of the purported event of default, we reclassified the aggregate principal amount of the convertible notes of \$160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. As of March 31, 2007, the convertible notes are classified as current liabilities. See Note 12, Convertible Notes, of the Notes to the Unaudited Condensed Consolidated Financial Statements for a detailed discussion of this matter.

In connection with certain German litigation, the German courts have requested that we set aside adequate funds to cover potential court cost claims. Accordingly, approximately \$1.7 million is restricted as to withdrawal, managed by a third party subject to certain limitations under our investment policy and included in restricted cash to cover the German court requirements.

As of March 31, 2007, our material contractual obligations are:

<i>(In thousands)</i>	<b>Total</b>	<b>Payments due by period</b>			
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
<b>Contractual Obligations (2)</b>					
Operating Leases	\$ 21,339	\$ 6,019	\$ 11,521	\$ 3,799	\$
Convertible Debt	160,000	160,000			
Purchased software and licenses (1)	3,994	3,326	668		
<b>Total</b>	<b>\$ 185,333</b>	<b>\$ 169,345</b>	<b>\$ 12,189</b>	<b>\$ 3,799</b>	<b>\$</b>

- (1) We have commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of March 31, 2007, which are also recorded on our balance sheet under current and other long-term liabilities.
- (2) The above table does not reflect possible payments in connection with uncertain tax benefits associated with FIN 48. As noted in Note 14, Commitments and Contingencies of the Notes to the Unaudited Condensed Consolidated Financial Statements, although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, we cannot reasonably estimate the outcome at this time.

**Share Repurchase Program**

In October 2001, our Board of Directors (the Board) approved a share repurchase program of our Common Stock, principally to reduce the dilutive effect of employee stock options. To date, the Board has approved the authorization to repurchase up to 19.0 million shares of our outstanding Common Stock over an undefined period of time. As of March 31, 2007, we had repurchased a cumulative total of 13.2 million shares of our Common Stock at an average price per share of \$13.95 since the commencement of this program. As of March 31, 2007, there remained an outstanding authorization to repurchase 5.8 million shares of our outstanding Common Stock. In connection with the recently completed stock option investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. Therefore, there were no repurchases during the three months ended March 31, 2007. We will not repurchase additional shares until after we are current with our SEC filings.

We record stock repurchases as a reduction to stockholders' equity. As prescribed by APB Opinion No. 6, Status of Accounting Research Bulletins, we record a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the cost of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock.

---

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, investments, income taxes, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting estimates include those regarding (1) revenue recognition, (2) litigation, (3) income taxes and (4) stock-based compensation. For a discussion of our critical accounting estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2006.

Our critical accounting policies and estimates for the quarter ended March 31, 2007 differed from those set out in our Annual Report on Form 10-K for the year ended December 31, 2006 due to our adoption on January 1, 2007 of the provisions of FASB Interpretation No. 48,

Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ( FIN 48 ) to account for uncertain tax positions. As a result of the adoption of FIN 48, our unrecognized tax benefits decreased by \$0.3 million, which was accounted for as a decrease of \$0.3 million to the opening balance of accumulated deficit. In addition, \$2.7 million of unrecognized tax benefits were reclassified from long-term deferred tax assets to long-term taxes payable. The application of income tax law is inherently complex. Tax laws and regulations are at times ambiguous, and interpretations of and guidance regarding income tax laws and regulations change over time. This requires us to make many subjective assumptions and judgments regarding our income tax exposure. Changes in our assumptions and judgments can materially affect our condensed consolidated balance sheets, statements of operations and statements of cash flows.

### **Recent Accounting Pronouncements**

See Note 2 Recent Accounting Pronouncements of Notes to Unaudited Condensed Consolidated Financial Statements for discussion of recent accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to financial market risks, primarily arising from the effect of interest rate fluctuations on our investment portfolio. Interest rate fluctuation may arise from changes in the market's view of the quality of the security issuer, the overall economic outlook, and the time to maturity of our portfolio. We mitigate this risk by investing only in high quality, highly liquid instruments. Securities with original maturities of one year or less must be rated by two of the three industry standard rating agencies as follows: A1 by Standard & Poor's, P1 by Moody's and/or F-1 by Fitch. Securities with original maturities of greater than one year must be rated by two of the following industry standard rating agencies as follows: AA- by Standard & Poor's, Aa3 by Moody's and/or AA- by Fitch. By corporate policy, we limit the amount of our credit exposure to \$10.0 million for any one commercial issuer. Our policy requires that at least 10% of the portfolio be in securities with a maturity of 90 days or less. In addition, we may make investments in securities with maturities up to 36 months. However, the bias of our investment policy is toward shorter maturities.

We invest our cash equivalents and short-term investments in a variety of U.S. dollar financial instruments such as U.S. Treasuries, U.S. Government Agencies, Repurchase Agreements, Commercial Paper and Bankers' Acceptance. Our policy specifically prohibits trading securities for the sole purposes of realizing trading profits. However, we may liquidate a portion of our portfolio if we experience unforeseen liquidity requirements. In such a case if the environment has been one of rising interest rates we may experience a realized loss, similarly, if the environment has been one of declining interest rates we may experience a realized gain. As of March 31, 2007, we had an investment portfolio of fixed income marketable securities of \$388.3 million excluding cash and cash equivalents. A hypothetical 10% movement in interest rates during the investment term would not likely have a material impact on the fair value of our portfolio.

We bill our customers in U.S. dollars. Although the fluctuation of currency exchange rates may impact our customers, and thus indirectly impact us, we do not attempt to hedge this indirect and speculative risk. Our overseas operations consist primarily of sales development offices of from 3 to 11 people in any one country and one design center in India. We monitor our foreign currency exposure; however, as of March 31, 2007, our foreign currency exposure is not material enough to warrant foreign currency hedging.



---

**Table of Contents**

**Item 4. Controls and Procedures**

*Management's Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our current Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q (the Evaluation Date ).

The purpose of this evaluation is to determine if, as of the Evaluation Date, our disclosure controls and procedures were designed and operating effectively to provide reasonable assurance that the information, required to be disclosed in our Exchange Act filings (i) was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective because of the material weakness described below. As more fully described in our 2006 Form 10-K, we determined that we lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. Specifically, this control deficiency resulted in audit adjustments that corrected an understatement of revenue and audit adjustments to deferred revenue, deferred rent, property and equipment, depreciation, consulting expenses and certain accrual accounts and disclosures in the consolidated financial statements for the year ended December 31, 2006. These adjustments were caused primarily from an insufficient review by us as to relevant information obtained through communications with personnel in operations and through review of certain key contracts and agreements of unique transactions for such accounts. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

Consequently, we concluded that as of December 30, 2006, we had a material weakness in our internal control over financial reporting.

Because of this material weakness, which we are still in the process of remediating, management has concluded that we did not maintain effective internal control over financial reporting as of March 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the COSO. We have undertaken the remediation steps described below and in connection with the preparation of this Quarterly Report, our management undertook and completed reconciliations, analyses, reviews and control procedures in addition to those historically completed to confirm that this Quarterly Report fairly presents in all material aspects our financial position, results of operations and cash flows as of, and for the period presented in accordance with U.S. generally accepted accounting principles.

*Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, other than those activities described further below.

*Implemented or Planned Remedial Actions of the Material Weakness*

Subsequent to the quarter ended March 31, 2007, as of the date of this filing, in response to the identification of the material weakness described above, management has initiated the following corrective actions:

We have hired a new VP of Finance, with experience in public accounting as well as senior accounting roles in a public company, who will oversee all of our accounting functions, and we intend to add additional experienced personnel in accounting.

**Table of Contents**

We are actively seeking to ensure additional training is taken by our finance, accounting and stock administration functions in the various areas of generally accepted accounting principles, particularly in the areas of revenue recognition and stock-based compensation.

We have ongoing efforts to improve communications between finance personnel responsible for completing reviews of our revenue agreements and operations personnel responsible for the execution of the work on those transactions, through mid-quarter meetings and post-quarter close meetings involving finance, engineering and program management.

Additionally, management is investing in ongoing efforts to continuously improve our internal control over financial reporting and has committed considerable resources to the improvement of the design, implementation, documentation, testing and monitoring of our internal controls. As of the date of this filing, we believe that we have made progress in the implementation of the corrective actions, noted above, toward remediation of the material weakness.

*Limitation on Effectiveness of Controls*

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

---

**Table of Contents**
**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The information required by this item regarding legal proceedings is incorporated by reference to the information set forth in Note 13 – Litigation and Asserted Claims of the Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

**Item 1A. Risk Factors**

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. See also Forward-looking Statements elsewhere in this report.

**Risks Related to Litigation and Regulation; Business Risks Related to our Intellectual Property**

*We face current and potential adverse determinations in litigation stemming from our efforts to protect and enforce our patents and intellectual property, which could broadly impact our intellectual property rights, distract our management and cause a substantial decline in our revenues and stock price.*

We seek to diligently protect our intellectual property rights. In connection with the extension of our licensing program to SDR SDRAM-compatible and DDR SDRAM-compatible products in 2000 and 2001, we became involved in litigation related to such efforts. As of the date of this report, we are in litigation with four such potential SDR SDRAM-compatible and DDR SDRAM-compatible licensees. In each of these cases, we have claimed infringement of our patents, while the potential licensees have generally sought damages and a determination that certain of our patents at suit are invalid, unenforceable, and not infringed. These potential licensees have relied or may rely upon defenses and counterclaims (some not yet formally asserted) that our patents are unenforceable based on various allegations concerning our alleged conduct in the 1990 s and early 2000 s, including that we engaged in document spoliation, litigation misconduct and/or acted improperly during our 1991 to 1995 participation in the JEDEC standard setting organization (including allegations of antitrust violations and unfair competition).

For example, Hynix s claims attempt to include our 1990 s relationship with Intel and our alleged disparagement of SDRAM and DDR SDRAM products in the 1990 s and early 2000 s. As further discussed below, Hynix has also asserted that the Federal Trade Commission s (the “FTC”) finding that we acted improperly at JEDEC should be given prima facie evidentiary effect in the private action and/or should entitle it to summary judgment on certain counterclaims. Micron, Samsung, and Nanya (collectively with Hynix, the “Manufacturers”) recently asserted similar arguments in support of their respective counterclaims. While we have opposed the Manufacturers attempt to use the FTC s findings in private litigation, there can be no assurance that we will succeed. If any Manufacturer prevails, we could be limited in our ability to enforce certain of our patents. Furthermore, in August of 2007, the Company received a Statement of Objections from the European Commission, alleging violations of competition law arising from the same basic facts as the FTC decision. There is no assurance that the ultimate decision in that case will not restrict our ability to enforce certain of our patents. In addition, Micron, Hynix, Samsung and Nanya have alleged that we have unclean hands based on alleged litigation misconduct and document spoliation, allegations that overlap with those successfully used by Infineon to obtain the early 2005 dismissal of our patent claims in our case against Infineon in Virginia. Micron has also attempted to assert claims against us for violation of the federal civil Racketeer Influenced and Corrupt Organizations Act (“RICO”) and Virginia state conspiracy laws based in part on the same allegations. Although we defeated Hynix s unclean hands and spoliation claims based on a subset of these allegations, a federal district court in Virginia subsequently found that we had spoliated evidence and engaged in litigation misconduct in the course of deciding, and ultimately denying, Samsung s motion for attorneys fees. There can be no assurance that such claims or counterclaims will not again be reasserted or successfully used to defeat or limit our patent or other claims.

There can be no assurance that parties will not succeed, either at the trial or appellate level, with such claims or counterclaims against us or that they will not in some other way establish broad defenses against our patents, achieve conflicting results, or otherwise avoid or delay paying what we believe to be appropriate royalties for the use of our patented technology. In addition, there is the risk that the pending litigations and other circumstances may cause us to accept less than what we now believe to be fair consideration in settlement. Among other things, there can be no assurance that we will succeed in negotiating future settlements or licenses on terms better than those extended in our Infineon settlement. There can be no assurances that the circumstances under which we negotiated our Infineon settlement will turn out to be significantly different from the circumstances of future cases and future settlements, although we currently believe that significant differences do exist.





**Table of Contents**

Any of these matters, whether or not determined in our favor or settled by us, is costly, may cause delays, will tend to discourage future design partners, will tend to impair adoption of our existing technologies and divert the efforts and attention of our management and technical personnel from other business operations. In addition, we may be unsuccessful in our litigation if we have difficulty obtaining the cooperation of former employees and agents who were involved in our business during the relevant periods related to our litigation and are now needed to assist in cases or testify on our behalf. Furthermore, any adverse determination or other resolution in litigation could result in our losing certain rights beyond the rights at issue in a particular case, including, among other things: our being effectively barred from suing others for violating certain or all of our intellectual property rights; our patents being held invalid or unenforceable or not infringed; our being subjected to significant liabilities; our being required to seek licenses from third parties; our being prevented from licensing our patented technology; or our being required to renegotiate with current licensees on a temporary or permanent basis. Delay or any or all of these adverse results could cause a substantial decline in our revenues and stock price.

***Litigation or other third-party claims of intellectual property infringement could require us to expend substantial resources and could prevent us from developing or licensing our technology on a cost-effective basis.***

Our research and development programs are in highly competitive fields in which numerous third parties have issued patents and patent applications with claims closely related to the subject matter of our research and development programs. We have also been named in the past, and may in the future be named, as a defendant in lawsuits claiming that our technology infringes upon the intellectual property rights of third parties. In the event of a third-party claim or a successful infringement action against us, we may be required to pay substantial damages, to stop developing and licensing our infringing technology, to develop non-infringing technology, and to obtain licenses, which could result in our paying substantial royalties or our granting of cross licenses to our technologies. We may not be able to obtain licenses from other parties at a reasonable cost, or at all, which could cause us to expend substantial resources, or result in delays in, or the cancellation of, new product.

***An adverse resolution by or with a governmental agency, such as the Federal Trade Commission or the European Commission, could result in severe limitations on our ability to protect and license our intellectual property, and would cause our revenues to decline substantially.***

If there were an adverse determination by, or other resolution with, a government agency, it might limit our ability to enforce our intellectual property rights or to obtain licenses, which would cause our revenues to decline substantially. For example, in June 2002, the FTC filed a complaint against us alleging, among other things, that we had failed to disclose certain patents and patent applications during our membership in JEDEC while it established SDRAM standards and that we, therefore, should be precluded from enforcing certain of our intellectual property rights in patents with a priority date prior to June 1996. In August 2006, the FTC found that our conduct at JEDEC was improper. On February 2, 2007, the FTC issued its remedy order, which among other things, imposes maximum royalty rates that we can charge for certain SDR and DDR SDRAM products made, used or sold in the United States; the FTC subsequently granted a partial stay of this order, which allows us to charge but not collect royalties above the FTC-imposed maximums, pending our anticipated appeal of the FTC's decision. The FTC has required that royalties above these maximums be placed into an escrow account or held through a contingent contractual agreement. Despite this partial stay, the FTC's remedy order may significantly limit our ability to enforce or license our patents or collect royalties from existing or potential licensees. The European Commission has issued a Statement of Objections, similar to the filing of a complaint under U.S. law, relating to similar topics. Proceedings by one of these agencies, or any other governmental agency, have already and may result in outcomes that could limit our ability to enforce or license our intellectual property, and could cause our revenues to decline substantially.

In addition, third parties have and may attempt to use the FTC's findings to limit our ability to enforce our patents in private litigations and to assert claims for monetary damages against us. Several class actions were filed in various federal courts against us alleging violations of federal and state antitrust laws, violations of state consumer protection laws and various common law claims based almost entirely on the same conduct as the FTC's findings. There can be no assurance that such third parties will not be successful or that additional claims or actions arising out of the FTC's findings will not be asserted against us.

Further, in Fall 2006, Samsung filed three inter partes reexamination requests with respect to three of our patents: U.S. Patent Nos. 6,426,916; 6,182,184; and 6,324,120. These requests ask the United States Patent & Trademark Office (the "PTO") to reconsider the patentability of the inventions claimed in the patents. An adverse decision by the PTO could invalidate some or all of these patent claims and could also result in additional adverse consequences affecting other related U.S. patents. If a sufficient number of such patents are impaired, our ability to

---

**Table of Contents**

enforce or license our intellectual property would be significantly weakened and this could cause our revenues to decline substantially. There can be no assurance that Samsung will not be successful or that additional inter partes reexamination requests will not be filed by Samsung or other third parties against us.

On May 13, 2004, a Technical Appeals Board of the European Patent Office issued its written opinion as to the revocation of European Patent No. 0525068. In addition, on January 13, 2005, an opposition board of the European Patent Office revoked our European Patent No. 1 004 956, and issued its written decision on February 9, 2005. We are appealing this decision to an appellate panel of the European Patent Office. While this result still leaves us with additional issued patents in Europe relating to one or both of SDR and DDR SDRAM memory products, there are similar pending opposition proceedings with respect to some of those patents as well. If a sufficient number of such patents are similarly impaired or revoked, our ability to enforce or license our intellectual property would be significantly impaired and this could cause our revenues to decline substantially.

As explained in more detail in Note 13, *Litigation and Asserted Claims* of this Quarterly Report on Form 10-Q, the FTC remedy order sets various limitations on the maximum royalties that we can collect on the manufacture, use or sale in the United States of certain JEDEC-compliant parts after the Order became effective on April 12, 2007. We have provided our licensees with the FTC Orders, we have communicated these limitations as appropriate, and we are using our best efforts to ensure that amounts in excess of these royalties are placed into an FTC approved escrow account or held by our licensees pursuant to a contingent contractual agreement as per the requirements of the Order. There can be no assurance that, despite our best efforts to comply with the FTC's Orders, the FTC will interpret its orders in the same way, or that any differences will not cause changes, delays or further restatements to our licensing revenue.

***If we are unable to successfully protect our inventions through the issuance and enforcement of patents, our operating results could be adversely affected.***

We have an active program to protect our proprietary inventions through the filing of patents. There can be no assurance, however, that:

any current or future U.S. or foreign patent applications will be approved and not be challenged by third parties;

our issued patents will protect our intellectual property and not be challenged by third parties;

the validity of our patents will be upheld;

our patents will not be declared unenforceable;

the patents of others will not have an adverse effect on our ability to do business;

the Congress or the U.S. courts or foreign countries will not change the nature or scope of rights afforded patents or patent owners or alter in an adverse way the process for seeking patents;

new legal theories and strategies utilized by our competitors will not be successful; or

others will not independently develop similar or competing chip interfaces or design around any patents that may be issued to us. If any of the above were to occur, our operating results could be adversely affected.

***Our inability to protect and own the intellectual property we create would cause our business to suffer.***

## Edgar Filing: RAMBUS INC - Form 10-Q

We rely primarily on a combination of license, development and nondisclosure agreements, trademark, trade secret and copyright law, and contractual provisions to protect our non-patentable intellectual property rights. If we fail to protect these intellectual property rights, our licensees and others may seek to use our technology without the payment of license fees and royalties, which could weaken our competitive position, reduce our operating results and increase the likelihood of costly litigation. The growth of our business depends in large part on the use of our intellectual property in the products of third party manufacturers, and our ability to enforce intellectual property rights against them to obtain appropriate compensation. In addition, effective trade secret protection may be unavailable or limited in certain foreign countries. Although we intend to protect our rights vigorously, if we fail to do so, our business will suffer.

**Table of Contents**

*We might experience payment disputes for amounts owed to us under our licensing agreements, and this may harm our results of operations.*

Many of our license agreements require our licensees to document the manufacture and sale of products that incorporate our technology and report this data to us on a quarterly basis. While licenses with such terms give us the right to audit books and records of our licensees to verify this information, audits can be expensive, time consuming, and potentially detrimental to our ongoing business relationship with our licensees. We have performed royalty audits from time to time, using accounting firms other than our independent registered public accounting firm, but we primarily rely on the accuracy of the reports from licensees without independently verifying the information in them. Our failure to audit our licensees' books and records may result in our receiving more or less royalty revenues than we are entitled to under the terms of our license agreements. The result of such royalty audits could result in an increase, as a result of a licensee's underpayment, or decrease, as a result of a licensee's overpayment, to previously reported royalty revenues. Such adjustments are recorded in the period they are determined. Any adverse material adjustments resulting from royalty audits or dispute resolutions may result in us missing analyst estimates and causing our stock price to decline. Royalty audits may also trigger disagreements over contract terms with our licensees and such disagreements could hamper customer relations, divert the efforts and attention of our management from normal operations and impact our business operations and financial condition.

*We may not be able to satisfy the requirements under the Qimonda settlement and license agreement that would require Qimonda to pay us up to an additional \$100.0 million in royalty payments.*

On March 21, 2005, we entered into a settlement and license agreement with Infineon (and its former parent Siemens), which was assigned to Qimonda in October 2006 in connection with Infineon's spin-off of Qimonda. The settlement and license agreement, among other things, requires Qimonda to pay to us aggregate royalties of \$50.0 million in quarterly installments of approximately \$5.85 million, which started on November 15, 2005. The settlement and license agreement further provides that if we enter into licenses with certain other DRAM manufacturers, Qimonda will be required to make additional royalty payments to us that may aggregate up to \$100.0 million. We may not succeed in entering into these additional license agreements necessary to trigger Qimonda's obligations under the settlement and license agreement to pay to us additional royalty payments, thereby reducing the value of the settlement and license agreement to us.

*An acquisition of all of Qimonda's DRAM operations could make it more difficult for us to obtain royalty rates we believe are appropriate and could reduce the number of companies in our antitrust litigation.*

Our license with Qimonda (formerly Infineon's DRAM operations), which was part of our settlement with Infineon, provides for the extension of certain benefits under that license to a successor in interest that, under certain conditions, acquires all of Qimonda's DRAM operations. If such an acquisition were to occur, such successor would be entitled to the extension of such benefits, including the ability to pay a royalty calculated by multiplying the Qimonda rate by the percentage increase in DRAM volume represented by the successor company's combined operations. Such an extension of benefits could also make it more difficult for us to obtain the royalty rates we believe are appropriate from the market as a whole. Such an extension of benefits would, in addition, also operate to extend a release of claims to such successor, thus reducing the number of companies from which we may seek compensation for the antitrust injury alleged by us in our pending price-fixing action in San Francisco.

*Any dispute regarding our intellectual property may require us to indemnify certain licensees, the cost of which could severely hamper our business operations and financial condition.*

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation. While we generally do not indemnify our licensees, some of our license agreements provide limited indemnities, some require us to provide technical support and information to a licensee that is involved in litigation involving use of our technology, and we may agree to indemnify others in the future. Our indemnification and support obligations could result in substantial expenses. In addition to the time and expense required for us to indemnify or supply such support to our licensees, a licensee's development, marketing and sales of licensed semiconductors could be severely disrupted or shut down as a result of litigation, which in turn could severely hamper our business operations and financial condition.

**Risks Related to the Investigation of Past Stock Option Practices and the Related Restatement of our Prior Financial Results.**

*The matters relating to the independent investigation of our historical stock option granting practices and the restatement of our financial statements have required, and may continue to require, a significant amount of management time and accounting, financial and legal resources, which could adversely affect our business, financial condition, results of operations and cash flows.*

---

**Table of Contents**

On May 30, 2006, we announced the commencement of our Audit Committee's internal investigation of the timing of stock option grant practices and related accounting issues. The Audit Committee has determined that a significant number of our historical stock option grants were not correctly dated and our previous accounting should be adjusted. As a result of the Audit Committee's investigation and our own review of our historical financial statements, we concluded that certain of our previously filed financial statements for periods ended on or prior to March 31, 2006 should no longer be relied upon. We have restated the affected periods by filing our Annual Report on Form 10-K for the year ended December 31, 2006, which included restatements of the various previously filed financial statements as detailed therein.

On October 18, 2006, our Board of Directors established a Special Litigation Committee (the "SLC") to evaluate potential claims or other actions arising from our stock option granting activities. The SLC has now concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors and filed a written report setting out its findings with the U.S. District Court for the Northern District of California.

Addressing all the matters related to the Audit Committee's investigation, the SLC's work and the financial restatement has and will continue to require significant management and financial resources which could otherwise be devoted to the operation of our business. The costs of becoming current with our periodic reports and any settlements, payment of claims, fines, taxes and other costs of the stock option investigation as detailed throughout these risk factors and our reports will cause us to incur substantial expenses and could materially affect our cash balance and cash flow from operations. In addition, the recent restatement of our financial results, the ongoing investigations and any negative outcome that may occur from these investigations could impact our reputation, including our relationships with our investors and our licensees, our ability to hire and retain qualified personnel, our ability to acquire new licensees and other business partners and, ultimately, our ability to generate revenue. Furthermore, considerable legal and accounting expenses related to these matters have been incurred to date and significant expenditures may continue to be incurred in the future.

***We have been named as a party to several lawsuits arising from matters relating to the investigation which may result in unfavorable outcomes and significant judgments, settlements and legal expenses which could cause our business, financial condition and results of operations to suffer.***

Several shareholder derivative actions were filed in state and federal courts against certain of our current and former officers and directors, as well as our current auditors, related to the stock option granting actions under investigation by the Audit Committee and the SLC. The actions were brought by persons identifying themselves as shareholders and purporting to act on our behalf. We are named solely as a nominal defendant against whom the plaintiffs seek no recovery. The complaints allege that certain of these defendants violated securities laws and/or breached their fiduciary duties to us and obtained unjust enrichment in connection with grants of stock options to certain of our officers that were allegedly improperly dated. The SLC was formed to evaluate potential claims or other actions arising from the stock option granting activities. The complaints seek unspecified monetary damages and disgorgement from the defendants, as well as unspecified equitable relief.

Additionally, several securities fraud class actions and individual lawsuits were filed in federal court against us and certain of our current and former officers and directors. The complaints generally allege that the defendants violated the federal securities laws by filing documents with the SEC containing false statements regarding our accounting treatment of the stock option granting actions under investigation. The individual lawsuits allege not only federal and state securities law violations, but also state law claims for fraud and breach of fiduciary duty. The class actions have been consolidated into a single proceeding. On September 7, 2007, the parties to this proceeding advised the court that they had reached a settlement in principle of the litigation. The settlement, which is subject to final documentation and approval by the court, provides for a payment of \$18 million by us for a dismissal with prejudice of all claims against all defendants.

There can be no assurance that further lawsuits by parties who allege they suffered injury as a consequence of our past stock option granting practices will not be filed in the future. The amount of time to resolve these current and any future lawsuits is uncertain, and these matters could require significant management and financial resources which could otherwise be devoted to the operation of our business. Although we have accrued an estimate of certain liabilities that we believe will result from certain of these actions, the actual costs and expenses to defend and satisfy all of these lawsuits and any potential future litigation will exceed our current estimated accruals, possibly significantly. Unfavorable outcomes and significant judgments, settlements and legal expenses in the litigation related to our past stock option granting practices could have material adverse impacts on our business, financial condition, results of operations and the trading price of our Common Stock.

**Table of Contents**

***We are subject to the risk of regulatory proceedings, actions or litigation in connection with the investigation and the restatement of our financial statements, which could require significant management time and result in unfavorable outcomes and significant judgments, settlements and legal expenses which could have an adverse effect on our business, financial condition and results of operations.***

We have periodically met and discussed the results of the stock option investigation with the staff of the SEC and the United States Attorney's Office for the Northern District of California. Such government agencies will likely review such findings and may pursue inquiries of their own, which could lead to further investigations and government action, such as fines or injunctions. At this time, we cannot predict what, if any, government actions may result from the completion of the investigation of stock option grants. We are also under remote examination by the Internal Revenue Service ( IRS ) on the various tax reporting implications resulting from the investigation. There is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or foreign regulatory agencies, including the IRS and other tax authorities. In addition, while we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we accounted for and reported, or failed to report, the corresponding financial impact. Accordingly, there is a risk that we may have to further restate our prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated. Any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. An unfavorable outcome or significant judgments, settlements and legal expenses related to resolution of any potential regulatory proceeding or action, or further restatement of our financial statements, could have a material adverse effect on our business, financial condition and results of operations.

***We may suffer adverse tax consequences in connection with our historical stock option practices, which could have a negative impact on our results of operations and financial condition.***

As a result of our investigation into historical stock option practices, we have determined that certain options that had formerly been classified as ISO grants may not qualify for such ISO tax treatment because the grants had an exercise price below the fair market value of our Common Stock on the actual grant date. The IRS is currently auditing us with respect to this issue. In addition, we could face penalties, certain payment obligations for our employees or other costs in connection with the treatment of certain stock options impacted by the deferred compensation rules under Section 409A of the Internal Revenue Code (and other similar provisions of the California and other state tax laws). Also, we were unable to record additional deferred tax assets related to stock-based compensation in accordance with limits imposed by Section 162(m) of the Internal Revenue Code which reduced our available tax net operating loss carry-forwards for certain historical periods. These and other tax consequences related to our historical stock option practices could give rise to monetary liabilities for us and/or our current and former employees which may have to be satisfied in a future period. There can be no assurance that further regulatory inquiries or actions will not be commenced by the IRS or other state or foreign regulatory taxation authorities regarding the tax implications of our historical stock option practices. The unfavorable resolution of any potential tax regulatory proceeding or action could require us to make significant payments in overdue taxes, penalties and fines or otherwise record charges (or reduce tax assets) that may adversely affect our results of operations and financial condition.

***We may be required to indemnify our current and former directors, officers and employees in connection with the litigation and other actions related to the investigation which could result in significant legal expenses and other costs to us.***

Our bylaws and certain indemnification agreements require us to indemnify our current and former directors, officers, employees and agents against most actions of a civil, criminal, administrative or investigative nature unless such person acted criminally, in a manner opposed to our best interests or did not act in good faith. Generally, we are required to advance indemnification expenses prior to any final adjudication of an individual's culpability. Therefore, the expense of indemnifying our current and former directors, officers and employees and agents in their defense or related expenses as a result of the derivative, class action and any regulatory actions related to the investigation and financial restatement may be significant. While we have a director and officer insurance policy that in some circumstances limits our exposure and enables us to recover a portion of any amounts to be paid, our insurance coverage will not be sufficient to cover our liabilities in all of the current actions. Furthermore, the underwriters of our directors and officer insurance policy may seek to rescind or otherwise deny coverage in some or all of these matters, in which case we may be required to pay the indemnification amounts owed to such directors and officers without any insurance coverage. Finally, we may be delayed or otherwise unable to recover any indemnification that we advanced to persons that are finally determined not to be protected by our indemnification obligations due to their actions. Therefore, our indemnification obligations could result in the diversion of our financial resources that adversely affects our business, financial condition and results of operations.

---

**Table of Contents**

*It may be difficult or costly to obtain director and officer insurance coverage in the future as a result of our stock options problems.*

We expect that the issues arising from our historical stock option granting practices will make it more difficult to obtain director and officer insurance coverage in the future. If we are able to obtain this coverage, it could be significantly more costly than in the past, which would have an adverse effect on our financial results and cash flow. In the event that we are unable to obtain sufficient director and officer insurance coverage, as a result of this and related factors, our directors and officers could face increased risks of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and officers, which could adversely affect our business.

*We have not been in compliance with SEC reporting requirements and The Nasdaq Global Select Market listing requirements and may continue to face compliance issues with both, which could cause a material adverse effect on the Company and our stockholders.*

Due to our recently completed stock option investigation and the resulting restatements contained in our Annual Report on Form 10-K for the year ended December 31, 2006, we were unable to file certain of our periodic reports for periods ended in fiscal years 2006 and 2007 with the SEC on a timely basis and, as a result, faced the possibility of delisting of our stock from The Nasdaq Global Select Market. With the filing of our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2007, we have now filed all delinquent periodic reports that we believe are necessary for us to regain compliance with our Nasdaq filing requirements. However, even after filing all these reports with the SEC and receiving concurrence from Nasdaq that we are in compliance with applicable listing requirements, we may still face comments from the SEC that may require us to file amended reports. As a result, we may not be able to maintain an effective listing of our Common Stock on The Nasdaq Global Select Market or any other national securities exchange. A delisting would likely reduce the liquidity in the market for our Common Stock. Any possible delisting may adversely affect the market price of our Common Stock, which may make it difficult for holders to resell their shares when desired or at attractive prices. In addition, we would be subject to a number of restrictions or delays regarding the registration of our Common Stock under federal securities laws, and we may not be able to issue certain equity awards to our employees or allow them to exercise their outstanding options, which could adversely affect our ability to hire and retain our employees and, thus, our business.

**Risks Associated With Our Business, Industry and Market Conditions**

*If market leaders do not adopt our chip interface products, our results of operations could decline.*

An important part of our strategy is to penetrate market segments for chip interfaces by working with leaders in those market segments. This strategy is designed to encourage other participants in those segments to follow such leaders in adopting our chip interfaces. If a high profile industry participant adopts our chip interfaces but fails to achieve success with its products or adopts and achieves success with a competing chip interface, our reputation and sales could be adversely affected. In addition, some industry participants have adopted, and others may in the future adopt, a strategy of disparaging our memory solutions adopted by their competitors or a strategy of otherwise undermining the market adoption of our solutions.

By way of example, we target system companies to adopt our chip interface technologies, particularly those that develop and market high volume business and consumer products such as PCs and video game consoles. We are subject to many risks beyond our control that influence whether or not a particular system company will adopt our chip interfaces, including, among others:

competition faced by a system company in its particular industry;

the timely introduction and market acceptance of a system company's products;

the engineering, sales and marketing and management capabilities of a system company;

technical challenges unrelated to our chip interfaces faced by a system company in developing its products;

Edgar Filing: RAMBUS INC - Form 10-Q

the financial and other resources of the system company;

the supply of semiconductors from our licensees in sufficient quantities and at commercially attractive prices;

the ability to establish the prices at which the chips containing our chip interfaces are made available to system companies; and

the degree to which our licensees promote our chip interfaces to a system company.



---

## **Table of Contents**

Our strategy also includes gaining acceptance of our technology in high volume consumer applications, including video game consoles, such as the Sony PlayStation®2 and Sony PLAYSTATION® 3, digital TVs and set top boxes. There can be no assurance that consumer products that currently use our technology will continue to do so, nor can there be any assurance that the consumer products that incorporate our technology will be successful in their segments thereby generating expected royalties, nor can there be any assurance that any of our technologies selected for licensing will be implemented in a commercially developed or distributed product.

If any of these events occur and market leaders do not successfully adopt our technologies, our strategy may not be successful and, as a result, our results of operations could decline.

***Our revenue is concentrated in a few customers, and if we lose any of these customers, our revenues may decrease substantially.***

For the three months ended March 31, 2007 and 2006, revenues from our top five licensees accounted for approximately 69% and 67% of our revenues, respectively. For the three months year ended March 31, 2007, revenues from Fujitsu, Elpida and Qimonda each accounted for 10% or more of our total revenues. For the three months ended March 31, 2006, revenues from Intel, Elpida, Infineon, Fujitsu and AMD each accounted for 10% or more of our total revenues. We may continue to experience significant revenue concentration for the foreseeable future.

Substantially all of our licensees have the right to cancel their licenses. Failure to renew licenses and/or the loss of any of our top five licensees would cause revenues to decline substantially. Intel has been one of our largest customers and is an important catalyst for the development of new memory and logic chip interfaces in the semiconductor industry. We have a patent cross-license agreement with Intel for which we received quarterly royalty payments through the second quarter of 2006. The patent cross-license agreement expired in September 2006. Intel now has a paid up license for the use of all of our patents which claimed priority prior to September 2006. We have other licenses with Intel, in addition to the patent cross-license agreement, for the development of serial link chip interfaces. If we do not continue to replace the revenues we previously received under the Intel contract, our results of operations may decline significantly.

In addition, some of our commercial agreements require us to provide certain customers with the lowest royalty rate that we provide to other customers for similar technologies, volumes and schedules. These clauses may limit our ability to effectively price differently among our customers, to respond quickly to market forces, or otherwise to compete on the basis of price. The particular licensees which account for revenue concentration have varied from period to period as a result of the addition of new contracts, expiration of existing contracts, industry consolidation, the expiration of deferred revenue schedules under existing contracts, and the volumes and prices at which the licensees have recently sold licensed semiconductors to system companies. These variations are expected to continue in the foreseeable future, although we anticipate that revenue will continue to be concentrated in a limited number of licensees.

We are in negotiations with licensees and prospective licensees to reach SDR and DDR patent license agreements. We expect SDR and DDR patent license royalties will continue to vary from period to period based on our success in renewing existing license agreements and adding new licensees, as well as the level of variation in our licensees' reported shipment volumes, sales price and mix, offset in part by the proportion of licensee payments that are fixed. If we are unsuccessful in renewing any of our SDR and DDR-compatible contracts, our results of operations may decline significantly.

***If we cannot respond to rapid technological change in the semiconductor industry by developing new innovations in a timely and cost effective manner, our operating results will suffer.***

The semiconductor industry is characterized by rapid technological change, with new generations of semiconductors being introduced periodically and with ongoing improvements. We derive most of our revenue from our chip interface technologies that we have patented. We expect that this dependence on our fundamental technology will continue for the foreseeable future. The introduction or market acceptance of competing chip interfaces that render our chip interfaces less desirable or obsolete would have a rapid and material adverse effect on our business, results of operations and financial condition. The announcement of new chip interfaces by us could cause licensees or system companies to delay or defer entering into arrangements for the use of our current chip interfaces, which could have a material adverse effect on our business, financial condition and results of operations. We are dependent on the semiconductor industry to develop test solutions that are adequate to test our chip interfaces and to supply such test solutions to our customers and us.

Our continued success depends on our ability to introduce and patent enhancements and new generations of our chip interface technologies that keep pace with other changes in the semiconductor industry and which achieve rapid market acceptance. We must continually devote significant engineering resources to addressing the ever



---

## **Table of Contents**

increasing need for higher speed chip interfaces associated with increases in the speed of microprocessors and other controllers. The technical innovations that are required for us to be successful are inherently complex and require long development cycles, and there can be no assurance that our development efforts will ultimately be successful. In addition, these innovations must be:

completed before changes in the semiconductor industry render them obsolete;

available when system companies require these innovations; and

sufficiently compelling to cause semiconductor manufacturers to enter into licensing arrangements with us for these new technologies.

Finally, significant technological innovations generally require a substantial investment before their commercial viability can be determined. There can be no assurance that we have accurately estimated the amount of resources required to complete the projects, or that we will have, or be able to expend, sufficient resources required for these types of projects. In addition, there is market risk associated with these products, and there can be no assurance that unit volumes, and their associated royalties, will occur. If our technology fails to capture or maintain a portion of the high volume consumer market, our business results could suffer.

If we cannot successfully respond to rapid technological changes in the semiconductor industry by developing new products in a timely and cost effective manner our operating results will suffer.

### ***We face intense competition that may cause our results of operations to suffer.***

The semiconductor industry is intensely competitive and has been impacted by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. Some semiconductor companies have developed and support competing logic chip interfaces including their own serial link chip interfaces and parallel bus chip interfaces. We also face competition from semiconductor and intellectual property companies who provide their own DDR memory chip interface technology and solutions. In addition, most DRAM manufacturers, including our XDR licensees, produce versions of DRAM such as SDR, DDRx and GDDRx SDRAM which compete with XDR chips. We believe that our principal competition for memory chip interfaces may come from our licensees and prospective licensees, some of which are evaluating and developing products based on technologies that they contend or may contend will not require a license from us. In addition, our competitors are also taking a system approach similar to ours in seeking to solve the application needs of system companies. Many of these companies are larger and may have better access to financial, technical and other resources than we possess.

JEDEC has standardized what it calls extensions of DDR, known as DDR2 and DDR3. Other efforts are underway to create other products including those sometimes referred to as GDDR4 and GDDR5, as well as new ways to integrate products such as system-in-package DRAM. To the extent that these alternatives might provide comparable system performance at lower or similar cost than XDR memory chips, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our licensees and prospective licensees may adopt and promote alternative technologies. Even to the extent we determine that such alternative technologies infringe our patents, there can be no assurance that we would be able to negotiate agreements that would result in royalties being paid to us without litigation, which could be costly and the results of which would be uncertain. In the industry standard and leadership serial link chip interface business, we face additional competition from semiconductor companies that sell discrete transceiver chips for use in various types of systems, from semiconductor companies that develop their own serial link chip interfaces, as well as from competitors, such as ARM and Synopsys, who license similar serial link chip interface products and digital controllers. At the 10 Gb/s speed, competition will also come from optical technology sold by system and semiconductor companies. There are standardization efforts under way or completed for serial links from standard bodies such as PCI-SIG and OIF. We may face increased competition from these types of consortia in the future that could negatively impact our serial link chip interface business.

In the FlexIO processor bus chip interface market segment, we face additional competition from semiconductor companies who develop their own parallel bus chip interfaces, as well as competitors who license similar parallel bus chip interface products. We may also see competition from industry consortia or standard setting bodies that could negatively impact our FlexIO processor bus chip interface business.

As with our memory chip interface products, to the extent that competitive alternatives to our serial or parallel logic chip interface products might provide comparable system performance at lower or similar cost, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our licensees and prospective licensees may adopt and promote alternative technologies, which could

negatively impact our memory and logic chip interface business.

## **Table of Contents**

If for any of these reasons we cannot effectively compete in these primary market segments, our results of operations could suffer.

*Some of our revenue is subject to the pricing policies of our licensees over whom we have no control.*

We have no control over our licensees' pricing of their products and there can be no assurance that licensee products using or containing our chip interfaces will be competitively priced or will sell in significant volumes. One important requirement for our memory chip interfaces is for any premium charged by our licensees in the price of memory and controller chips over alternatives to be reasonable in comparison to the perceived benefits of the chip interfaces. If the benefits of our technology do not match the price premium charged by our licensees, the resulting decline in sales of products incorporating our technology could harm our operating results.

*Future revenues are difficult to predict for several reasons, including our lengthy and costly license negotiation cycle, and our failure to predict revenues accurately may cause us to miss analysts' estimates and result in our stock price declining.*

The process of persuading system companies to adopt and license our chip interface technologies can be lengthy and, even if successful, there can be no assurance that our chip interfaces will be used in a product that is ultimately brought to market, achieves commercial acceptance, or results in significant royalties to us. In addition, a portion of our revenue comes from development and support services provided to our licensees. Depending upon the nature of the services, a portion of the related revenue may be recognized ratably over the support period, or may be recognized according to contract accounting. Contract revenue accounting may result in deferral of the service fees to the completion of the contract, or may be recognized over the period in which services are performed on a percentage-of-completion basis. There can be no assurance that the product development schedule for these projects will not be changed or delayed. All of these factors make it difficult to predict future licensing revenue and may result in our missing analysts' estimates which would likely cause our stock price to decline.

*The price of our Common Stock may fluctuate significantly, which may make it difficult for holders to resell their shares when desired or at attractive prices.*

Our Common Stock currently is listed on The Nasdaq Global Select Market under the symbol RMBS. The trading price of our Common Stock has been subject to wide fluctuations which may continue in the future in response to, among other things, the following:

any progress, or lack of progress, in the development of products that incorporate our chip interfaces;

our signing or not signing new licensees;

new litigation or developments in current litigation as discussed above;

announcements of our technological innovations or new products by us, our licensees or our competitors;

developments related to the stock option investigation;

positive or negative reports by securities analysts as to our expected financial results;

developments with respect to patents or proprietary rights and other events or factors; and

any delisting of our Common Stock from The Nasdaq Global Select Market

## Edgar Filing: RAMBUS INC - Form 10-Q

In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities of many high technology companies and that often has been unrelated or disproportionate to the operating performance of such companies.

***Our quarterly and annual operating results are unpredictable and fluctuate, which may cause our stock price to be volatile and decline.***

Since many of our revenue components fluctuate and are difficult to predict, and our expenses are largely independent of revenues in any particular period, it is difficult for us to accurately forecast revenues and profitability. Factors other than those set forth above, which are beyond our ability to control or assess in advance, that could cause our operating results to fluctuate include:

semiconductor and system companies' acceptance of our chip interface products;

the success of high volume consumer applications, such as the Sony PLAYSTATION®3;

the dependence of our royalties upon fluctuating sales volumes and prices of licensed chips that include our technology;

---

**Table of Contents**

the seasonal shipment patterns of systems incorporating our chip interface products;

the loss of any strategic relationships with system companies or licensees;

semiconductor or system companies discontinuing major products incorporating our chip interfaces;

the unpredictability of the timing and amount of any litigation expenses;

changes in our chip and system company customers' development schedules and levels of expenditure on research and development;

our licensees terminating or failing to make payments under their current contracts or seeking to modify such contracts; and

changes in our strategies, including changes in our licensing focus and/or possible acquisitions of companies with business models different from our own.

For the three months ended March 31, 2007 and 2006, royalties accounted for 87% and 88% of our total revenues, respectively, and we believe that royalties will continue to represent a majority of total revenues for the foreseeable future. Royalties are recognized in the quarter in which we receive a report from a licensee regarding the sale of licensed chips in the prior quarter; however, royalties are only recognized if collectibility is reasonably assured. As a result of these uncertainties and effects being outside of our control, royalty revenues are difficult to predict and make accurate financial forecasts difficult to achieve, which could cause our stock price to become volatile and decline.

***A substantial portion of our revenues is derived from sources outside of the United States and these revenues and our business generally are subject to risks related to international operations that are often beyond our control.***

For the three months ended March 31, 2007 and 2006, revenues from our sales to international customers constituted approximately 87% and 64% of our total revenues, respectively. We currently have international operations in India (design), Japan (business development), Taiwan (business development), Germany (business development) and Korea (business development). As a result of our continued focus on international markets, we expect that future revenues derived from international sources will continue to represent a significant portion of our total revenues.

To date, all of the revenues from international licensees have been denominated in U.S. dollars. However, to the extent that such licensees' sales to systems companies are not denominated in U.S. dollars, any royalties which are based as a percentage of the customer's sales, that we receive as a result of such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of licensed semiconductors sold by our foreign licensees were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for licensed semiconductors could fall, which in turn would reduce our royalties. We do not use financial instruments to hedge foreign exchange rate risk.

Our international operations and revenues are subject to a variety of risks which are beyond our control, including:

export controls, tariffs, import and licensing restrictions and other trade barriers;

profits, if any, earned abroad being subject to local tax laws and not being repatriated to the United States or, if repatriation is possible, limited in amount;

## Edgar Filing: RAMBUS INC - Form 10-Q

changes to tax codes and treatment of revenues from international sources, including being subject to foreign tax laws and potentially being liable for paying taxes in that foreign jurisdiction;

foreign government regulations and changes in these regulations;

social, political and economic instability;

lack of protection of our intellectual property and other contract rights by jurisdictions in which we may do business to the same extent as the laws of the United States;

changes in diplomatic and trade relationships;

cultural differences in the conduct of business both with licensees and in conducting business in our international facilities and international sales offices;

operating centers outside the United States;

hiring, maintaining and managing a workforce remotely and under various legal systems; and

geo-political issues.



---

## **Table of Contents**

We and our licensees are subject to many of the risks described above with respect to companies which are located in different countries, particularly home video game console and PC manufacturers located in Asia and elsewhere. There can be no assurance that one or more of the risks associated with our international operations could not result in a material adverse effect on our business, financial condition or results of operations.

***Our results of operations could vary as a result of the methods, estimates, and judgments we use in applying our accounting policies.***

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on our results of operations, as described elsewhere in this report. Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations. In particular, the calculation of share-based compensation expense under Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ), requires us to use valuation methodologies which were not developed for use in valuing employee stock options and a number of assumptions, estimates, and conclusions regarding matters such as expected forfeitures, expected volatility of our share price, and the exercise behavior of our employees. Furthermore, there are no means, under applicable accounting principles, to compare and adjust our expense if and when we learn about additional information that may affect the estimates that we previously made, with the exception of changes in expected forfeitures of share-based awards. Factors may arise that lead us to change our estimates and assumptions with respect to future share-based compensation arrangements, resulting in variability in our share-based compensation expense over time. Changes in forecasted stock-based compensation expense could impact our cost of contract revenues, research and development expenses, marketing, general and administrative expenses and our effective tax rate, which could have an adverse impact on our results of operations.

***Our business and operating results will be harmed if we are unable to manage growth in our business.***

Our business has experienced periods of rapid growth that have placed, and may continue to place, significant demands on our managerial, operational and financial resources. In order to manage this growth, we must continue to improve and expand our management, operational and financial systems and controls. We also need to continue to expand, train and manage our employee base. We cannot assure you that we will be able to timely and effectively meet demand and maintain the quality standards required by our existing and potential customers and licensees. If we ineffectively manage our growth or we are unsuccessful in recruiting and retaining personnel, our business and operating results will be harmed.

***We may make future acquisitions or enter into mergers, strategic transactions or other arrangements that could cause our business to suffer.***

We may continue to make investments in companies, products or technologies or enter into mergers, strategic transactions or other arrangements. If we buy a company or a division of a company, we may experience difficulty integrating that company's or division's personnel and operations, which could negatively affect our operating results. In addition:

the key personnel of the acquired company may decide not to work for us;

we may experience additional financial and accounting challenges and complexities in areas such as tax planning, cash management and financial reporting;

our ongoing business may be disrupted or receive insufficient management attention;

we may not be able to recognize the cost savings or other financial benefits we anticipated; and

our increasing international presence resulting from acquisitions may increase our exposure to international currency, tax and political risks.

In connection with future acquisitions or mergers, strategic transactions or other arrangements, we may incur substantial expenses regardless of whether the transaction occurs. In addition, we may be required to assume the liabilities of the companies we acquire. By assuming the

## Edgar Filing: RAMBUS INC - Form 10-Q

liabilities, we may incur liabilities such as those related to intellectual property infringement or indemnification of customers of acquired businesses for similar claims, which could materially and adversely affect our business. We may have to incur debt or issue equity securities to pay for any future acquisition, the issuance of which could involve restrictive covenants or be dilutive to our existing stockholders.

---

**Table of Contents**

***If we are unable to attract and retain qualified personnel, our business and operations could suffer.***

Our success is dependent upon our ability to identify, attract, compensate, motivate and retain qualified personnel who can enhance our existing technologies and introduce new technologies. Competition for qualified personnel, particularly those with significant industry experience, is intense. In addition, the consequences of the stock option investigation and restatements could cause increased attrition of our current personnel and negatively impact our reputation with potential employees. We are also dependent upon our senior management personnel. The loss of the services of any of our senior management personnel, or key sales personnel in critical markets, or critical members of staff, or of a significant number of our engineers could be disruptive to our development efforts or business relationships and could cause our business and operations to suffer.

***Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including new SEC regulations and Nasdaq rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

***If we fail to remediate any material weaknesses in our internal control over financial reporting, we may be unable to accurately report our financial results or reasonably prevent fraud which could result in a loss of investor confidence in our financial reports and have an adverse effect on our business and operating results and our stock price.***

Effective internal control over financial reporting is essential for us to produce reliable financial reports and prevent fraud. If we cannot provide reliable financial information or prevent fraud, our business and operating results, as well as our stock price, could be harmed. We have in the past discovered, and may in the future discover, material weaknesses in our internal control over financial reporting. A failure to implement and maintain effective internal control over financial reporting, could harm our operating results, result in a material misstatement of our financial statements, cause us to fail to meet our financial reporting obligations or prevent us from providing reliable and accurate financial reports or avoiding or detecting fraud. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

***Our operations are subject to risks of natural disasters, acts of war, terrorism or widespread illness at our domestic and international locations, any one of which could result in a business stoppage and negatively affect our operating results.***

Our business operations depend on our ability to maintain and protect our facility, computer systems and personnel, which are primarily located in the San Francisco Bay Area. The San Francisco Bay Area is in close proximity to known earthquake fault zones. Our facility and transportation for our employees are susceptible to damage from earthquakes and other natural disasters such as fires, floods and similar events. Should an earthquake or other catastrophes, such as fires, floods, power loss, communication failure or similar events disable our facilities, we do not have readily available alternative facilities from which we could conduct our business, which stoppage could have a negative effect on our operating results. Acts of terrorism, widespread illness and war could also have a negative effect at our international and domestic facilities.

***We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future research and development needs, and to defend our intellectual property.***

We have indebtedness. On February 1, 2005, we issued \$300.0 million aggregate principal amount of zero coupon convertible senior notes ( convertible notes ) due February 1, 2010, of which \$160.0 million remains outstanding as of the date of this report.

**Table of Contents**

The degree to which we are leveraged could have important consequences, including, but not limited to, the following:

our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;

a substantial portion of our cash flows from operations will be dedicated to the payment of the principal of our indebtedness as we are required to pay the principal amount of the convertible notes in cash when due;

if we elect to pay any premium on the convertible notes with shares of our Common Stock or we are required to pay a make-whole premium with our shares of Common Stock, our existing stockholders' interest in us would be diluted; and

we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of the convertible notes under such instruments and in some cases acceleration of any future debt under instruments that may contain cross-default or cross-acceleration provisions. For instance, as a result of the stock option investigation, in July 2007, the trustee of the convertible notes accelerated the convertible notes due to an alleged event of default that had occurred under the convertible notes because of our non-compliance with the SEC reporting covenant. While the trustee subsequently rescinded this acceleration and waived all existing events of default under the indenture governing the convertible notes, any required repayment would lower our current cash on hand such that we would not have those funds available for the use in our business.

If we are at any time unable to generate sufficient cash flow from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

***Our certificate of incorporation and bylaws, our stockholder rights plan, and Delaware law contain provisions that could discourage transactions resulting in a change in control, which may negatively affect the market price of our Common Stock.***

Our certificate of incorporation, our bylaws, our stockholder rights plan and Delaware law contain provisions that might enable our management to discourage, delay or prevent change in control. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our Common Stock. Among these provisions are:

our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as blank check preferred stock, with rights senior to those of Common Stock;

our board of directors is staggered into two classes, only one of which is elected at each annual meeting;

stockholder action by written consent is prohibited;

nominations for election to our board of directors and the submission of matters to be acted upon by stockholders at a meeting are subject to advance notice requirements;

## Edgar Filing: RAMBUS INC - Form 10-Q

certain provisions in our bylaws and certificate of incorporation such as notice to stockholders, the ability to call a stockholder meeting, advanced notice requirements and the stockholders acting by written consent may only be amended with the approval of stockholders holding  $66\frac{2}{3}\%$  of our outstanding voting stock;

the ability of our stockholders to call special meetings of stockholders is prohibited; and

our board of directors is expressly authorized to make, alter or repeal our bylaws.

In addition, the provisions in our stockholder rights plan could make it more difficult for a potential acquirer to consummate an acquisition of our company. We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our outstanding voting stock, the person is an interested stockholder and may not engage in any business combination with us for a period of three years from the time the person acquired 15% or more of our outstanding voting stock.

**Table of Contents**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not Applicable

**Item 3. Defaults Upon Senior Securities**

On August 17, 2006, we received a notice of default from U.S. Bank National Association, as trustee (the "Trustee") for the Company's Zero Coupon Convertible Senior Notes (the "convertible notes"). The notice asserted that our failure to file our Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the Indenture, dated as of February 1, 2005 between Rambus and the Trustee (the "Indenture"). The notice stated that per Section 9.1 of the Indenture, if we did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, we received a notice from the Trustee stating that since we had not cured the default that had been asserted by the Trustee within the sixty-day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, we received an additional notice of default from the Trustee relating to our failure to file our Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, we received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable.

On September 20, 2007, we received a notice from the Trustee for the convertible notes, rescinding the acceleration of the convertible notes contained in the letter from the Trustee dated July 31, 2007 and waiving all existing events of default as defined in the Indenture. The notice indicated that the Trustee had received direction from holders holding a majority in aggregate principal amount of the convertible notes outstanding to waive all existing events of default and rescind the acceleration of the convertible notes.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not Applicable

**Item 5. Other Information**

Not Applicable

**Item 6. Exhibits**

Please refer to the Exhibit Index of this quarterly report on Form 10-Q.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 17, 2007

RAMBUS INC.

By: **/s/ SATISH RISHI**  
**Satish Rishi**  
**Senior Vice President, Finance, and**  
**Chief Financial Officer**

**Table of Contents**

**INDEX TO EXHIBITS**

**Exhibit**

<b>Number</b>	<b>Description of Document</b>
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.