

RAMBUS INC  
Form 10-Q  
October 29, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2012

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

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RAMBUS INC.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)  
1050 Enterprise Way, Suite 700, Sunnyvale, CA 94089  
(Address of principal executive offices) (zip code)  
Registrant's telephone number, including area code: (408) 462-8000

94-3112828  
(I.R.S. Employer  
Identification No.)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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 110,879,633 as of September 30, 2012.

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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:

- Success in the markets of our or our licensees’ products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in renewing license agreements;
- Technology product development;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation;
- Dispositions, acquisitions, mergers or strategic transactions and our related integration efforts;
- Write-down of assets;
- Pricing policies of our licensees;
- Changes in our strategy and business model;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Engineering, marketing and general and administration expenses;
- Contract revenue;
- Operating results;
- International licenses and operations;
- Effects of changes in the economy and credit market on our industry and business;
- Ability to identify, attract, motivate and retain qualified personnel;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
  - Realization of deferred tax assets/release of deferred tax valuation allowance;
- Trading price of our Common Stock;
- Internal control environment;
- Corporate governance;
- The level and terms of our outstanding debt;
- Resolution of the governmental agency matters involving us;
- Litigation expenses;
- Protection of intellectual property;
- Terms of our licenses and amounts owed under license agreements;
- Indemnification and technical support obligations;

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Issuances of our securities, which could involve restrictive covenants or be dilutive to our existing stockholders; and  
Likelihood of paying dividends or repurchasing securities.

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

Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under 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.

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RAMBUS INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except shares and par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$152,206	\$162,244
Marketable securities	54,880	127,212
Accounts receivable	452	1,026
Prepays and other current assets	9,759	8,096
Deferred taxes	1,807	2,798
Total current assets	219,104	301,376
Intangible assets, net	160,408	181,955
Goodwill	124,969	115,148
Property, plant and equipment, net	84,255	81,105
Deferred taxes, long-term	7,575	7,531
Other assets	5,514	6,539
Total assets	\$601,825	\$693,654
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$7,841	\$16,567
Accrued salaries and benefits	29,785	31,763
Accrued litigation expenses	10,035	10,502
Other accrued liabilities	13,448	6,479
Total current liabilities	61,109	65,311
Convertible notes, long-term	143,875	133,493
Long-term imputed financing obligation	45,878	43,793
Long-term income taxes payable	9,383	9,946
Other long-term liabilities	10,754	11,317
Total liabilities	270,999	263,860
Commitments and contingencies (Notes 7 and 13)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at September 30, 2012 and December 31, 2011	—	—
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 110,879,633 shares at September 30, 2012 and 110,267,145 shares at December 31, 2011	111	110
Additional paid-in capital	1,068,871	1,049,716
Accumulated deficit	(737,847	) (619,643
Accumulated other comprehensive loss	(309	) (389
Total stockholders' equity	330,826	429,794
Total liabilities and stockholders' equity	\$601,825	\$693,654
See Notes to Unaudited Condensed Consolidated Financial Statements		



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RAMBUS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Revenue:				
Royalties	\$57,361	\$96,216	\$175,127	\$216,421
Contract revenue	169	4,047	1,481	12,583
Total revenue	57,530	100,263	176,608	229,004
Operating costs and expenses:				
Cost of revenue*	7,529	7,425	22,032	16,632
Research and development*	30,674	32,318	107,415	79,855
Marketing, general and administrative*	24,255	48,952	91,283	119,416
Restructuring charges	6,622	—	6,622	—
Impairment of goodwill and long-lived assets	35,471	—	35,471	—
Costs of restatement and related legal activities	79	832	192	2,703
Gain from settlement	—	—	—	(6,200)
Total operating costs and expenses	104,630	89,527	263,015	212,406
Operating income (loss)	(47,100)	) 10,736	(86,407)	) 16,598
Interest income and other income (expense), net	(12)	) 172	175	471
Interest expense	(7,121)	) (6,350)	) (20,420)	) (18,462)
Interest and other income (expense), net	(7,133)	) (6,178)	) (20,245)	) (17,991)
Income (loss) before income taxes	(54,233)	) 4,558	(106,652)	) (1,393)
Provision for income taxes	3,865	4,080	11,552	12,944
Net income (loss)	\$(58,098)	) \$478	\$(118,204)	) \$(14,337)
Net income (loss) per share:				
Basic	\$(0.52)	) \$0.00	\$(1.07)	) \$(0.13)
Diluted	\$(0.52)	) \$0.00	\$(1.07)	) \$(0.13)
Weighted average shares used in per share calculation:				
Basic	110,826	112,334	110,580	109,997
Diluted	110,826	115,552	110,580	109,997

\* Includes stock-based compensation:

Cost of revenue	\$5	\$90	\$20	\$499
Research and development	\$2,221	\$2,775	\$7,572	\$7,777
Marketing, general and administrative	\$2,863	\$4,354	\$10,438	\$13,262

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (58,098	) \$ 478	\$ (118,204	) \$ (14,337 )
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities, net of tax	8	(79	) 80	(46 )
Total comprehensive income (loss)	\$ (58,090	) \$ 399	\$ (118,124	) \$ (14,383 )

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(118,204	) \$(14,337
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Impairment of goodwill and long-lived assets	35,471	—
Stock-based compensation	18,030	21,538
Depreciation	9,583	8,588
Amortization of intangible assets	23,535	12,908
Non-cash interest expense and amortization of convertible debt issuance costs	10,856	9,326
Deferred tax benefit	(39	) (3,413
Non-cash acquisition of patents	—	(3,000
Change in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	574	2,823
Prepaid expenses and other assets	6,744	5,550
Accounts payable	(9,171	) 12,559
Accrued salaries and benefits and other accrued liabilities	4,009	(9,475
Accrued litigation expenses	(467	) 5,770
Income taxes payable	(665	) 2,174
Net cash provided by (used in) operating activities	(19,744	) 51,011
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(46,278	) (167,381
Purchases of marketable securities	(77,562	) (94,189
Maturities of marketable securities	149,486	254,322
Purchases of property, plant and equipment	(15,802	) (14,950
Acquisition of intangible assets	(1,700	) (210
Proceeds from sale of marketable security	—	11
Net cash provided by (used in) investing activities	8,144	(22,397
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	1,728	9,482
Payments under installment payment arrangement	(149	) (861
Principal payments against lease financing obligation	(17	) (453
Proceeds from landlord for tenant improvements	—	8,800
Payment to redeem contingently redeemable common stock pursuant to the settlement agreement with Samsung	—	(100,000
Net cash provided by financing activities	1,562	(83,032
Net decrease in cash and cash equivalents	(10,038	) (54,418
Cash and cash equivalents at beginning of period	162,244	215,262
Cash and cash equivalents at end of period	\$152,206	\$160,844
Non-cash investing and financing activities during the period:		
Property, plant and equipment received and accrued in accounts payable and other accrued liabilities	\$2,686	\$1,194

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Non-cash obligation for property, plant and equipment	\$2,008	\$—
Common stock issued pursuant to acquisition	\$—	\$88,438
See Notes to Unaudited Condensed Consolidated Financial Statements		

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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. All intercompany accounts and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. Investments in entities with less than 20% ownership or in which the Company 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 presented. 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 Note disclosures included in the 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, 2011.

Reclassifications

Certain prior year balances were reclassified to conform to the current year’s presentation. None of these reclassifications had an impact on reported net income (loss) for any of the periods presented.

2. Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-11, “Disclosures about Offsetting Assets and Liabilities.” ASU 2011-11 will require the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The new guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures are to be applied retrospectively for all comparative periods presented. The Company does not expect that this guidance will have an impact on its financial position, results of operations or cash flows as it is disclosure-only in nature.

In September 2011, the FASB amended its guidance to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment became effective for the Company’s interim period ended March 31, 2012. This guidance did not materially impact the Company’s financial position or results of operations.

3. Settlement Agreement with Samsung

On January 19, 2010, the Company, Samsung and certain related entities of Samsung entered into a Settlement Agreement (the “Settlement Agreement”) to release all claims against each other with respect to all outstanding litigation between them and certain other potential claims. Pursuant to the Settlement Agreement, the Company and Samsung entered into a Semiconductor Patent License Agreement on January 19, 2010 (the “License Agreement”), under which Samsung licenses from the Company non-exclusive rights to certain Rambus patents and has agreed to pay the Company cash amounts equal to approximately \$25.0 million per quarter, subject to certain adjustments and conditions related to their DRAM revenue. These payments commenced in the first quarter of 2010 and will conclude in the last quarter of 2014.

The settlement with Samsung is a multiple element arrangement for accounting purposes. For a multiple element arrangement, the Company is required to determine the fair value of the elements. The Company considered several factors in determining the accounting fair value of the elements of the settlement with Samsung which included a third

party valuation

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using an income approach, the Black-Scholes-Merton option pricing model and a residual approach (collectively the “Fair Value”). The total gain related to the settlement with Samsung of \$133.0 million was recognized through the end of the first quarter of 2011, of which \$6.2 million was recognized in the first quarter of 2011. The gain from settlement represents the Fair Value of the cash consideration allocated to the settlement of the antitrust litigation and the residual value of other elements.

## 4. Acquisitions

## Unity Semiconductor Corporation

On February 3, 2012, the Company completed its acquisition of a privately-held company, Unity Semiconductor Corporation (“Unity”), by acquiring all issued and outstanding shares of capital stock of Unity. Pursuant to the merger agreement on February 3, 2012, a wholly-owned subsidiary of the Company merged with and into Unity, with Unity as the surviving corporation. Under the terms of the merger agreement, the purchase price was \$35.0 million subject to certain post-closing adjustments to the purchase price which were applied as of the end of the second quarter of 2012. In addition to the purchase consideration, the Company agreed to pay an aggregate of \$5.0 million in retention bonuses to certain Unity employees over the next three years. The retention bonus payouts are subject to the condition of employment, and therefore, will be treated as compensation and expensed as incurred on a graded attribution basis. Of the purchase price, approximately \$5.5 million in cash was deposited into an escrow account until August 3, 2013 to fund any indemnification obligations to the Company following the consummation of the merger. The Company acquired Unity’s technology and a portfolio of non-volatile solid state memory patents. The solid state memory technology is a potential successor to the current NAND flash technology, or could be otherwise deployed in the growing non-volatile memory market. This memory technology has been designed to accelerate the commercialization of the Terabit generation of non-volatile memories. Devices using this technology are expected to achieve higher density, faster performance, lower manufacturing costs and greater data reliability than NAND Flash. Unity is part of the Semiconductor Business Group (“SBG”) reportable segment. The Company incurred approximately \$0.6 million in direct acquisition costs in connection with the acquisition which were expensed as incurred. The purchase price allocation for the business acquired is based on management’s estimate of the fair value for purchase accounting purposes at the date of acquisition. The fair value of the assets acquired has been determined primarily by using valuation methods that discount the expected future cash flows to present value using estimates and assumptions determined by management, which is a level three fair value measurement. The Company performed a valuation of the net assets acquired as of the February 3, 2012 closing date. The purchase price from the business combination was allocated as follows:

	Total (in thousands)
Cash	\$ 182
Property and equipment	51
Other tangible assets	36
Identified intangible assets	19,280
Goodwill	15,451
Total	\$35,000

The goodwill arising from the acquisition is primarily attributed to synergies related to the combination of new and complementary technologies of the Company and the assembled workforce of Unity. This goodwill is not expected to be deductible for tax purposes.

The identified intangible assets assumed in the acquisition of Unity were recognized as existing technology based upon their fair values as of the acquisition date. The purchased intangible assets have an estimated average useful life of 10 years from the date of acquisition.

## Other Acquisition Activities

For the nine months ended September 30, 2012, the Company entered into one additional business combination and two patent and technology acquisitions for \$13.2 million to expand the Company's existing technology, which resulted

in approximately \$8.1 million of goodwill, \$4.1 million of intangible assets (weighted average useful life of 6 years) and \$1.0 million of other assets. The business combination is part of the Mobile Technology Division (“MTD”) reporting unit which is part of the "All Other" reportable segment.

The condensed consolidated financial statements include the operating results of these businesses from the date of

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acquisition. The acquired assets did not generate any revenue during the reported periods. Pro forma results of operations for these business combinations have not been presented because their effects were not significant to the Company's financial results.

#### 5. Equity Incentive Plans and Stock-Based Compensation

As of September 30, 2012, 2,217,785 shares of the 21,400,000 shares approved under the 2006 Equity Incentive Plan (the "2006 Plan") remain available for grant which included an increase of 6,500,000 shares approved by stockholders on April 26, 2012. The 2006 Plan is now the Company's only plan for providing stock-based incentive awards to eligible employees, executive officers, non-employee directors and consultants; however, the 1997 Stock Option Plan (the "1997 Plan") and the 1999 Non-statutory Stock Option Plan (the "1999 Plan") will continue to govern awards previously granted under those plans.

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

	Shares Available for Grant
Shares available as of December 31, 2011	2,812,876
Increase in shares approved for issuance	6,500,000
Stock options granted (1)	(7,592,911 )
Stock options forfeited (2)	1,201,539
Stock options expired under former plans	(101,562 )
Nonvested equity stock and stock units granted (3)	(760,130 )
Nonvested equity stock and stock units forfeited (3)	157,973
Total available for grant as of September 30, 2012	2,217,785

(1) Amount includes 2,840,986 shares that were granted from the stock option exchange program (discussed below).

(2) Amount excludes 6,449,255 shares that were surrendered from the stock option exchange program (discussed below) as the shares are no longer available for grant.

For purposes of determining the number of shares available for grant under the 2006 Plan against the maximum (3) number of shares authorized, each restricted stock granted reduces the number of shares available for grant by 1.5 shares and each restricted stock forfeited increases shares available for grant by 1.5 shares.

#### Stock Option Exchange Program

On April 26, 2012, at the 2012 Annual Meeting of Stockholders, the Company's stockholders approved a one-time stock option exchange program ("option exchange") for the employees other than the Company's named executive officers, senior vice presidents and members of its Board of Directors, which allowed employees to surrender certain outstanding stock options for cancellation in exchange for the grant of new replacement options to purchase a lesser number of shares having an exercise price equal to the fair market value of the Company's common stock on the replacement grant date. On June 22, 2012, the Company completed this offer. A total of 333 eligible employees participated in the option exchange. Pursuant to the terms and conditions of the option exchange, the Company accepted for exchange options totaling 6,449,255, representing approximately 87% of the total number of options eligible for exchange. All surrendered options were canceled effective as of the expiration of the option exchange, and immediately thereafter, in exchange therefore, the Company granted new options with an exercise price of \$5.63 per share (representing the closing price of its common stock on June 22, 2012, as reported on the NASDAQ Global Select Market) to purchase an aggregate of 2,840,986 shares of common stock under the 2006 Plan. New options have a new contractual term of the longer of the original remaining contractual term of the surrendered options or five years, and generally will vest over a three-year period from the date of grant, with one-third of the shares vesting on the first year anniversary of the grant date and the remaining shares vesting monthly for the twenty-four months thereafter. The fair value of the new options granted was measured as the total of the unrecognized compensation cost of the original options surrendered and the incremental compensation cost of the new options granted. The incremental compensation cost of the new options granted was measured as the excess of the fair value of the new options granted over the fair value of the original options immediately before cancellation. As a result of the option

exchange, the total incremental compensation cost of the new options was approximately \$1.0 million. The total remaining unrecognized compensation cost related to the original options of \$19.9 million and the incremental compensation cost of the new options granted of \$1.0 million will be recognized over the three years requisite service period.



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## General Stock Option Information

The following table summarizes stock option activity under the 1997 Plan, 1999 Plan and 2006 Plan for the nine months ended September 30, 2012 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2012.

	Options Outstanding			Aggregate Intrinsic Value
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	
	(Dollars in thousands, except per share amounts)			
Outstanding as of December 31, 2011	14,587,596	\$ 19.73		
Options granted	7,592,911	5.83		
Options exercised	(221,934	) 4.44		
Options forfeited	(1,201,539	) 11.74		
Options surrendered in stock option exchange program	(6,449,255	) 21.11		
Outstanding as of September 30, 2012	14,307,779	12.64	6.22	\$ 1,506
Vested or expected to vest at September 30, 2012	12,492,826	13.48	5.84	1,173
Options exercisable at September 30, 2012	6,386,017	19.29	3.66	—

Included in stock options granted during the nine months ended September 30, 2012 are 1,745,000 stock options that contain a market condition. These options vest in three years if specified stock prices are achieved. The fair values of the options granted with a market condition were calculated using a binomial valuation model, which estimates the potential outcome of reaching the market condition based on simulated future stock prices. As of September 30, 2012, there were 1,485,000 stock options outstanding that require the Company to achieve minimum market conditions in order for the options to become exercisable. No options containing market conditions were outstanding as of December 31, 2011.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at September 30, 2012, based on the \$5.54 closing stock price of Rambus' Common Stock on September 28, 2012 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 September 30, 2012 was 1,123,424 and 0, respectively.

## Employee Stock Purchase Plan

Under the 2006 Employee Stock Purchase Plan ("ESPP"), the Company issued 169,398 shares at a price of \$4.21 per share during the nine months ended September 30, 2012. The Company issued 146,034 shares at a price of \$16.50 per share during the nine months ended September 30, 2011. As of September 30, 2012, 1,644,566 shares under the ESPP remain available for issuance which includes an increase of 1,500,000 shares approved by stockholders on April 26, 2012.

## Stock-Based Compensation

For the nine months ended September 30, 2012 and 2011, the Company maintained stock plans covering a broad range of potential equity grants including stock options, nonvested equity stock and equity stock units and performance based instruments. In addition, the Company sponsors an ESPP, whereby eligible employees are 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.

## Stock Options

During the three and nine months ended September 30, 2012, the Company granted 2,590,711 and 7,592,911 stock options (including options granted in the stock option exchange program and options granted that contain a market condition), respectively, with an estimated total grant-date fair value of \$3.2 million and \$32.3 million, respectively.

During the three and nine months ended September 30, 2012, Rambus recorded stock-based compensation expense related to stock options of \$3.6 million and \$11.9 million, respectively.

During the three and nine months ended September 30, 2011, the Company granted 487,550 and 2,199,761 stock options, respectively, with an estimated total grant-date fair value of \$4.6 million and \$22.9 million, respectively.

During the three and

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nine months ended September 30, 2011, Rambus recorded stock-based compensation expense related to stock options of \$5.0 million and \$15.2 million, respectively.

As of September 30, 2012, there was \$31.3 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested stock-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of shares vested as of September 30, 2012 was \$84.7 million.

The total intrinsic value of options exercised was \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2012, respectively. The total intrinsic value of options exercised was \$1.7 million and \$5.7 million for the three and nine months ended September 30, 2011, respectively. Intrinsic value is the total value of exercised shares based on the price of the Company's common stock at the time of exercise less the cash received from the employees to exercise the options.

During the nine months ended September 30, 2012, net proceeds from employee stock option exercises totaled approximately \$1.0 million.

Employee Stock Purchase Plan

For the three and nine months ended September 30, 2012, the Company recorded compensation expense related to the ESPP of \$0.6 million and \$1.9 million, respectively. For the three and nine months ended September 30, 2011, the Company recorded compensation expense related to the ESPP of \$0.5 million and \$1.3 million, respectively. As of September 30, 2012, there was \$0.2 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over one month.

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 and nine months ended September 30, 2012 and 2011 calculated in accordance with accounting for share-based payments.

Valuation Assumptions

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

The following table presents the weighted-average assumptions used to estimate the fair value of stock options granted that contain only service conditions in the periods presented:

	Stock Option Plans			
	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
Stock Option Plans				
Expected stock price volatility	65	% 75	% 60-68%	50-75%
Risk free interest rate	0.6	% 2.3	% 0.6-0.9%	2.3-2.8%
Expected term (in years)	5.5	6.1	5.5-5.7	6.0-6.1
Weighted-average fair value of stock options granted to employees	\$3.06	\$9.48	\$3.61	\$10.43

During the three months ended September 30, 2012, the Company granted 1,745,000 stock options that contain a market condition. The fair values of the options granted with a market condition were calculated using a binomial valuation model, which estimates the potential outcome of reaching the market condition based on simulated future stock prices. The weighted-average fair value associated with these market condition options was immaterial.

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	Employee Stock Purchase Plan Nine Months Ended September 30,		
	2012	2011	
Employee Stock Purchase Plan			
Expected stock price volatility	63	% 56	%
Risk free interest rate	0.2	% 0.1	%
Expected term (in years)	0.5	0.5	
Weighted-average fair value of purchase rights granted under the purchase plan	\$1.61	\$5.96	

No shares were issued under the Employee Stock Purchase Plans during the three months ended September 30, 2012 and 2011.

#### Nonvested Equity Stock and Stock Units

The Company grants nonvested equity stock units to officers, employees and directors. During the three and nine months ended September 30, 2012, the Company granted nonvested equity stock units totaling 46,856 and 506,753 shares under the 2006 Plan, respectively. These awards have a service condition, generally a service period of four years, except in the case of grants to directors, for which the service period is one year. For the three and nine months ended September 30, 2012, the nonvested equity stock units were valued at the date of grant giving them a fair value of approximately \$0.2 million and \$3.5 million, respectively. The Company occasionally grants nonvested equity stock units to its employees with vesting subject to the achievement of certain performance conditions. During the three and nine months ended September 30, 2012 and 2011, the achievement of certain performance conditions for certain performance equity stock units was considered probable, and as a result, the Company recognized stock-based compensation expense related to these performance stock units for all periods; the aggregate amounts were not significant.

For the three and nine months ended September 30, 2012, the Company recorded stock-based compensation expense of approximately \$1.0 million and \$4.3 million, respectively, related to all outstanding unvested equity stock grants. For the three and nine months ended September 30, 2011, the Company recorded stock-based compensation expense of approximately \$1.8 million and \$5.1 million, respectively, related to all outstanding unvested equity stock grants. Unrecognized stock-based compensation related to all nonvested equity stock grants, net of estimated forfeitures, was approximately \$5.7 million at September 30, 2012. This is expected to be recognized over a weighted average period of 2.4 years.

The following table reflects the activity related to nonvested equity stock and stock units for the nine months ended September 30, 2012:

Nonvested Equity Stock and Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2011	763,510	\$18.02
Granted	506,753	6.95
Vested	(312,099)	) 18.31
Forfeited	(105,315)	) 13.52
Nonvested at September 30, 2012	852,849	11.88

#### 6. Marketable Securities

Rambus invests its excess cash and cash equivalents primarily in U.S. government sponsored obligations, commercial paper, corporate notes and bonds, money market funds and municipal notes and bonds that mature within three years. As of September 30, 2012 and December 31, 2011, all of the Company's cash equivalents and marketable securities had a remaining maturity of less than one year.



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All cash equivalents and marketable securities are classified as available-for-sale. Total cash, cash equivalents and marketable securities are summarized as follows:

	As of September 30, 2012					
(Dollars in thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return	
Money market funds	\$118,508	\$118,508	\$—	\$—	0.01	%
Corporate notes, bonds and commercial paper	56,886	56,906	—	(20)	0.21	%
Total cash equivalents and marketable securities	175,394	175,414	—	(20)		
Cash	31,692	31,692	—	—		
Total cash, cash equivalents and marketable securities	\$207,086	\$207,106	\$—	\$(20)		
	As of December 31, 2011					
(Dollars in thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return	
Money market funds	\$127,559	\$127,559	\$—	\$—	0.01	%
Corporate notes, bonds and commercial paper	137,108	137,208	—	(100)	0.29	%
Total cash equivalents and marketable securities	264,667	264,767	—	(100)		
Cash	24,789	24,789	—	—		
Total cash, cash equivalents and marketable securities	\$289,456	\$289,556	\$—	\$(100)		

Available-for-sale securities are reported at fair value on the balance sheets and classified as follows:

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Cash equivalents	\$120,514	\$137,455
Short term marketable securities	54,880	127,212
Total cash equivalents and marketable securities	175,394	264,667
Cash	31,692	24,789
Total cash, cash equivalents and marketable securities	\$207,086	\$289,456

The Company continues to invest in highly rated, highly liquid debt securities. The Company holds all of its marketable securities as available-for-sale, marks them to market and regularly reviews its portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis, proper valuation and unrealized losses that may be other than temporary.

The estimated fair value of cash equivalents and marketable securities classified by the length of time that the securities have been in a continuous unrealized loss position at September 30, 2012 and December 31, 2011 are as follows:

	Fair Value		Gross Unrealized Loss	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
	(In thousands)			
Less than one year				
Corporate notes, bonds and commercial paper	\$46,384	\$137,107	\$(20)	\$(100)

The unrealized loss at September 30, 2012 was insignificant in relation to the Company's total available-for-sale portfolio. The unrealized loss can be primarily attributed to a combination of market conditions as well as the demand for and duration of the corporate notes and bonds. The Company has no intent to sell, there is no requirement to sell and the Company believes that it can recover the amortized cost of these investments. The Company has found no

evidence of impairment due to credit losses in its portfolio. Therefore, these unrealized losses were recorded in other comprehensive income (loss). However, the Company cannot provide any assurance that its portfolio of cash, cash equivalents and marketable securities will not be impacted by

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adverse conditions in the financial markets, which may require the Company in the future to record an impairment charge for credit losses which could adversely impact its financial results.

See Note 14, "Fair Value of Financial Instruments," for discussion regarding the fair value of the Company's cash equivalents and marketable securities.

## 7. Commitments and Contingencies

As of September 30, 2012, the Company's material contractual obligations are as follows (in thousands):

	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$56,181	\$ 1,682	\$6,825	\$6,994	\$7,165	\$7,345	\$26,170
Leases and other contractual obligations (3)	12,561	5,132	1,818	1,660	1,544	1,049	1,358
Software licenses (4)	2,545	2,106	359	80	—	—	—
Acquisition retention bonuses (5)	40,723	2,770	18,207	18,206	1,540	—	—
Convertible notes	172,500	—	—	172,500	—	—	—
Interest payments related to convertible notes	17,250	4,313	8,625	4,312	—	—	—
Total	\$301,760	\$ 16,003	\$35,834	\$203,752	\$10,249	\$8,394	\$27,528

The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$17.2 million including \$8.0 million recorded as a reduction of long-term deferred tax assets and \$9.2 million in (1) long-term income taxes payable as of September 30, 2012. As noted below in Note 9, "Income Taxes," 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.

With respect to the imputed financing obligation, the main components of the difference between the amount reflected in the contractual obligations table and the amount reflected on the Condensed Consolidated Balance (2) Sheets are the interest on the imputed financing obligation and the estimated common area expenses over the future periods. Additionally, the amount includes the amended Ohio lease and the amended Sunnyvale lease.

(3) Leases and other contractual obligations include the Company's current commitment to purchase intellectual property from Elpida Memory, Inc.

(4) The Company has commitments with various software vendors for non-cancellable license agreements generally having terms longer than one year. The above table summarizes those contractual obligations as of September 30, 2012 which are also presented on the Company's Condensed Consolidated Balance Sheet under current and other long-term liabilities.

(5) In connection with recent acquisitions, the Company is obligated to pay retention bonuses to certain employees and contractors, subject to certain eligibility and acceleration provisions including the condition of employment. The remaining \$33.3 million of Cryptography Research, Inc. ("CRI") retention bonuses payable on June 3, 2013 and 2014 will be paid in cash or stock at the Company's election. The portion to be paid in 2012 in the table above includes payments to be made to employees who were affected by the restructuring during the third quarter of 2012. See Note 16, "Restructuring Charges" for further details.

Rent expense was approximately \$1.3 million and \$3.2 million for the three and nine months ended September 30, 2012, respectively. Rent expense was approximately \$0.7 million and \$2.0 million for the three and nine months ended September 30, 2011, respectively.

Deferred rent of \$0.7 million as of September 30, 2012 was included primarily in other long-term liabilities. Deferred rent of \$0.5 million as of December 31, 2011 was included primarily in other long-term liabilities.

Indemnification



The Company enters into standard license agreements in the ordinary course of business. Although the Company does not

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indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnification covers customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement or any other claim by any third party arising as result of the applicable agreement with the Company. The maximum amount of indemnification the Company could be required to make under these agreements is generally limited to fees received by the Company.

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 option granting actions. As permitted under Delaware law, the Company has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at the Company's 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 the Company could be required to make under these indemnification agreements is unlimited. The Company has a director and officer insurance policy that reduces the Company's exposure and enables the Company to recover a portion of future amounts to be paid. As a result of these indemnification agreements, the Company continues to make payments on behalf of primarily former officers and some current officers. As of September 30, 2012, the Company had made cumulative payments of approximately \$32.1 million on their behalf, including \$0.1 million in the quarter ended September 30, 2012. As of September 30, 2011, the Company had made cumulative payments of approximately \$18.4 million on their behalf, including \$0.8 million in the quarter ended September 30, 2011. These payments were recorded under costs of restatement and related legal activities in the condensed consolidated statements of operations.

### 8. Stockholders' Equity

#### Share Repurchase Program

During the nine months ended September 30, 2012, the Company did not repurchase any shares of its Common Stock under its share repurchase program. As of September 30, 2012, the Company had repurchased a cumulative total of approximately 26.3 million shares of its Common Stock with an aggregate price of approximately \$428.9 million since the commencement of the program in 2001. As of September 30, 2012, there remained an outstanding authorization to repurchase approximately 5.2 million shares of the Company's outstanding Common Stock. The Company records stock repurchases as a reduction to stockholders' equity. The Company records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the price of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock.

### 9. Income Taxes

During the three and nine months ended September 30, 2012, the Company calculated its interim tax provision to record taxes incurred by the U.S. entity on a discrete basis because the Company is projecting losses in which a tax benefit cannot be recognized in accordance with FASB Accounting Standards Codification ("ASC") 740, Income Taxes. The Company recorded a provision for income taxes of \$3.9 million and \$4.1 million for the three months ended September 30, 2012 and 2011, and \$11.6 million and \$12.9 million for the nine months ended September 30, 2012 and 2011, respectively. The provision for income taxes for the three and nine months ended September 30, 2012 and 2011, is primarily comprised of withholding taxes and other foreign taxes based upon income earned during the period with no tax benefit recorded for the loss jurisdictions.

During the three and nine months ended September 30, 2012, the Company paid withholding taxes of \$3.7 million and \$11.8 million, respectively. During the three and nine months ended September 30, 2011, the Company paid withholding taxes of \$4.1 million and \$12.3 million, respectively. As the Company continues to maintain a valuation allowance against its U.S. deferred assets, the Company's tax provision is based primarily on the withholding taxes, other foreign taxes and current state taxes.

As of September 30, 2012, the Company's condensed consolidated balance sheets included net deferred tax assets, before valuation allowance, of approximately \$195.9 million, which consists of net operating loss carryovers, tax credit carryovers, depreciation and amortization, employee stock-based compensation expenses and certain liabilities, partially reduced by deferred tax liabilities associated with the convertible debt instruments that may be settled in cash

upon conversion, including partial cash settlements. As of September 30, 2012, a full valuation allowance has been recorded against the U.S. deferred tax assets. During the nine months ended September 30, 2012, the Company increased its deferred tax assets from \$149.3 million to approximately \$195.9 million with a corresponding increase to the valuation allowance related to its U.S. deferred tax assets. This increase of the deferred tax asset and corresponding valuation allowance is primarily related to the increase in temporary

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differences, net operating losses, and an increase in tax credits, including foreign tax and research and development credits. Management periodically evaluates the realizability of the Company's net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is solely dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax statutes to fully utilize these assets. The Company intends to maintain the valuation allowance until sufficient positive evidence exists to support its reversal.

The Company maintains liabilities for uncertain tax positions within its long-term income taxes payable accounts. These liabilities involve 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. As of September 30, 2012, the Company had approximately \$17.2 million of unrecognized tax benefits, including \$8.0 million recorded as a reduction of long-term deferred tax assets and \$9.2 million in long-term income taxes payable. If recognized, approximately \$2.2 million would be recorded as an income tax benefit. No benefit would be recorded for the remaining unrecognized tax benefits as the recognition would require a corresponding increase in the valuation allowance. As of December 31, 2011, the Company had \$16.6 million of unrecognized tax benefits, including \$7.0 million recorded as a reduction of long-term deferred tax assets and \$9.6 million in long-term income 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.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. At September 30, 2012 and December 31, 2011, an insignificant amount of interest and penalties are included in long-term income taxes payable.

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 examination by the Internal Revenue Service ("IRS") for tax years ended 2009 through 2011. The Company is also subject to examination by the State of California for tax years ended 2008 through 2011. In addition, any research and development credit carry forward or net operating loss carry forward 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 foreign jurisdictions, including India, for various periods. The Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where the Company has higher statutory rates or lower than anticipated in countries where it has lower statutory rates, by changes in valuation of its deferred tax assets and liabilities or by changes in tax laws or interpretations of those laws.

#### 10. Earnings (Loss) Per Share

Basic earnings (loss) 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 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. For the first eight months of 2011, the Company reported approximately 4.8 million shares issued to Samsung as contingently redeemable common stock ("CRCS") due to the contractual put rights associated with those shares. As such, the Company used the two-class method for reporting earnings per share for the first eight months of 2011.

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

	Three Months Ended September 30,			
	2012		2011	
	(In thousands, except per share amounts)			
	CRCS*	Other CS**	CRCS*	Other CS**
Basic net income (loss) per share:				
Numerator:				
Allocation of undistributed earnings	\$—	\$(58,098	) \$11	\$467
Denominator:				
Weighted-average common shares outstanding	—	110,826	4,788	109,784
Basic net income (loss) per share	\$—	\$(0.52	) \$0.00	\$0.00
Diluted net income (loss) per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	\$—	\$(58,098	) \$11	\$467
Reallocation of undistributed earnings	—	—	—	—
Allocation of undistributed earnings for diluted computation	\$—	\$(58,098	) \$11	\$467
Denominator:				
Number of shares used in basic computation	—	110,826	4,788	109,784
Dilutive potential shares from stock options, ESPP, convertible notes, CRI retention bonuses and nonvested equity stock and stock units	—	—	—	3,218
Number of shares used in diluted computation	—	110,826	4,788	113,002
Diluted net income (loss) per share	\$—	\$(0.52	) \$0.00	\$0.00
	Nine Months Ended September 30,			
	2012		2011	
	(In thousands, except per share amounts)			
	CRCS*	Other CS**	CRCS*	Other CS**
Basic and diluted net loss per share:				
Numerator:				
Allocation of undistributed earnings	\$—	\$(118,204	) \$(526	) \$(13,811
Denominator:				
Weighted-average common shares outstanding	—	110,580	4,788	105,963
Basic and diluted net loss per share	\$—	\$(1.07	) \$(0.11	) \$(0.13

\* CRCS — Contingently Redeemable Common Stock

\*\* Other CS — Common Stock other than CRCS

For the three months ended September 30, 2012 and 2011, options to purchase approximately 13.4 million and 13.1 million shares, respectively, and for the nine months ended September 30, 2012 and 2011, options to purchase approximately 13.3 million and 11.8 million shares, respectively, were excluded from the calculation because they were anti-dilutive after considering proceeds from exercise, taxes and related unrecognized stock-based compensation expense. For the three months ended September 30, 2012, an additional 6.9 million shares, and for the nine months ended September 30, 2012 and 2011, an additional 7.0 million and 2.5 million shares, respectively, potentially dilutive shares have been excluded from the weighted average dilutive shares because there were net losses for the periods.



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## 11. Business Segments and Major Customers

In the third quarter of 2012, the Company announced the creation of a new internal organizational structure with three business units: (1) Memory and Interfaces Division; (2) Cryptography Research, Inc.; and (3) Lighting and Display Technologies ("LDT"). The engineering design teams and other strategic initiatives will be consolidated under Dr. Martin Scott, who will take the new role of chief technology officer. The Company is still in the process of evaluating if any changes will be required to its current chief operating decision maker ("CODM"), which is comprised of the executive management team, as well as the financial information that will be regularly reviewed for resource allocation and performance assessment. The Company expects to finalize these changes in the fourth quarter of 2012. For the third quarter of 2012, the Company's CODM reviewed segment information on the same basis as the previous quarter and only SBG is considered a reportable segment as it met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining immaterial operating segments were combined and shown under "All Other."

The Company evaluates the performance of its segments based on segment direct operating income (loss). Segment direct operating income (loss) does not include the allocation of any corporate support functions (including human resources, facilities, legal, finance, information technology, corporate development, general administration, corporate licensing and marketing expenses, advanced technology development, and costs of restatement and related legal activities) to the segments. Additionally, certain expenses are not allocated to the operating segments because they are managed at the corporate level and they are not considered in evaluating the segments' operating performance. Such unallocated corporate level expenses include stock-based compensation expenses, depreciation and amortization expenses, any impairment or restructuring charges and certain bonus and acquisition expenses. The "Reconciling Items" category includes these unallocated corporate support function expenses as well as corporate level expenses.

The table below presents reported segment revenues and reported segment direct operating income (loss).

	For the Three Months Ended September 30, 2012			For the Nine Months Ended September 30, 2012		
	SBG	All Other	Total	SBG	All Other	Total
	(In thousands)			(In thousands)		
Revenues	\$54,043	\$3,487	\$57,530	\$163,269	\$13,339	\$176,608
Segment direct operating income (loss)	\$44,180	\$(5,071)	\$39,109	\$126,848	\$(14,087)	\$112,761
Reconciling items			(86,209)			(199,168)
Total operating loss			\$(47,100)			\$(86,407)
Interest and other expense, net			(7,133)			(20,245)
Loss before income taxes			\$(54,233)			\$(106,652)
	For the Three Months Ended September 30, 2011			For the Nine Months Ended September 30, 2011		
	SBG	All Other	Total	SBG	All Other	Total
	(In thousands)			(In thousands)		
Revenues	\$84,628	\$15,635	\$100,263	\$212,779	\$16,225	\$229,004
Gain from settlement	\$—	\$—	\$—	\$6,200	\$—	\$6,200
Segment direct operating income	\$74,105	\$8,491	\$82,596	\$185,476	\$673	\$186,149
Reconciling items			(71,860)			(169,551)
Total operating income			\$10,736			\$16,598
Interest and other expense, net			(6,178)			(17,991)
Income (loss) before income taxes			\$4,558			\$(1,393)

The Company's CODM does not review information regarding assets on an operating segment basis. Additionally, the Company does not record intersegment revenue or expense.

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Revenue from the Company's major customers representing 10% or more of total revenue for the three and nine months ended September 30, 2012 and 2011, respectively, were as follows:

Customer	Three Months Ended				Nine Months Ended			
	September 30,		2011		September 30,		2011	
	2012	%	2011	%	2012	%	2011	%
Customer A	38	%	25	%	38	%	30	%
Customer B	*		25	%	*		11	%
Customer C	*		12	%	*		*	
Customer D	*		*		*		11	%
Customer E	*		*		10	%	11	%

\* Customer accounted for less than 10% of total revenue in the period

Rambus licenses its technologies and patents to customers in multiple geographic regions. Revenue from customers in the following geographic regions was recognized as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
South Korea	\$21,648	\$24,641	\$66,363	\$68,859
Japan	17,347	19,899	50,818	76,149
USA	14,309	42,096	45,778	69,897
Canada	1,983	12,463	5,835	12,758
Asia-Other	750	167	4,250	330
Europe	1,493	997	3,564	1,011
Total	\$57,530	\$100,263	\$176,608	\$229,004

## 12. Goodwill and Long-lived Assets

### Q3 2012 Impairment

In August 2012, as a result of the change in business strategy for the LDT reporting unit, the Company revised its projected cash flows for LDT, triggering an interim impairment analysis for goodwill and long-lived assets. The decline in the projected cash flows for LDT resulted from a change in business strategy with less focus on the higher margin display technology licensing and an increased focus on its general lighting technologies.

The Company monitors the carrying value of long-lived assets for potential impairment each quarter based on whether certain triggering events have occurred. As noted above, the Company tested for impairment its long-lived assets in LDT as of August 31, 2012. The Company determined its long-lived asset group to be its LDT reporting unit comprising primarily finite-lived intangible assets and property, plant and equipment.

The Company records an impairment charge on the long-lived assets if it determines that their carrying value may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted cash flows resulting from the use of the asset and its eventual disposition. When the Company determines that the carrying value of the long-lived assets may not be recoverable, the Company measures the potential impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model. An impairment loss is recognized only if the carrying amount of the long-lived assets as a group is not recoverable and the carrying amount exceeds its fair value. The impairment charge is recorded to reduce the pre-impairment carrying amount of the long-lived assets based on the relative carrying amount of those assets, though not to reduce the carrying amount of an asset below its fair value.

As a result of the recoverability test, the Company concluded that its LDT asset group was not able to recover the carrying amount of its LDT assets. Determining the fair value of an asset group unit is judgmental in nature and requires the use of significant estimates and assumptions, considered to be Level 3 fair value inputs, including current replacement costs, revenue growth rates and operating margins, and discount rates, among others. Accordingly, the Company was required to make various



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estimates in determining the fair values of the LDT asset group. Due to the highly customized nature of the LDT manufacturing equipment, the Company primarily utilized the cost approach to estimate the fair value of its property, plant and equipment. To determine the estimated fair value of its property, plant and equipment, adjustment factors, including cost trend factors, were applied to each individual asset's original cost in order to estimate current replacement cost. The current replacement cost was then adjusted for estimated deductions to recognize the effects of deterioration and obsolescence from all causes, as well as indirect costs such as installation. Where appropriate, the Company utilized a market approach to estimate the fair value of its property, plant and equipment. This approach included the identification of market prices in actual transactions for similar assets based on asking prices for assets currently available for sale, as well as obtaining and reviewing certain direct market values based quoted prices with manufacturers and secondary market participants for similar equipment. Upon completion of this analysis, the Company recorded an impairment charge of \$5.8 million and \$0.6 million for building improvements and software in its LDT asset group, respectively.

The estimated fair value of the purchased intangible assets was determined based on the income approach, using Level 3 fair value inputs, as it was deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants. Under the income approach the Company determined fair value based on the estimated future cash flows resulting from the licensing of the technology underlying the intangible assets. The estimated cash flows in the income approach were discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the reporting unit and the rate of return an outside investor would expect to earn. Upon completion of this analysis, the Company recorded an impairment charge of \$15.4 million in the third quarter of 2012 related to purchased intangible assets.

Accordingly a long-lived asset impairment charge aggregating to \$21.8 million was included in "Impairment of goodwill and long-lived assets" in the Unaudited Condensed Consolidated Statements of Operations.

The Company performs its impairment analysis of goodwill on an annual basis during fourth quarter of the year unless conditions arise that warrant a more frequent evaluation. As noted above, the Company performed an event-driven interim impairment analysis of goodwill as of August 31, 2012.

Goodwill is allocated to the various reporting units, namely SBG, CRI, LDT and MTD, which are also operating segments. The goodwill impairment test involves a two-step process. In the first step, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired by a market participant in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

The Company estimated the fair value of all the reporting units using the income approach which was determined using Level 3 fair value inputs. The utilization of the income approach to determine fair value requires estimates of future operating results and cash flows discounted using an estimated discount rate. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows. Certain estimates used in the income approach involve information from businesses with developing revenue models and limited financial history, which increase the risk of differences between the projected and actual performance. One of the key assumptions used in applying the income approach includes discount rates which ranged from 20% to 35% depending on the reporting units' overall risk profile relative to other guideline companies, the reporting units' respective industry as well as the visibility of future expected cash flows.

Upon the completion of the goodwill impairment analysis as of August 31, 2012, the Company recorded a non-cash goodwill impairment charge of \$13.7 million. The goodwill impairment charge is included in "Impairment of goodwill and long-lived assets" in the accompanying Unaudited Condensed Consolidated Statements of Operations.

It is reasonably possible that the businesses could perform significantly below the Company's expectations or a deterioration of market and economic conditions could occur. This would adversely impact the Company's ability to meet its projected results, which could cause the goodwill in any of its reporting units or long-lived assets in any of its asset groups to become impaired. Significant differences between these estimates and actual cash flows could materially affect the Company's future financial results. If the MTD and LDT reporting units are not successful in commercializing new business arrangements, or if the Company is unsuccessful in signing new license agreements or renewing its existing license agreements for the SBG and CRI reporting units, the revenue and income for these reporting units could adversely and materially deviate from their historical trends and could cause goodwill or long-lived assets to become impaired. If the Company determines that its goodwill or long-lived assets are impaired, it would be required to record a non-cash charge that could have a material adverse

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effect on its results of operations and financial position.

## Goodwill

The following table presents goodwill balances and adjustments to those balances for each of the reportable segments for the nine months ended September 30, 2012:

Reportable Segment:	December 31, 2011	Additions to Goodwill (1)	Impairment Charge of Goodwill(2)	September 30, 2012
	(In thousands)			
SBG	\$4,454	\$15,451	\$—	\$19,905
All Other	110,694	8,070	(13,700 )	105,064
Total	\$115,148	\$23,521	\$(13,700 )	\$124,969

(1) The additions to goodwill resulted from two business combinations in the first quarter of 2012. See Note 4, “Acquisitions” for further details.

(2) The Company recorded a non-cash goodwill impairment charge of \$13.7 million related to the LDT reporting unit as discussed above.

## Intangible Assets

The components of the Company’s intangible assets as of September 30, 2012 and December 31, 2011 were as follows:

	Useful Life	As of September 30, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Existing technology(1)	3 to 10 years	\$181,431	\$(40,766 )	\$140,665
Customer contracts and contractual relationships	1 to 10 years	32,650	(13,074 )	19,576
Non-compete agreements	3 years	300	(133 )	167
Intellectual property	4 years	10,384	(10,384 )	—
Total intangible assets		\$224,765	\$(64,357 )	\$160,408
		As of December 31, 2011		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Existing technology	3 to 10 years	\$187,993	\$(32,682 )	\$155,311
Customer contracts and contractual relationships	1 to 10 years	33,550	(7,148 )	26,402
Non-compete agreements	3 years	400	(158 )	242
Intellectual property	4 years	10,384	(10,384 )	—
Total intangible assets		\$232,327	\$(50,372 )	\$181,955

The Company recorded a non-cash intangible impairment charge of \$15.4 million related to the LDT group as (1)discussed above which has been netted from the gross carrying amount and accumulated amortization for existing technology.

Amortization expense for intangible assets for the three and nine months ended September 30, 2012 was \$8.0 million and \$23.5 million, respectively. Amortization expense for intangible assets for the three and nine months ended September 30, 2011 was \$6.9 million and \$12.9 million, respectively.

The favorable contracts (included in customer contracts and contractual relationships) are acquired patent licensing agreements where the Company has no performance obligations. Cash received from these acquired favorable contracts will



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reduce the favorable contract intangible asset. As of September 30, 2012 and December 31, 2011, the net balance of the favorable contract intangible assets is \$5.2 million and \$9.9 million, respectively.

The estimated future amortization expense of intangible assets as of September 30, 2012 was as follows (amounts in thousands):

Years Ending December 31:	Amount
2012 (remaining 3 months)	\$8,202
2013	31,451
2014	27,310
2015	26,660
2016	25,766
Thereafter	41,019
	\$160,408

### 13. Litigation and Asserted Claims

#### 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 complaint, as amended and narrowed through motion practice, asserts claims for fraud, violations of federal antitrust laws and deceptive practices in connection with Rambus' participation in a standards setting organization called JEDEC, and seeks a declaratory judgment that the Rambus patents-in-suit are unenforceable, invalid and not infringed by Hynix, compensatory and punitive damages, and attorneys' fees. Rambus denied Hynix's claims and filed counterclaims for patent infringement against Hynix. The case was divided into three phases. In the first phase, Hynix tried its unclean hands defense beginning on October 17, 2005 and concluding on November 1, 2005. In its January 4, 2006 Findings of Fact and Conclusions of Law, the court held that Hynix's unclean hands defense failed. 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.

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. The damages award was later remitted to approximately \$134 million.

The third phase of the Hynix-Rambus case, involving Hynix's affirmative JEDEC-related antitrust and fraud allegations, was part of a coordinated trial involving Rambus, Hynix, Micron and Nanya. It began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims submitted to the jury. On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial.

On March 10, 2009, the court entered final judgment against Hynix in the amount of approximately \$397 million as follows: approximately \$134 million for infringement through December 31, 2005; approximately \$215 million for infringement from January 1, 2006 through January 31, 2009; and approximately \$48 million in pre-judgment interest (with post-judgment interest to accrue at the statutory rate). The court denied Rambus's request for an injunction against Hynix but awarded costs to Rambus in the amount of approximately \$0.76 million. Pursuant to the judgment, Hynix paid into an escrow account the awarded costs plus royalties on net sales for U.S. infringement after January 31, 2009 and before April 18, 2010 of 1% for SDR SDRAM and 4.25% for DDR DDR2, DDR3, GDDR, GDDR2 and GDDR3 SDRAM memory devices. Hynix posted a bond in the full amount of the judgment plus accrued post-judgment interest.

On April 6, 2009, Hynix filed its notice of appeal. On April 17, 2009, Rambus filed its notice of cross appeal. Oral argument was coordinated with the appeal in the Micron Delaware case (discussed below) and held on April 5, 2010. Oral argument was reheard by an expanded panel of five judges on October 6, 2010. On May 13, 2011, the Federal Circuit issued its opinion (1) concluding that the district court erred in applying too narrow a standard of reasonable foreseeability and vacating the district court's findings of fact and conclusions of law regarding spoliation; (2) affirming the district court's decisions on



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Hynix's JEDEC-related waiver and estoppel defenses; (3) affirming the district court's claim construction order; (4) affirming the district court's order denying Hynix's motion for judgment as a matter of law or for a new trial on the basis of written description; (5) affirming the district court's order denying Hynix's motion for a new trial on the basis of obviousness; and (6) affirming the district court's grant of Hynix's motion for summary judgment for the claims at issue in Rambus's cross-appeal. The Federal Circuit vacated the district court's final judgment and remanded the case to the district court for further proceedings consistent with the Federal Circuit's opinions in the Micron and Hynix cases. On July 29, 2011, the Federal Circuit denied the parties' petitions for rehearing. On February 21, 2012, the United States Supreme Court denied Hynix's petition seeking review of the Federal Circuit decision.

On remand, the parties filed briefs on issues related to unclean hands, costs awarded to Hynix by the Federal Circuit, the bond Hynix posted in the amount of the now-vacated judgment, and the escrowed funds. A hearing on these issues was held on December 16, 2011. In an order dated January 11, 2012, the court released Hynix's obligation to maintain a supersedeas bond and denied Hynix's request to lift Hynix's obligations with respect to escrowed funds. On March 21, 2012, the court issued an order taxing Rambus approximately \$8.1 million for Hynix's bond premiums, filing fees, and transcript costs. On April 25, 2012, the court issued an order releasing the funds Hynix had paid into the aforementioned escrow account.

On September 21, 2012, the court issued its unclean hands decision, finding that Rambus destroyed documents at a time litigation was reasonably foreseeable and engaged in spoliation of evidence. Although the court found that Rambus did not deliberately destroy documents it knew to be damaging, the court concluded that Rambus nonetheless spoliated evidence in bad faith or at least willfully. The court further found that Hynix was not prejudiced in any of its invalidity defenses but that Hynix was arguably prejudiced by Rambus' possible destruction of JEDEC related documents. Because the asserted patents were otherwise valid and Rambus did not intentionally destroy particular damaging documents, the court declined to apply unclean hands as a complete defense to Rambus' patent infringement claims. Instead, the court concluded that the appropriate sanction was to strike from the record evidence supporting a royalty in excess of a reasonable, non-discriminatory royalty. Accordingly, the court ordered the parties to submit briefs on what a reasonable and non-discriminatory royalty would be for the patents in suit. Such briefing is currently pending.

On October 17, 2012, Hynix filed a motion seeking summary judgment of invalidity based on certain adverse rulings of invalidity by the Board of Patent Appeals and Interferences in reexamination proceedings involving two of the ten asserted patent claims and certain other claims in related Farmwald-Horowitz patents. In the alternative, Hynix seeks a new trial on invalidity and damages or a stay of the case pending resolution of the reexaminations. Rambus' response is not yet due.

**Micron Litigation**

U.S District Court in Delaware: Case No. 0-792-SLR

On August 28, 2000, Micron filed suit against Rambus in the U.S. District Court for Delaware. 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 12 U.S. patents.

This case has been divided into three phases in the same general order as in the Hynix 0-20905 action: (1) unclean hands; (2) patent infringement; and (3) antitrust, equitable estoppel, and other JEDEC-related issues. A bench trial on Micron's unclean hands defense began on November 8, 2007 and concluded on November 15, 2007. The court ordered post-trial briefing on the issue of when Rambus became obligated to preserve documents because it anticipated litigation. A hearing on that issue was held on May 20, 2008. The court ordered further post-trial briefing on the remaining issues from the unclean hands trial, and a hearing on those issues was held on September 19, 2008.

On January 9, 2009, the court issued an opinion in which it determined that Rambus had engaged in spoliation of evidence by failing to suspend general implementation of a document retention policy after the point at which the court determined that Rambus should have known litigation was reasonably foreseeable. The court issued an accompanying order declaring the 12 patents in suit unenforceable against Micron (the "Delaware Order"). On

February 9, 2009, the court stayed all other proceedings pending appeal of the Delaware Order. On February 10, 2009, judgment was entered against Rambus and in favor of Micron on Rambus' patent infringement claims and Micron's corresponding claims for declaratory relief. On March 11, 2009, Rambus filed its notice of appeal. Rambus filed its opening brief on July 2, 2009. On August 28, 2009, Micron filed its answering brief. On October 14, 2009, Rambus filed its reply brief. Oral argument was coordinated with the appeal in the Hynix case (discussed above) and held on April 5, 2010. Oral argument was reheard by an expanded panel of five judges on October 6, 2010. On May 13, 2011, the Federal Circuit issued its opinion affirming the district court's determination that Rambus spoliated documents, vacating the district court's dismissal sanction (including the district court's determination of bad

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faith and prejudice), and remanding the case to the district court for further consideration consistent with its opinion. On June 27, 2011, Rambus filed a petition for rehearing and rehearing en banc with respect to the issues of spoliation, bad faith, and prejudice. On July 29, 2011, the Federal Circuit denied Rambus's petition.

On remand, the parties filed simultaneous briefs on November 9 and December 21, 2011, on the unclean hands-related issues of bad faith, prejudice, and sanction. A hearing on these issues was held on January 26, 2012. No decision has issued to date.

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

On January 13, 2006, Rambus filed suit against Micron in the U.S. District Court for the Northern District of California. Rambus alleges that 14 Rambus patents are infringed by Micron's DDR2, DDR3, GDDR3, and other advanced memory products. Rambus seeks compensatory and punitive damages, attorneys' fees, and injunctive relief. As explained above, the court ordered a coordinated trial (without Samsung) of certain common JEDEC-related claims and defenses asserted in Hynix v Rambus, Case No. C 0-20905RMW, Rambus Inc. v. Samsung Electronics Co. Ltd. et al., Case No. 5-2298RMW, Rambus Inc. v. Hynix Semiconductor Inc., et al., Case No. 5-334, and Rambus Inc. v. Micron Technology, Inc., et al., Case No. C 6-244RMW. The coordinated trial involving Rambus, Hynix, Micron and Nanya began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims. On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial.

On July 10, 2008, the court issued its claim construction order relating to the Farmwald/Horowitz patents in suit and denied Hynix, Micron, Nanya, and Samsung's (collectively, the "Manufacturers") motions for summary judgment of noninfringement and invalidity based on their proposed claim construction. The court issued claim construction orders relating to the Ware patents in suit on July 25 and August 27, 2008, and denied the Manufacturers' motion for summary judgment of noninfringement of certain claims. On September 4, 2008, at the court's direction, Rambus elected to proceed to trial on 12 patent claims, each from the Farmwald/Horowitz family. On September 16, 2008, Rambus granted a covenant not to assert any claim of patent infringement against the Manufacturers under the Ware patents in suit (U.S. Patent Nos. 6,493,789 and 6,496,897), and each party's claims relating to those patents were dismissed with prejudice. On November 21, 2008, the court entered an order clarifying certain aspects of its July 10, 2008, claim construction order. On November 24, 2008, the court granted Rambus' motion for summary judgment of direct infringement with respect to claim 16 of Rambus' U.S. Patent No. 6,266,285 by the Manufacturers' DDR2, DDR3, gDDR2, GDDR3, GDDR4 memory chip products (except for Nanya's DDR3 memory chip products). In the same order, the court denied the remainder of Rambus' motion for summary judgment of infringement.

On January 19, 2009, Micron filed a motion for summary judgment on the ground that the Delaware Order should be given preclusive effect. Rambus filed an opposition to Micron's motion on January 26, 2009, and a hearing was held on January 30, 2009. On February 3, 2009, the court entered a stay of this action pending resolution of Rambus' appeal of the Delaware Order.

#### European Patent Infringement Cases

In 2001, Rambus filed suit against Micron in Mannheim, Germany, for infringement of European patent, EP 1 22 642. That suit has not been active. Two proceedings in Italy remain active. One relates to Rambus's claim that Micron is infringing European patent, EP 1 4 956. The court in this proceeding has found the '956 patent valid but not infringed. The court also dismissed Micron's claims for unfair competition based on JEDEC as well as abuse of process. Any appeals are due by December 27, 2012. The second case in Italy involves Micron's purported claim resulting from a seizure of evidence in Italy in 2000 carried out by Rambus pursuant to a court order. The court in this proceeding dismissed Micron's claim. Micron has appealed this decision to the Italian Supreme Court.

#### DDR2, DDR3, gDDR2, GDDR3, GDDR4 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 for the Northern District of California court against Hynix, Infineon, Nanya, and Inotera. Infineon and Inotera were subsequently dismissed from this litigation as was Samsung which had been added as a defendant. Rambus alleges that certain of its patents are infringed by certain of the defendants' SDRAM, DDR, DDR2, DDR3, gDDR2, GDDR3, GDDR4 and other advanced

memory products. Hynix and Nanya have denied Rambus' claims and asserted counterclaims against Rambus for, among other things, violations of federal antitrust laws, unfair trade practices, equitable estoppel, and fraud in connection with Rambus' participation in JEDEC.

As explained above, the court ordered a coordinated trial (without Samsung) of certain common JEDEC-related claims and

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defenses asserted in Hynix v Rambus, Case No. C 0-20905RMW, Rambus Inc. v. Samsung Electronics Co. Ltd. et al., Case No. 5-2298RMW, Rambus Inc. v. Hynix Semiconductor Inc., et al., Case No. 5-334, and Rambus Inc. v. Micron Technology, Inc., et al., Case No. C 6-244RMW. The coordinated trial involving Rambus, Hynix, Micron and Nanya began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims.

On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial.

In these cases (except for the Hynix 0-20905 action), a hearing on claim construction and the parties' cross-motions for summary judgment on infringement and validity was held on June 4 and 5, 2008. On July 10, 2008, the court issued its claim construction order relating to the Farmwald/Horowitz patents in suit and denied the Manufacturers' motions for summary judgment of noninfringement and invalidity based on their proposed claim construction. The court issued claim construction orders relating to the Ware patents in suit on July 25 and August 27, 2008, and denied the Manufacturers' motion for summary judgment of noninfringement of certain claims. On September 4, 2008, at the court's direction, Rambus elected to proceed to trial on 12 patent claims, each from the Farmwald/Horowitz family. On September 16, 2008, Rambus granted a covenant not to assert any claim of patent infringement against the Manufacturers under U.S. Patent Nos. 6,493,789 and 6,496,897, and each party's claims relating to those patents were dismissed with prejudice. On November 21, 2008, the court entered an order clarifying certain aspects of its July 10, 2008, claim construction order. On November 24, 2008, the court granted Rambus's motion for summary judgment of direct infringement with respect to claim 16 of Rambus's U.S. Patent No. 6,266,285 by the Manufacturers' DDR2, DDR3, gDDR2, GDDR3, GDDR4 memory chip products (except for Nanya's DDR3 memory chip products). In the same order, the court denied the remainder of Rambus's motion for summary judgment of infringement.

On January 19, 2009, Nanya and Hynix filed motions for summary judgment on the ground that the Delaware Order should be given preclusive effect. Rambus filed opposition briefs to these motions on January 26, 2009, and a hearing was held on January 30, 2009. On February 3, 2009, the court entered a stay of this action pending resolution of Rambus' appeal of the Delaware 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. 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 filed a response to the statement of objections on October 31, 2007, and a hearing was held on December 4 and 5, 2007.

On December 9, 2009, the European Commission announced that it had reached a final settlement with Rambus to resolve the pending case. Under the terms of the settlement, the Commission made no finding of liability, and no fine will be assessed against Rambus. Rambus commits to offer licenses with maximum royalty rates for certain memory types and memory controllers on a forward-going basis (the "Commitment"). The Commitment is expressly made without any admission by Rambus of the allegations asserted against it. The Commitment also does not resolve any existing claims of infringement prior to the signing of any license with a prospective licensee, nor does it release or excuse any of the prospective licensees from damages or royalty obligations through the date of signing a license. Rambus offers licenses with maximum royalty rates for five-year worldwide licenses of 1.5% for DDR2, DDR3, GDDR3 and GDDR4 SDRAM memory types. Qualified licensees will enjoy a royalty holiday for SDR and DDR DRAM devices, subject to compliance with the terms of the license. In addition, Rambus offers licenses with maximum royalty rates for five-year worldwide licenses of 1.5% per unit for SDR memory controllers through April 2010, dropping to 1.0% thereafter, and royalty rates of 2.65% per unit for DDR, DDR2, DDR3, GDDR3 and GDDR4 memory controllers through April 2010, then dropping to 2.0%. The Commitment to license at the above rates remains valid for a period of five years from December 9, 2009. All royalty rates are applicable to future shipments only and do not affect liability, if any, for damages or royalties that accrued up to the time of the license

grant.

On March 25, 2010, Hynix filed appeals with the General Court of the European Union purporting to challenge the settlement and the European Commission's rejection of Hynix's complaint. No decision has issued to date on Hynix's appeal.

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

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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. Subsequently, Infineon and Siemens were dismissed from this action (as a result of a settlement with Infineon) and three Samsung-related entities were added as defendants and later dismissed (as a result of a settlement with Samsung).

A jury trial against Micron and Hynix began on June 20, 2011. On September 21, 2011, the jury began deliberations. On November 16, 2011, the jury returned a verdict in favor of Hynix and Micron and against Rambus by a tally of 9-3. Judgment was entered by the Court on February 15, 2012.

On February 15, 2012, Micron and Hynix filed memoranda of costs seeking to recover approximately \$1.6 million and \$3.0 million, respectively, in alleged costs from Rambus. A hearing on costs was held on June 29, 2012. At the hearing, the court indicated that costs recoverable from Rambus by Micron and Hynix would be reduced to \$520,000 and \$350,000, respectively. An order has not yet been entered. The Company has accrued \$0.9 million related to these costs as of September 30, 2012.

Rambus filed a notice of appeal on April 3, 2012 and briefing is currently pending.

**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. Several class action, derivative, and private shareholder suits were subsequently filed, all of which (with one exception described below) have been dismissed or settled.

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-7-1238-JF (N.D. Cal.)). This action was consolidated with a substantially identical pro se lawsuit filed by another purported Rambus shareholder against the same parties. The consolidated complaint against Rambus alleges violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. On April 17, 2008, the court dismissed all claims with prejudice except for plaintiffs' claims under sections 14(a) and 18(a) of the Securities and Exchange Act of 1934 as to which leave to amend was granted. On June 2, 2008, plaintiffs filed an amended complaint containing substantially the same allegations as the prior complaint although limited to claims under sections 14(a) and 18(a) of the Securities and Exchange Act of 1934. On December 9, 2008, the court granted Rambus' motion and entered judgment in favor of Rambus. Plaintiffs filed a notice of appeal on December 15, 2008. On June 16, 2010, the United States Court of Appeals for the Ninth Circuit issued a decision affirming the judgment in favor of Rambus.

On September 11, 2008, the same pro se plaintiffs filed a separate lawsuit in Santa Clara County Superior Court against Rambus, certain current and former executives and board members, and PricewaterhouseCoopers LLP (Kelley et al. v. Rambus, Inc. et al., Case No. 1-8-CV-122444). The complaint alleges violations of certain California state securities statutes as well as fraud and negligent misrepresentation based on substantially the same underlying factual allegations contained in the pro se lawsuit filed in federal court. On October 31, 2010, the plaintiffs filed a second amended complaint. On December 2, 2010, Rambus filed a demurrer to plaintiffs' second amended complaint on the ground that it is barred by the doctrine of claim preclusion, among other things. On May 12, 2011, the court sustained Rambus' demurrer without leave to amend. Judgment in favor of Rambus was entered on June 15, 2011. On August 10, 2011, plaintiffs filed a notice of appeal and oral argument occurred on September 20, 2012. No decision has issued to date.

**Broadcom, Freescale, LSI, MediaTek, and STMicroelectronics Litigation**

**International Trade Commission 2010 Investigation**

On December 1, 2010, Rambus filed a complaint with the ITC requesting the commencement of an investigation and seeking an exclusion order barring the importation, sale for importation, or sale after importation of products that incorporate at least DDR, DDR2, DDR3, LPDDR, LPDDR2, mobile DDR, GDDR, GDDR2, and GDDR3 memory controllers from Broadcom, Freescale, LSI, MediaTek and STMicroelectronics that infringe patents from the Barth family of patents, and products having certain peripheral interfaces, including PCI Express interfaces, DisplayPort interfaces, and certain Serial ATA Attachment ("SATA") and Serial Attached SCSI ("SAS") interfaces, from Broadcom, Freescale, LSI and STMicroelectronics that infringe patents from the Dally family of patents. The complaint names,

among others, Broadcom, Freescale, LSI, MediaTek and STMicroelectronics as respondents, as well as companies whose products incorporate those companies' accused products and are imported into the United States, including Asustek Computer Inc. and Asus Computer International Inc., Audio Partnership Plc, Cisco Systems, Garmin International, G.B.T. Inc., Giga-Byte Technology Co. Ltd., Gracom Technologies LLC, Hewlett-Packard Company, Hitachi GST, Motorola, Inc., Oppo Digital, Inc., and Seagate Technology. As described more fully above, the complaint also names NVIDIA and certain companies whose products incorporate accused NVIDIA products with certain peripheral interfaces, including PCI Express and DisplayPort peripheral interfaces, and seeks to



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bar their importation, sale for importation, or sale after importation. On December 29, 2010, the ITC instituted the investigation. On June 20, 2011, the administrative law judge granted a joint motion by Rambus and Freescale to terminate the investigation as to Freescale pursuant to the parties' settlement agreement. A final hearing before the administrative law judge was held October 12-20, 2011. On January 17, 2012, the administrative law judge granted a joint motion by Rambus and Broadcom to terminate the investigation as to Broadcom pursuant to the parties' settlement agreement.

On March 2, 2012, the administrative law judge issued an initial determination that there was no violation of section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337. As a threshold matter, the administrative law judge determined that: a licensing-based domestic industry existed for the asserted Dally and Barth patents; that the accused LSI, STMicro, MediaTek products literally infringe all asserted claims of each asserted Barth patent, and that LSI, STMicro, and MediaTek induce infringement and contribute to the infringement of the asserted Barth claims; that the accused LSI and STMicro patents products literally infringe all asserted claims of both asserted Dally patents that are still in suit, and that LSI and STMicro induce infringement and contribute to the infringement of the asserted Dally claims; the Barth patents and the Dally patents are not invalid for failure to satisfy the written description or definiteness requirement under 35 U.S.C. § 112, nor are they unenforceable due to prosecution laches or patent misuse; Rambus had standing to assert the Dally patents; Rambus was not equitably estopped from asserting the Dally patents and the Barth patents; the asserted Barth patents are not unenforceable due to inequitable conduct, and not invalid for failure to satisfy the utility requirement under 35 U.S.C. § 101; the asserted patents are invalid due to anticipation and obviousness; and the Barth patents are unenforceable due to unclean hands.

On March 19, 2012, the parties filed petitions asking the full Commission to review certain aspects of the initial determination. On May 3, 2012, the ITC granted a joint motion by Rambus and MediaTek to terminate the investigation as to MediaTek pursuant to the parties' settlement agreement. On May 3, 2012, the ITC also determined that it would review the final initial determination issued by the administrative law judge in its entirety. On May 18, 2012, Rambus, the Office of Unfair Import Investigations, and the remaining respondents submitted briefs responding to the ITC's questions contained in its notice to review the initial determination. On June 1, 2012, Rambus, the Office of Unfair Import Investigations, and the remaining respondents submitted reply briefs.

On July 25, 2012, the ITC issued the notice of its determination to terminate the investigation with a finding of no violation for the following reasons: all of the asserted patent claims are invalid due to anticipation or obviousness, except for certain Dally claims that include multiple-transmitters for which the ITC determined there was no infringement; Rambus did not demonstrate the existence of a domestic industry for both the Barth and Dally patents; the Barth patents are unenforceable under the doctrine of unclean hands; and the Barth patents are exhausted as to one respondent. The ITC's opinion setting forth its determinations issued on July 31, 2012. Rambus filed a notice of appeal on September 21, 2012.

U.S District Court in the Northern District of California

On December 1, 2010, Rambus filed complaints against Broadcom, Freescale, LSI, MediaTek and STMicroelectronics in the U.S. District Court for the Northern District of California alleging that 1) products that incorporate at least DDR, DDR2, DDR3, LPDDR, LPDDR2, mobile DDR, GDDR, GDDR2, and GDDR3 memory controllers from Broadcom, Freescale, LSI, MediaTek and STMicroelectronics infringe patents from the Barth family of patents; 2) those same products and products from those companies that incorporate SDR memory controllers infringe patents from the Farmwald-Horowitz family; and 3) products having certain peripheral interfaces, including PCI Express, DisplayPort, and certain SATA and SAS interfaces, from Broadcom, Freescale, LSI and STMicroelectronics infringe patents from the Dally family of patents. On June 7, 2011, Rambus's complaint against Freescale was dismissed pursuant to the parties' settlement agreement. On January 24, January 26, and March 1, 2011, LSI, Broadcom, and STMicroelectronics filed their respective answers denying Rambus's allegations and asserting counterclaims seeking declarations of non-infringement and invalidity, and unenforceability with respect to at least certain of the patents in suit. Rambus filed answers denying the allegations in LSI's, Broadcom's, and STMicroelectronics's counterclaims on February 14, February 16, and March 22, 2011, respectively. On March 7, 2011, MediaTek filed an answer denying Rambus's allegations. Broadcom, MediaTek, STMicroelectronics, and LSI filed motions to stay their respective actions. On June 13, 2011, the Court granted in part the motions to stay and

denied them as to certain patents not overlapping with patents asserted in the ITC 2010 investigation. On December 29, 2011, Rambus's complaint against Broadcom was dismissed pursuant to the parties' settlement agreement. On March 20, 2011, Rambus's complaint against MediaTek was dismissed pursuant to the parties' settlement agreement.

On September 26, 2012, the court issued a claim construction order. Discovery is ongoing and a case management conference has been set for November 15, 2012.

#### Potential Future Litigation

In addition to the litigation described above, companies 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

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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 in the future.

The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies. A reasonably possible loss in excess of amounts accrued is not material to the financial statements.

#### 14. Fair Value of Financial Instruments

The Company tests the pricing inputs by obtaining prices from two different sources for the same security on a sample of its portfolio. The Company has not adjusted the pricing inputs it has obtained. The following table presents the financial instruments that are carried at fair value and summarizes the valuation of its cash equivalents and marketable securities by the above pricing levels as of September 30, 2012 and December 31, 2011:

	As of September 30, 2012			
	Total	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Money market funds	\$ 118,508	\$ 118,508	\$—	\$—
Corporate notes, bonds and commercial paper	56,886	—	56,886	—
Total available-for-sale securities	\$ 175,394	\$ 118,508	\$ 56,886	\$—
	As of December 31, 2011			
	Total	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Money market funds	\$ 127,559	\$ 127,559	\$—	\$—
Corporate notes, bonds and commercial paper	137,108	—	137,108	—
Total available-for-sale securities	\$ 264,667	\$ 127,559	\$ 137,108	\$—

The Company monitors the investment for other-than-temporary impairment and records appropriate reductions in carrying value when necessary. The Company made an investment of \$2.0 million in a non-marketable equity security of a private company during the third quarter of 2009. The Company evaluated the fair value of the investment in the non-marketable security as of September 30, 2012 and determined that there were no events that caused a decrease in its fair value below the carrying cost.

The following table presents the financial instruments that are measured and carried at cost on a nonrecurring basis as of September 30, 2012 and December 31, 2011:

	As of September 30, 2012				
(in thousands)	Carrying Value	Quoted market prices in active	Significant other observable inputs	Significant unobservable inputs (Level 3)	Impairment charges for the nine months ended September 30,

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		markets (Level 1)	(Level 2)		2012
Investment in non-marketable securities	\$2,000	\$—	\$—	\$ 2,000	\$ —

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(in thousands)	As of December 31, 2011				
	Carrying Value	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impairment charges for the year ended December 31, 2011
Investment in non-marketable securities	\$2,000	\$—	\$—	\$2,000	\$—

For the three and nine months ended September 30, 2012 and 2011, there were no transfers of financial instruments between different categories of fair value.

The following table presents the financial instruments that are not carried at fair value but require fair value disclosure as of September 30, 2012 and December 31, 2011:

(in thousands)	As of September 30, 2012			As of December 31, 2011		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
5% Convertible Senior Notes due 2014	\$172,500	\$143,875	\$172,500	\$172,500	\$133,493	\$170,289

The fair value of the convertible notes at each balance sheet date is determined based on recent quoted market prices for these notes which is a level two measurement. As of September 30, 2012, the convertible notes are carried at face value of \$172.5 million less any unamortized debt discount. The carrying value of other financial instruments, including accounts receivable, accounts payable and other payables, approximates fair value due to their short maturities.

The Company monitors its investments for other than temporary losses by considering current factors, including the economic environment, market conditions, operational performance and other specific factors relating to the business underlying the investment, reductions in carrying values when necessary and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in the market. Any other than temporary loss is reported under "Interest and other income (expense), net" in the condensed consolidated statement of operations. For the three and nine months ended September 30, 2012, the Company has not incurred any impairment loss on its investments.

## 15. Convertible Notes

The Company's convertible notes are shown in the following table:

(Dollars in thousands)	As of September 30, 2012	As of December 31, 2011
5% Convertible Senior Notes due 2014 (the "2014 Notes")	\$172,500	\$172,500
Unamortized discount	(28,625)	(39,007)
Total convertible notes	\$143,875	\$133,493
Less current portion	—	—
Total long-term convertible notes	\$143,875	\$133,493

Interest expense related to the notes for the three and nine months ended September 30, 2012 and 2011 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
2014 Notes coupon interest at a rate of 5%	\$2,156	\$2,156	\$6,469	\$6,468
	3,789	3,254	10,856	9,326

2014 Notes amortization of discount and debt issuance costs  
at an additional effective interest rate of 11.7%

Total interest expense on convertible notes	\$5,945	\$5,410	\$17,325	\$15,794
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## 16. Restructuring Charges

During the third quarter of 2012, the Company initiated a restructuring program to reduce overall corporate expenses which is expected to improve future profitability by reducing spending on marketing, general and administrative programs and refining some of the Company's research and development efforts. In connection with this restructuring program, the Company estimates that it will incur aggregate costs of approximately \$6.0 million to \$8.0 million. During the three and nine months ended September 30, 2012, the Company incurred restructuring charges of \$6.6 million related primarily to the reduction in workforce, of which \$4.0 million was related to the SBG reportable segment and \$2.6 million was related to corporate support functions that impacted each of the Company's operating segments. The Company expects to substantially complete its restructuring activities by the first quarter of 2013.

The following table summarizes the restructuring activities during the nine months ended September 30, 2012:

	Employee Severance and Related Benefits (in thousands)	Other Expenses	Total
Balance at December 31, 2011	—	—	—
Charges	6,622	—	6,622
Payments	(1,788	) —	(1,788
Balance at September 30, 2012	\$4,834	—	\$4,834

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenue or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning developments, performance or industry ranking; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words "anticipate," "believes," "plans," "expects," "future," "intends," "may," "should," "estimates," "predicts," "potential," "continue," "projecting" and similar expressions identify forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to risks, uncertainties and changes in condition, significance, value and effect. As a result of the factors described herein, and in the documents incorporated herein by reference, including, in particular, those factors described under "Risk Factors," we undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this report with the Securities and Exchange Commission.

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 report, has been abbreviated and, as such, these abbreviations are defined below for your convenience:

Double Data Rate	DDR
Dynamic Random Access Memory	DRAM
Gigabits per second	Gb/s
Graphics Double Data Rate	GDDR
Input/Output	I/O
Light Emitting Diodes	LED
Liquid Crystal Display	LCD
Peripheral Component Interconnect	PCI
Rambus Dynamic Random Access Memory	RDRAM™
Single Data Rate	SDR
Synchronous Dynamic Random Access Memory	SDRAM
eXtreme Data Rate	XDR™



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

Advanced Micro Devices Inc.	AMD
Broadcom Corporation	Broadcom
Cooper Lighting, LLC	Cooper Lighting
Cryptography Research, Inc.	CRI
Elpida Memory, Inc.	Elpida
Freescale Semiconductor Inc.	Freescale
Fujitsu Limited	Fujitsu
General Electric Company	GE
Global Lighting Technologies, Inc.	GLT
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 Electronic Device Engineering Councils	JEDEC
Lighting and Display Technology	LDT
LSI Corporation	LSI
MediaTek Inc.	MediaTek
Memory and Interfaces Division	MID
Micron Technologies, Inc.	Micron
Mobile Technology Division	MTD
Nanya Technology Corporation	Nanya
New Business Group	NBG
NEC Electronics Corporation	NEC
NVIDIA Corporation	NVIDIA
Qimonda AG (formerly Infineon's DRAM operations)	Qimonda
Panasonic Corporation	Panasonic
Renesas Electronics	Renesas
Samsung Electronics Co., Ltd.	Samsung
Semiconductor Business Group	SBG
Sony Computer Electronics	Sony
Spansion, Inc.	Spansion
ST Microelectronics N.V.	ST Microelectronics
Texas Instruments Inc.	Texas Instruments
Toshiba Corporation	Toshiba

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### Business Overview

We are a premier intellectual property and technology licensing company focusing on the creation, design, development and licensing of patented innovations, technologies and architectures that are foundational to nearly all digital electronics products and systems. Our mission is to continuously enrich the end-user experience of electronic systems through groundbreaking innovations and technologies designed to improve the performance, power efficiency, time-to-market and cost-effectiveness of the products, components and systems offered by market-leading companies in semiconductors, computing, tablets, handheld devices, mobile applications, gaming and graphics, high definition televisions and displays, general lighting, cryptography and data security. Our inventors and engineering teams focus on creating innovations designed to address the most challenging demands of each target market and industry. We believe we have established an unparalleled licensing platform and business model that will continue to foster the development of new foundational technologies. By continuing to build upon this platform, our goal is to create additional licensing opportunities, and thereby perpetuate strong company operating performance and long-term stockholder value.

On August 22, 2012, we announced a restructuring program to reduce overall corporate expenses which is expected to improve future profitability while refining some of our research and development efforts. As a result of the restructuring program, we recorded a pre-tax charge of \$6.6 million during the third quarter of 2012 related primarily to the reduction in workforce, which included approximately \$1.8 million in early termination payments to certain employees related to their previous retention bonus arrangements. The restructuring program is expected to provide overall net cash savings of \$30 million to \$35 million annually as compared to the run rate in the second quarter of 2012.

Additionally, in the third quarter of 2012, we announced the creation of a new internal organizational structure with three business units: (1) Memory and Interfaces Division which focuses on the design, development and licensing of technology that is related to memory and interfaces; (2) Cryptography Research, Inc. which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; and (3) Lighting and Display Technologies which focuses on the design, development and licensing of technologies for lighting and displays. The engineering design teams and other strategic initiatives have been consolidated under Dr. Martin Scott, who has assumed the role of chief technology officer. We are still in the process of evaluating if any changes will be required to our current chief operating decision maker ("CODM"), which is comprised of the executive management team, as well as the financial information that will be regularly reviewed for resource allocation and performance assessment. We expect to finalize these changes in the fourth quarter of 2012. For the third quarter of 2012, our CODM reviewed segment information on the same basis as the previous quarter and only SBG is considered a reportable segment as it met the quantitative thresholds for disclosure as a reportable segment. As such, segment information is not separately discussed below. For additional information concerning segment reporting, see Note 11, "Business Segments and Major Customers," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

Additionally, we recorded a non-cash charge for the impairment of goodwill and long-lived assets, which includes intangible assets and property, plant and equipment, within our LDT group of approximately \$35.5 million in the third quarter of 2012. We conducted this impairment review under the accounting rules as a result of the change in business strategy with less focus on the higher margin display technology licensing and an increased focus on our general lighting technologies. Under generally accepted accounting principles, when indicators of potential impairment are identified, companies are required to conduct a review of the carrying amounts of goodwill and other long-lived assets to determine if impairment exists.

The key elements of our current strategy are as follows:

**Innovate:** Develop and patent our innovative technology to provide fundamental competitive advantage when incorporated into semiconductors and digital electronics products and systems.

**Drive Adoption:** Communicate the advantages of our patented innovations and technologies to the industry and encourage its adoption through demonstrations and incorporation in the products of select customers.

**Monetize:** License our patented inventions and technology solutions to customers for use in their semiconductor and system products.

As of September 30, 2012, our semiconductor, lighting, display, security and other technologies are covered by 1,763 U.S. and foreign patents. Additionally, we have 1,265 patent applications pending. Some of the patents and pending patent applications are derived from a common parent patent application or are foreign counterpart patent applications. We have a program to file applications for and obtain patents in the United States and in selected foreign countries where we believe filing for such protection is appropriate and would further our overall business strategy and objectives. In some instances, obtaining appropriate levels of protection may involve prosecuting continuation and counterpart patent applications based on a common parent application. We believe that our patented innovations provide our customers means to achieve improved performance, lower risk, greater cost-effectiveness and other benefits in their products and services.

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Our patented inventions and technology solutions are offered to our customers through either a patent license or a solutions license. Our revenues are primarily derived from patent licenses, through which we provide our customers a license to use some specified portion of our broad portfolio of patented inventions. The patent license provides our customers with a defined right to use our patented innovations in the customer's own digital electronics products, systems or services, as applicable. The patent licenses may also define the specific field of use where our customers may use or employ our inventions in their products. Patent license agreements are structured with fixed, variable or a hybrid of fixed and variable royalty payments over certain defined periods.

We also offer our customers solutions licenses to support the implementation and adoption of our technology in their products or services. Our solutions license offerings include a range of solutions developed by Rambus that we provide to our customers under license for incorporation into their products and systems. We offer a range of services as part of our solutions licenses which can include know-how and technology transfer, product design and development, system integration, and other services. These solutions license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Further, under solutions licenses, our customers typically receive licenses to our patents necessary to implement these solutions in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts with us.

Royalties represent a substantial majority of our total revenue. We derive the majority of our royalty revenue by licensing our broad portfolio of patents to our customers. These licenses may cover part or all of our patent portfolio across our breadth of technologies. Leading consumer product, semiconductor and system companies such as AMD, Broadcom, Elpida, Freescale, Fujitsu, GE, Intel, Panasonic, Renesas, Samsung and Toshiba have licensed our patents for use in their own products.

We also derive additional revenue by licensing a range of technology solutions to customers for use in their products and systems. Our customers include leading companies such as Cooper Lighting, Elpida, GE, IBM, Panasonic, Samsung, Sony and Toshiba. Due to the often complex nature of implementing our technologies, we provide engineering services under certain of these licenses to help our customers successfully integrate our technology solutions into their products. Customers may also receive, in addition to their solutions license agreements, patent licenses as necessary to implement the technology in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts.

The remainder of our revenue is contract 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 revenue or account receivables in any given period.

We intend to continue making significant expenditures associated with engineering, marketing, general and administration and expect that these costs and expenses will continue to be a significant percentage of revenue in future periods. Whether such expenses increase or decrease as a percentage of revenue will be substantially dependent upon the rate at which our revenue or expenses change.

Executive Summary

On June 20, 2012, our Board of Directors appointed Dr. Ronald D. Black as our new president and chief executive officer.

During the third quarter of 2012, we signed a license agreement with Fujitsu. This agreement covers the use of Rambus patented innovations implemented in a broad range of integrated circuit ("IC") products offered by Fujitsu Semiconductor. Additionally, during the third quarter of 2012, the Secure Content Storage Association ("SCSA") selected our CRI group to provide security leadership and expertise to the SCSA efforts. The goal of the SCSA is to provide consumers with new ways to build digital home libraries. The SCSA initiative will give consumers an easier and faster way to organize, store and move their high-definition digital movies and TV shows across multiple devices. Our security expertise will be deployed across this platform to provide the necessary security.

We also initiated a restructuring effort to reduce overall corporate expenses which is expected to improve future profitability while refining some of our research and development efforts. As a result of the restructuring program, we recorded a pre-tax charge of \$6.6 million during the third quarter of 2012 related primarily to the reduction in workforce. See Note 16, "Restructuring Charges," of Notes to Unaudited Condensed Consolidated Financial Statements

of this Form 10-Q for further discussion. In addition, we recorded a non-cash charge for the impairment of goodwill and long-lived assets within our LDT group of \$35.5 million as a result of the change in our business strategy with less focus on the higher margin display technology licensing and an increased focus on our general lighting technologies. See Note 12, "Goodwill and Long-lived Assets," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

Research and development continues to play a key role in our efforts to maintain product innovations. Our engineering expenses in the aggregate for the three months ended September 30, 2012 decreased \$1.5 million as compared to the same

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period in 2011 primarily due to a decrease of \$2.9 million in the accrual of retention bonuses related to acquisitions as the first payment related to the CRI retention bonus was paid in the second quarter of 2012 and decreased bonus expense of \$1.8 million attributable mainly to the reversal of accruals relating to our 2012 corporate incentive plan, partially offset by increased headcount related costs of \$2.4 million from additional employees to support our research and development efforts. Our engineering expenses in the aggregate for the nine months ended September 30, 2012 increased \$32.9 million as compared to the same period in 2011 primarily due to increased headcount related costs of \$10.2 million from additional employees to support our research and development efforts, increased amortization expense related to intangible assets acquired since early 2011 of \$9.6 million, increased accrual of retention bonuses related to acquisitions of \$8.1 million and increased consulting expenses of \$4.5 million.

Marketing, general and administrative expenses in the aggregate decreased \$24.7 million for the three months ended September 30, 2012 as compared to the same periods in 2011 primarily due to decreased litigation expenses of \$21.0 million and decreased bonus expense of \$3.0 million attributable mainly to the reversal of accruals relating to our 2012 corporate incentive plan. Marketing, general and administrative expenses in the aggregate decreased \$28.1 million for the nine months ended September 30, 2012 as compared to the same period in 2011 primarily due to decreased litigation expenses of \$33.1 million and decreased bonus expense of \$3.9 million attributable mainly to the reversal of accruals relating to our 2012 corporate incentive plan, partially offset by increased headcount related costs of \$4.0 million from the increase in employees to support our business and increased accrual of the retention bonuses related to acquisitions of \$1.8 million.

## Trends

There are a number of trends that may or will have a material impact on us in the future, including but not limited to, the evolution of memory technology, adoption of LEDs in general lighting, the use and adoption of our inventions or technologies and global economic conditions with the resulting impact on sales of consumer electronic systems.

We have a high degree of revenue concentration, with our top five customers representing approximately 68% and 69% of our revenue for the three and nine months ended September 30, 2012, respectively, as compared to 78% and 68% for the three and nine months ended September 30, 2011, respectively. As a result of our settlement with Samsung in 2010, Samsung is expected to account for a significant portion of our ongoing licensing revenue. For the three months ended September 30, 2012, revenue from Samsung accounted for 10% or more of our total revenue. For the nine months ended September 30, 2012, revenue from NVIDIA and Samsung each accounted for 10% or more of our total revenue. For the three months ended September 30, 2011, revenue from Freescale, Samsung and a major smartphone and tablet manufacturer each accounted for 10% or more of our total revenue. For the nine months ended September 30, 2011, revenue from Elpida, Freescale, NVIDIA and Samsung each accounted for 10% or more of our total revenue. We expect to continue to experience significant revenue concentration for the foreseeable future.

The particular customers which account for revenue concentration have varied from period to period as a result of the addition of new contracts, expiration of existing contracts, renewals of existing contracts, industry consolidation and the volumes and prices at which the customers have recently sold to their customers. These variations are expected to continue in the foreseeable future.

The semiconductor industry is intensely competitive and highly cyclical, limiting our visibility with respect to future sales. To the extent that macroeconomic fluctuations negatively affect our principal licensees, the demand for our technology may be significantly and adversely impacted and we may experience substantial period-to-period fluctuations in our operating results. In February 2012, Elpida, one of our top 10 customers by revenue for the past two years, commenced bankruptcy proceedings in Japan as a result of debt loads, competition and declining prices for memory chips. Additionally, our royalty revenue from certain customers in the DRAM market, such as Samsung and Elpida, are variable and are based on our licensees' revenue two quarters in arrears. As the DRAM market declined in the second half of 2011, our revenue for the nine months ended September 30, 2012 was negatively impacted.

However, we have begun to see an increase in demand in DRAM industry in the beginning of 2012 which we expect will have a positive impact to our revenue in the remainder of 2012.

The royalties we receive from our semiconductor customers are partly a function of the adoption of our technologies by system companies. Many system companies purchase semiconductors containing our technologies from our

customers and do not have a direct contractual relationship with us. Our customers generally do not provide us with details as to the identity or volume of licensed semiconductors purchased by particular system companies. As a result, we face difficulty in analyzing the extent to which our future revenue will be dependent upon particular system companies. System companies face intense competitive pressure in their markets, which are characterized by extreme volatility, frequent new product introductions and rapidly shifting consumer preferences. The display industry is intensely competitive and highly cyclical. Since LED backlighting solutions are increasingly

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pervasive in LCDs for computers, smartphones, tablets, game systems, high definition televisions and any user interface incorporating an active display, the trend towards higher resolution displays across these products requires more LEDs per system. The increased usage of LEDs is thereby creating a need for increased power efficiency since the LED backlight is the primary source of power consumption in many consumer electronics products including smartphones.

The highly fragmented general lighting industry is undergoing a fundamental shift from incandescent technology to cold cathode fluorescent lights and LED driven technology by the need to reduce energy consumption and to comply with government mandates. LED lighting typically saves energy costs as compared to existing installed lighting. Our LDT group's patents in LED edge lit lightguide technology also can be applied in the design of next generation LED lighting products. Our goal is to be a major player in the general lighting industry with our technology, and we have established a technology center in Brecksville, Ohio.

Global demand for effective security technologies continues to increase. In particular, highly integrated devices such as smart phones and tablets are increasingly used for applications requiring security such as mobile payments, content protection, corporate information and user data. Our CRI group is primarily focused on positioning its DPA countermeasures and CryptoFirewall technology solutions to capitalize on these trends and growing adoption among technology partners and customers.

Our revenue from companies headquartered outside of the United States accounted for approximately 75% and 74% of our total revenue for the three and nine months ended September 30, 2012, respectively, as compared to 58% and 69% of our total revenue for the three and nine months ended September 30, 2011, respectively. We expect that revenue derived from international customers will continue to represent a significant portion of our total revenue in the future. To date, all of the revenue from international customers have been denominated in U.S. dollars. However, to the extent that such licensees' sales to their customers 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 products sold by our foreign customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for licensed products could fall, which in turn would reduce our royalties. We do not use financial instruments to hedge foreign exchange rate risk.

For additional information concerning international revenue, see Note 11, "Business Segments and Major Customers," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

Engineering costs in the aggregate decreased and as a percentage of revenue increased for the three months ended September 30, 2012 and in the aggregate and as a percentage of revenue increased for the nine months ended September 30, 2012, as compared to the same periods in the prior year. In the near term, we expect engineering costs to be higher as we intend to continue to make investments in the infrastructure and technologies required to maintain our product innovation in semiconductor, lighting, security and other technologies.

Marketing, general and administrative expenses in the aggregate and as a percentage of revenue decreased for the three and nine months ended September 30, 2012, as compared to the same periods in the prior year. Historically, we have been involved in litigation stemming from the unlicensed use of our inventions. Our litigation expenses have been high in the past and difficult to predict and future litigation expenses could 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 may not grow or may decrease. Furthermore, our success in litigation matters pending before courts and regulatory bodies that relate to our intellectual property rights have impacted and will likely continue to impact our ability and the terms upon which we are able to negotiate new or renegotiate existing licenses for our technology. We expect to continue to pursue litigation against those companies that have infringed our patented technologies, which in turn will cause litigation expenses to remain significant until such litigation is resolved. Additionally, in the near term, we expect our non-litigation marketing, general and administrative costs to be lower due to our restructuring plan undertaken during the third quarter of 2012.

Our continued pursuit of litigation and investment in research and development projects, combined with any lower revenue from our customers in the future, will negatively affect our cash from operations.

## Results of Operations



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

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	Three Months Ended		Nine Months Ended		
	September 30, 2012	2011	September 30, 2012	2011	
Revenue:					
Royalties	99.7	% 96.0	% 99.2	% 94.5	%
Contract revenue	0.3	% 4.0	% 0.8	% 5.5	%
Total revenue	100.0	% 100.0	% 100.0	% 100.0	%
Operating costs and expenses:					
Cost of revenue*	13.1	% 7.4	% 12.5	% 7.3	%
Research and development*	53.3	% 32.3	% 60.8	% 34.9	%
Marketing, general and administrative*	42.2	% 48.8	% 51.7	% 52.1	%
Restructuring charges	11.5	% —	% 3.7	% —	%
Impairment of goodwill and long-lived assets	61.7	% —	% 20.1	% —	%
Costs of restatement and related legal activities	0.1	% 0.8	% 0.1	% 1.2	%
Gain from settlement	—	% —	% —	% (2.7)	)%
Total operating costs and expenses	181.9	% 89.3	% 148.9	% 92.8	%
Operating income (loss)	(81.9)	)% 10.7	% (48.9)	)% 7.2	%
Interest income and other income (expense), net	0.0	% 0.2	% 0.1	% 0.2	%
Interest expense	(12.4)	)% (6.4)	)% (11.6)	)% (8.0)	)%
Interest and other income (expense), net	(12.4)	)% (6.2)	)% (11.5)	)% (7.8)	)%
Income (loss) before income taxes	(94.3)	)% 4.5	% (60.4)	)% (0.6)	)%
Provision for income taxes	6.7	% 4.0	% 6.5	% 5.7	%
Net income (loss)	(101.0)	)% 0.5	% (66.9)	)% (6.3)	)%

\* Includes stock-based compensation:

Cost of revenue	0.0	% 0.1	% 0.0	% 0.2	%
Research and development	3.9	% 2.8	% 4.3	% 3.4	%
Marketing, general and administrative	5.0	% 4.3	% 5.9	% 5.8	%

(Dollars in millions)	Three Months		Change in Percentage	Nine Months		Change in Percentage
	Ended September 30, 2012	2011		Ended September 30, 2012	2011	
Total Revenue						
Royalties	\$57.3	\$96.2	(40.4 )%	\$175.1	\$216.4	(19.1 )%
Contract revenue	0.2	4.1	(95.8 )%	1.5	12.6	(88.2 )%
Total revenue	\$57.5	\$100.3	(42.6 )%	\$176.6	\$229.0	(22.9 )%

## Royalty Revenue

## Patent Licenses

Our patent royalties decreased approximately \$37.3 million to \$51.3 million for the three months ended September 30, 2012 from \$88.6 million for the same period in 2011. The decrease was primarily due to recognition of one-time royalty revenue during the third quarter of 2011 from patent license agreements signed in the second and third quarter of 2011 and lower royalties reported by certain customers in the semiconductor industry. The decreased revenue is partially offset by revenue recognized from various new patent license agreements signed in 2012.

Our patent royalties decreased approximately \$34.8 million to \$160.2 million for the nine months ended September 30, 2012 from \$195.0 million for the same period in 2011 for the same reasons as discussed above.

We are in negotiations with prospective customers. We expect patent royalties will continue to vary from period to period based on our success in 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 or hybrid in nature.

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## Solutions Licenses

Royalties from solutions licenses decreased approximately \$1.6 million to \$6.0 million for the three months ended September 30, 2012 from \$7.6 million for the same period in 2011. The decrease was primarily due to lower royalties reported from decreased shipments related to DDR2 technologies.

Royalties from solutions licenses decreased approximately \$6.5 million to \$14.9 million for the nine months ended September 30, 2012 from \$21.4 million for the same period in 2011. The decrease was primarily due to lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product.

In the future, we expect solutions royalties will continue to vary from period to period based on our licensees' shipment volumes, sales prices, and product mix.

## Contract Revenue

Contract revenue decreased approximately \$3.9 million to \$0.2 million for the three months ended September 30, 2012 from \$4.1 million for the same period in 2011. Contract revenue decreased approximately \$11.1 million to \$1.5 million for the nine months ended September 30, 2012 from \$12.6 million for the same period in 2011. The decrease in both periods was primarily due to absence of new technology development contracts in 2012.

We believe that contract revenue recognized will continue to fluctuate over time based on our ongoing contractual requirements, the amount of work performed, the timing of completing engineering deliverables, and the changes to work required, as well as new technology development contracts booked in the future.

## Engineering costs:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage		
	September 30, 2012	2011		September 30, 2012	2011			
Engineering costs								
Cost of revenue	\$0.2	\$0.8	(73.4)	)%	\$0.5	\$4.1	(88.7)	)%
Amortization of intangible assets	7.3	6.5	11.9	%	21.5	12.0	79.7	%
Stock-based compensation	0.0	0.1	(94.4)	)%	0.0	0.5	(96.0)	)%
Total cost of revenue	7.5	7.4	1.4	%	22.0	16.6	32.5	%
Research and development	28.5	29.5	(3.7)	)%	99.9	72.1	38.5	%
Stock-based compensation	2.2	2.8	(20.0)	)%	7.5	7.8	(2.6)	)%
Total research and development	30.7	32.3	(5.1)	)%	107.4	79.9	34.5	%
Total engineering costs	\$38.2	\$39.7	(3.9)	)%	\$129.4	\$96.5	34.2	%

Total engineering costs decreased for the three months ended September 30, 2012 as compared to the same period in 2011 primarily due to a decrease of \$2.9 million in accrual of the retention bonuses related to acquisitions as the first payment related to the CRI retention bonus was paid in the second quarter of 2012, decreased bonus expense of \$1.8 million attributable mainly to the reversal of accruals relating to our corporate incentive plan and the receipt of \$0.9 million related to the sale of some patents, partially offset by increased headcount related costs of \$2.4 million from additional employees to support our research and development efforts and increased consulting costs of \$1.4 million.

Total engineering costs increased for the nine months ended September 30, 2012 as compared to the same period in 2011 primarily due to increased headcount related costs of \$10.2 million from additional employees to support our research and development efforts, increased amortization expense related to intangible assets acquired since early 2011 of \$9.6 million, increased accrual of retention bonuses related to acquisitions of \$8.1 million and increased consulting expenses of \$4.5 million.

In the near term, we expect engineering costs to be higher as we intend to continue to make investments in the infrastructure and technologies required to maintain our product innovation in semiconductor, lighting, security and other technologies.



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Marketing, general and administrative costs:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2012	2011		September 30, 2012	2011	
Marketing, general and administrative costs	\$18.8	\$21.1	(10.6 )%	\$69.7	\$61.9	12.5 %
Marketing, general and administrative costs	\$18.8	\$21.1	(10.6 )%	\$69.7	\$61.9	12.5 %
Litigation expense	2.6	23.5	(89.1 )%	11.2	44.2	(74.8 )%
Stock-based compensation	2.9	4.4	(34.2 )%	10.4	13.3	(21.3 )%
Total marketing, general and administrative costs	\$24.3	\$49.0	(50.5 )%	\$91.3	\$119.4	(23.6 )%

Total marketing, general and administrative costs decreased for the three months ended September 30, 2012 as compared to the same period in 2011, which included a decrease in litigation expenses related to ongoing major cases of \$21.0 million. Non-litigation related marketing, general and administrative costs decreased in the third quarter of 2012 primarily due to decreased bonus expense of \$3.0 million attributable mainly to the reversal of accruals relating to our corporate incentive plan and decreased stock-based compensation expense of \$1.5 million.

Total marketing, general and administrative costs decreased for the nine months ended September 30, 2012 as compared to the same period in 2011, which included a decrease in litigation expenses related to ongoing major cases of \$33.1 million. Non-litigation related marketing, general and administrative costs increased for the nine months ended September 30, 2012 primarily due to increased headcount related costs of \$4.0 million from the increase in employees to support our business, increased accrual of the retention bonuses related to acquisitions of \$1.8 million, increased consulting expenses of \$1.4 million and increased costs related to sales and marketing events of \$1.4 million offset by decreased bonus expense of \$3.9 million attributable mainly to the reversal of accruals relating to our 2012 corporate incentive plan and decreased stock-based compensation expense of \$2.9 million.

In the future, marketing, general and administrative costs will vary from period to period based on the trade shows, advertising, legal, acquisition and other marketing and administrative activities undertaken, and the change in sales, marketing and administrative headcount in any given period. In the near term, we expect our non-litigation marketing, general and administrative costs to decrease due to our restructuring plan undertaken during the third quarter of 2012. Litigation expenses are expected to vary from period to period due to the variability of litigation activities.

Restructuring charges:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2012	2011		September 30, 2012	2011	
Restructuring charges	\$6.6	\$—	100.0 %	\$6.6	\$—	100.0 %

During the third quarter of 2012, we initiated a restructuring program to reduce overall corporate expenses which is expected to improve future profitability by reducing spending on marketing, general and administrative programs and refining some of our research and development efforts. As a result of the restructuring program, we recorded a pre-tax charge of \$6.6 million during the third quarter of 2012 related primarily to the reduction in workforce, which included approximately \$1.8 million in early termination payments to certain employees related to their previous retention bonus arrangements. We expect to substantially complete our restructuring activities by the first quarter of 2013. Refer to Note 16, "Restructuring Charges," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

Impairment of goodwill and long-lived assets:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2012	2011		September 30, 2012	2011	

Impairment of goodwill and long-lived assets	\$35.5	\$—	100.0	%	\$35.5	\$—	100.0	%
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During the third quarter of 2012, we recorded a non-cash charge for the impairment of goodwill and long-lived assets within our LDT group of approximately \$35.5 million. Under generally accepted accounting principles, when indicators of potential impairment are identified, companies are required to conduct a review of the carrying amounts of goodwill and other long-lived assets to determine if impairment exists. We conducted this impairment review as a result of the change in our business strategy with less focus on the higher margin display technology licensing and an increased focus on general lighting technologies. Refer to Note 12, “Goodwill and Long-lived Assets,” of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

Cost of restatement and related legal activities:

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2012	2011	Change in Percentage	September 30, 2012	2011	Change in Percentage
Cost of restatement and related legal activities	\$0.1	\$0.8	(90.5)%	\$0.2	\$2.7	(92.9)%

Cost of restatement and related legal activities consist primarily of settlement payments, investigation, audit, legal and other professional fees related to the 2006-2007 stock option investigation and the filing of the restated financial statements and related litigation.

Cost of restatement and related legal activities were \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2012, respectively, primarily due to a relative lack of litigation expense associated with the derivative lawsuit related to the 2006-2007 stock option investigation. Until all the litigation and related issues are resolved, we anticipate that there could be additional amounts relating to these matters in the future.

Gain from settlement:

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2012	2011	Change in Percentage	September 30, 2012	2011	Change in Percentage
Gain from settlement	\$—	\$—	—%	\$—	\$6.2	(100.0)%

The settlement with Samsung is a multiple element arrangement for accounting purposes. For a multiple element arrangement, we are required to determine the fair value of the elements. We considered several factors in determining the accounting fair value of the elements of the settlement with Samsung which included a third party valuation using an income approach, the Black-Scholes-Merton option pricing model and a residual approach (collectively the “Fair Value”). The total gain from settlement related to the settlement with Samsung of \$133.0 million was recognized as of the end of the first quarter of 2011. The gain from settlement represents the Fair Value of the cash consideration allocated to the resolution of the antitrust litigation settlement and the residual value of other elements.

Interest and other income (expense), net:

(Dollars in millions)	Three Months			Nine Months		
	Ended September 30, 2012	2011	Change in Percentage	Ended September 30, 2012	2011	Change in Percentage
Interest income and other income (expense), net	\$—	\$0.2	(107.0)%	\$0.2	\$0.5	(62.8)%
Interest expense	(7.1)	(6.4)	12.1%	(20.4)	(18.5)	10.6%
Interest and other income (expense), net	\$(7.1)	\$(6.2)	15.5%	\$(20.2)	\$(18.0)	12.5%

Interest income and other income (expense), net, consists primarily of interest income generated from investments in high quality fixed income securities.

Interest expense consists of interest expense associated with our imputed facility lease obligations on the Sunnyvale and Ohio facilities and non-cash interest expense related to the amortization of the debt discount and issuance costs on the 5% convertible senior notes due 2014 (the “2014 Notes”) as well as the coupon interest related to the 2014 Notes.



We expect our non-cash interest expense to increase steadily as the 2014 Notes reach maturity.

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## Provision for income taxes:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2012	2011		September 30, 2012	2011	
Provision for income taxes	\$3.9	\$4.1	(5.3 )%	\$11.6	\$12.9	(10.8 )%
Effective tax rate	(7.1 )%	89.5 %		(10.8 )%	(929.2 )%	

Our effective tax rates for the three and nine months ended September 30, 2012 were different from the U.S. statutory tax rate due to foreign withholding taxes, a full valuation allowance on our U.S. net deferred tax assets and foreign losses with no current tax benefit recorded. During the quarter ended September 30, 2012, we calculated our interim tax provision to record taxes incurred by the U.S. entity on a discrete basis because we are projecting losses in which a tax benefit cannot be recognized.

During the three and nine months ended September 30, 2012, we paid withholding taxes of \$3.7 million and \$11.8 million, respectively. We recorded a provision for income taxes of \$3.9 million and \$11.6 million, respectively, for the three and nine months ended September 30, 2012, which is primarily comprised of withholding taxes and other foreign taxes. As we continue to maintain a valuation allowance against our U.S. deferred tax assets, our tax provision is based primarily on the withholding taxes, other foreign taxes and state taxes.

Our effective tax rates for the three and nine months ended September 30, 2011 were different from the U.S. statutory tax rate due to foreign withholding taxes, a full valuation allowance on our U.S. net deferred tax assets and foreign losses not benefited.

## Liquidity and Capital Resources

	As of	
	September 30, 2012	December 31, 2011
	(In millions)	
Cash and cash equivalents	\$152.2	\$162.2
Marketable securities	54.9	127.2
Total cash, cash equivalents, and marketable securities	\$207.1	\$289.4
	Nine Months Ended	
	September 30,	
	2012	2011
	(In millions)	
Net cash provided by (used in) operating activities	\$(19.7 )	\$51.0
Net cash provided by (used in) investing activities	\$8.1	\$(22.4 )
Net cash provided by (used in) financing activities	\$1.6	\$(83.0 )

## Liquidity

We currently anticipate that existing cash, cash equivalents and marketable securities balances and cash flows from operations will be adequate to meet our cash needs for at least the next 12 months. Additionally, substantially all of our cash and cash equivalents are in the United States. Our cash needs for the nine months ended September 30, 2012 were funded primarily from maturities of marketable securities.

We do not anticipate any liquidity constraints as a result of either the current credit environment or investment fair value fluctuations. Additionally, we have the intent and ability to hold our debt investments that have unrealized losses in accumulated other comprehensive loss for a sufficient period of time to allow for recovery of the principal amounts invested. Additionally, we have no significant exposure to European sovereign debt. We continually monitor the credit risk in our portfolio and mitigate our credit risk exposures in accordance with our policies. As described elsewhere in this "Management's



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Discussion and Analysis of Financial Condition and Results of Operations” and this Quarterly Report on Form 10-Q, we are involved in ongoing litigation related to our intellectual property and our past stock option investigation. Any adverse settlements or judgments in any of this litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur.

**Operating Activities**

Cash used in operating activities of \$19.7 million for the nine months ended September 30, 2012 was primarily attributable to the net loss adjusted for certain non-cash items including impairment of goodwill and long-lived assets of \$35.5 million, stock-based compensation expense, non-cash interest expense, depreciation and amortization expense. Changes in operating assets and liabilities for the nine months ended September 30, 2012 primarily included decreases in accounts payable, offset by increases in accrued salaries and prepaid expenses and other assets.

Cash provided by operating activities of \$51.0 million for the nine months ended September 30, 2011 was attributable to the net loss adjusted for non-cash items, including stock-based compensation expense, non-cash interest expense, depreciation and amortization expense. Changes in operating assets and liabilities for the nine months ended September 30, 2011 primarily included decreases in accrued salaries due to the payout of the 2010 corporate incentive plan and the bonus related to the Samsung settlement, offset by increases in accounts payable, accrued litigation and prepaid expenses and other assets.

**Investing Activities**

Cash provided by investing activities of \$8.1 million for the nine months ended September 30, 2012 primarily consisted of proceeds from the maturities of available-for-sale marketable securities of \$149.5 million, offset by cash paid for purchases of available-for-sale marketable securities of \$77.6 million and the acquisition of Unity and other business of \$46.3 million, net of cash acquired. In addition, we paid \$15.8 million to acquire property, plant and equipment, primarily related to building improvements, and \$1.7 million for intangible assets.

Cash used in investing activities of \$22.4 million for the nine months ended September 30, 2011 primarily consisted of cash paid for the acquisition of CRI of \$167.4 million, net of cash acquired, purchases of available-for-sale marketable securities of \$94.2 million, partially offset by proceeds from the maturities of available-for-sale marketable securities of \$254.3 million. In addition, we paid \$15.0 million to acquire property and equipment, primarily computer and machinery equipment and software.

**Financing Activities**

Cash provided by financing activities was \$1.6 million for the nine months ended September 30, 2012 primarily due to proceeds of \$1.7 million from issuance of common stock under equity incentive plans, partially offset by \$0.1 million in payments under installment payment arrangement for fixed assets.

Cash used in financing activities was \$83.0 million for the nine months ended September 30, 2011 as a result of the repurchase in August 2011 from Samsung of approximately 4.8 million shares of the Company's common stock for an aggregate amount of \$100.0 million pursuant to a put exercised by Samsung in accordance with the terms of a stock purchase agreement with Samsung dated January 19, 2010. This is partially offset by \$8.8 million received from the landlord for the tenant improvements related to the lease in Sunnyvale and \$9.5 million from issuance of common stock under equity incentive plans. We also made payments of \$0.9 million under an installment payment plan to acquire intangible assets and \$0.5 million related to the principal payments against the lease financing obligation.

**Contractual Obligations**

As of September 30, 2012, our material contractual obligations are (in thousands):

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	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$56,181	\$ 1,682	\$6,825	\$6,994	\$7,165	\$7,345	\$26,170
Leases and other contractual obligations (3)	12,561	5,132	1,818	1,660	1,544	1,049	1,358
Software licenses (4)	2,545	2,106	359	80	—	—	—
Acquisition retention bonuses (5)	40,723	2,770	18,207	18,206	1,540	—	—
Convertible notes	172,500	—	—	172,500	—	—	—
Interest payments related to convertible notes	17,250	4,313	8,625	4,312	—	—	—
Total	\$301,760	\$ 16,003	\$35,834	\$203,752	\$10,249	\$8,394	\$27,528

(1) The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$17.2 million including \$8.0 million recorded as a reduction of long-term deferred tax assets and \$9.2 million in long-term income taxes payable, as of September 30, 2012. As noted in Note 9, "Income Taxes," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q 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.

(2) With respect to the imputed financing obligation, the main components of the difference between the amount reflected in the contractual obligations table and the amount reflected on the Condensed Consolidated Balance Sheets are the interest on the imputed financing obligation and the estimated common area expenses over the future periods. Additionally, the amount includes the amended Ohio lease and the amended Sunnyvale lease.

(3) Leases and other contractual obligations include our current commitment to purchase intellectual property from Elpida.

(4) We have commitments with various software vendors for non-cancellable license agreements generally having terms longer than one year. The above table summarizes those contractual obligations as of September 30, 2012 which are also presented on our Condensed Consolidated Balance Sheet under current and other long-term liabilities.

(5) In connection with recent acquisitions, we are obligated to pay retention bonuses to certain employees and contractors, subject to certain eligibility and acceleration provisions including the condition of employment. The remaining \$33.3 million of CRI retention bonuses payable on June 3, 2013 and 2014 will be paid in cash or stock at our election. The portion to be paid in 2012 in the table above includes payments to be made to employees who were affected by the restructuring during the third quarter of 2012. See Note 16, "Restructuring Charges," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further details.

#### Share Repurchase Program

During the nine months ended September 30, 2012, we did not repurchase any shares of our Common Stock. As of September 30, 2012, we had repurchased a cumulative total of approximately 26.3 million shares of our Common Stock with an aggregate price of approximately \$428.9 million since the commencement of the program in 2001. As of September 30, 2012, there remained an outstanding authorization to repurchase approximately 5.2 million shares of our outstanding Common Stock.

We record stock repurchases as a reduction to stockholders' equity. 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.

#### 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, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, expense accrual, investments, income taxes,

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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) goodwill and intangible assets, (4) income taxes, (5) stock-based compensation, (6) marketable securities and (7) convertible notes. 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, 2011.

## Recent Accounting Pronouncements

See Note 2 “Recent Accounting Pronouncements” of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for discussion of recent accounting pronouncements including the respective expected dates of adoption.

## 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 investment policy, we limit the amount of exposure to \$15.0 million or 10% of the portfolio, whichever is lower, for any single non-U.S. Government issuer. A single U.S. Agency can represent up to 25% of the portfolio. No more than 20% of the total portfolio may be invested in the securities of an industry sector, with money market fund investments evaluated separately. Our policy requires that at least 10% of the portfolio be in securities with a maturity of 90 days or less. We may make investments in U.S. Treasuries, U.S. Agencies, corporate bonds and municipal bonds and notes with maturities up to 36 months. However, the bias of our investment portfolio is shorter maturities. All investments must be U.S. dollar denominated. Additionally, we have no significant exposure to European sovereign debt. We invest our cash equivalents and marketable securities in a variety of U.S. dollar financial instruments such as U.S. Treasuries, U.S. Government Agencies, commercial paper and corporate notes. 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 September 30, 2012, we had an investment portfolio of fixed income marketable securities of \$175.4 million including cash equivalents. If market interest rates were to increase immediately and uniformly by 1.0% from the levels as of September 30, 2012, the fair value of the portfolio would decline by approximately \$0.1 million. Actual results may differ materially from this sensitivity analysis. The table below summarizes the amortized cost, fair value, unrealized gains (losses) and related weighted average interest rates for our cash equivalents and marketable securities portfolio as of September 30, 2012 and December 31, 2011:

(Dollars in thousands)	As of September 30, 2012					Weighted Rate of Return	
	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			
Money market funds	\$ 118,508	\$ 118,508	\$—	\$—	0.01	%	
Corporate notes, bonds and commercial paper	56,886	56,906	—	(20 )	0.21	%	

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Total cash equivalents and marketable securities	175,394	175,414	—	(20 )
Cash	31,692	31,692	—	—
Total cash, cash equivalents and marketable securities	\$207,086	\$207,106	\$—	\$(20 )

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(Dollars in thousands)	As of December 31, 2011		Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return	
	Fair Value	Amortized Cost				
Money market funds	\$ 127,559	\$ 127,559	\$—	\$—	0.01	%
Corporate notes, bonds and commercial paper	137,108	137,208	—	(100 )	0.29	%
Total cash equivalents and marketable securities	264,667	264,767	—	(100 )		
Cash	24,789	24,789	—	—		
Total cash, cash equivalents and marketable securities	\$ 289,456	\$ 289,556	\$—	\$(100 )		

The fair value of our convertible notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the convertible notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the convertible notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of our convertible notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we do not carry the convertible notes at fair value. We present the fair value of the convertible notes for required disclosure purposes. The following table summarizes certain information related to our 2014 Notes as of September 30, 2012:

(in thousands)	Fair Value	Fair Value Given a	Fair Value Given a
		10% Increase in Market Prices	10% Decrease in Market Prices
5% Convertible Senior Notes due 2014	\$ 172,500	\$ 189,750	\$ 155,250

We invoice 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 design centers in India and Italy and small business development offices in Japan, Korea and Taiwan. We monitor our foreign currency exposure; however, as of September 30, 2012, we believe our foreign currency exposure is not material enough to warrant foreign currency hedging.

## Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Securities and Exchange Act of 1934 as amended (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2012, our disclosure controls and procedures were effective.

## Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

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### 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 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 “Special Note Regarding Forward-Looking Statements” elsewhere in this report.

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

The success of our business depends on sustaining or growing our royalty and contract revenue and the failure to achieve such revenue would lead to a material decline in our results of operations.

Our revenue consists mainly of patent and technology license fees paid for access to our patents and developed technology and development and support services provided to our licensees. Our ability to secure the licenses from which our revenues are derived depends on our customers adopting our technology and using it in the products they sell. As compared to 2009, our revenue increased 186.2% to \$323.4 million in 2010 due to the revenue recognized from the agreements signed with Samsung and Elpida during 2010. Our royalty revenue decreased 3.4% to \$312.4 million in 2011 from \$323.4 million in 2010. The decrease was primarily due to the one-time recognition of royalty revenue from the settlement agreement signed with Samsung in 2010 which was partially offset by the revenue recognized from one-time and/or ongoing licensing agreements with NVIDIA, Broadcom, Freescale and a major smartphone and tablet manufacturer in 2011. For the nine months ended September 30, 2012, compared to the same period in 2011, our revenue decreased 22.9% to \$176.6 million, primarily due to recognition of one-time royalty revenue during the third quarter of 2011 from patent license agreements signed in the second and third quarter of 2011 and lower royalties reported by certain customers in the semiconductor industry. If we do not achieve our revenue goals, our results of operations could decline.

If market leaders do not adopt our innovations, our results of operations could decline.

An important part of our strategy is to penetrate our target market segments 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 innovations. If a high profile industry participant adopts our innovations but fails to achieve success with its products or adopts and achieves success with a competing technology, 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 solutions adopted by their competitors or a strategy of otherwise undermining the market adoption of our solutions.

We target market-leading companies to adopt our technologies, particularly those that develop and market high volume business and consumer products in semiconductors, computing, tablets, handheld devices, mobile applications, gaming and graphics, high definition televisions and displays, general lighting, cryptography and data security. We have diversified our technologies through the establishment of our NBG operations and will continue to seek out other target markets in and related to computing, gaming and graphics, consumer electronics, mobile, general lighting, and security applications. We are subject to many risks beyond our control that influence whether or not a potential licensee or partner company will adopt our technologies, including, among others:

- competition faced by a company in its particular industry;
- the timely introduction and market acceptance of a company’s products;
- the engineering, sales and marketing and management capabilities of a company;
- technical challenges unrelated to our innovations faced by a company in developing its products;
- the financial and other resources of a company; and
- the degree to which our licensees promote our innovations to their customers.

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 markets

in order to

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generate expected royalties. If market leaders do not successfully adopt our technologies for any of these reasons, our strategy may not be successful and, as a result, our results of operations could decline.

We have traditionally operated in the semiconductor industry that is highly cyclical and in which the number of our potential customers may be in decline as a result of industry consolidation.

The semiconductor industry is intensely competitive and has been impacted by price erosion, rapid technological change, short product life cycles and cyclical market patterns. Significant economic downturns characterized by diminished demand, erosion of average selling prices, production overcapacity and production capacity constraints can affect the highly cyclical semiconductor industry. The economic downturn of the past several years impacted the semiconductor industry, and the threats of further regional or worldwide downturn are evident today. As a result, we may achieve a reduced number of licenses, tightening of customers' operating budgets, difficulty or inability of our customers to pay our licensing fees, extensions of the approval process for new licenses and consolidation among our customers, all of which may adversely affect the demand for our technology and may cause us to experience substantial period-to-period fluctuations in our operating results.

Many of our customers operate in industries that experience significant declines as a result of the recent economic downturns. In particular, DRAM manufacturers, which make up many of our existing and potential licensees, have suffered material losses and other adverse effects to their businesses. Pressures on the DRAM businesses may result in industry consolidation as companies seek to reduce costs and improve profitability through business combinations. Consolidation among our existing DRAM and other customers may result in loss of revenues under existing license agreements. Consolidation among companies in the DRAM and other industries within which we license our technology may reduce the number of future licensees for our products and services. In either case, consolidation in the DRAM and other industries in which we operate may negatively impact our short-term and long-term business prospects, licensing revenues and results of operations. For example, in February 2012, Elpida, one of our top 10 licensees by revenue for the past two years, commenced bankruptcy proceedings in Japan as a result of debt loads, competition and declining prices for memory chips, among other reasons, and on July 2, 2012, Micron Technology, Inc. announced that it entered into a definitive sponsor agreement for Micron to acquire and support Elpida, expected to close in the first half of 2013 subject to numerous closing conditions and approvals. While we have, to date, received the licensing fees owed to us by Elpida, we cannot predict the impact of these transactions on the Elpida license or on any future renewal with Elpida.

We face intense competition in all of our target markets that may cause our results of operations to suffer.

We 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, GDDRx SDRAM and LPDDRx 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. Wider applications of other developing memory technologies, including FLASH memory, may also pose competition to our licensed memory solutions. 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.

We also face competitive threats in the cryptography and lighting and display markets. Our CRI group faces competition from large semiconductor manufacturers and other companies that offer various security solutions, including hardware with on-chip security features, software based offerings and other products and services. Potential

competitors may either develop their own competing offerings or acquire assets, companies or businesses that provide products or services that compete with our security technologies. The lighting and display industry is intensely competitive and is impacted by rapid technological change, shifting government mandates, cyclical market patterns and increasing foreign and domestic competition. In particular, our LDT group faces competition from system and subsystem providers of backlighting and general lighting solutions, some of which have substantial resources and operations.

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

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If we do not succeed in developing our CRI and LDT businesses, our results of operations may be adversely affected. The future success of our CRI and LDT groups, depends on our ability to develop new or emerging licensing opportunities in these markets.

For our CRI group, we will be required to continue to develop and provide robust data security technologies that are effective for licensees. Licensing of data security technologies also presents challenges in the face of intense competition. CRI will be required to continue to license differential power analysis countermeasures and other security technologies, and develop new security technologies in order to grow market acceptance and revenue. For our LDT group, we will be required to improve the visual capabilities, form factor, power efficiency and cost-effectiveness of backlighting of LCD displays in products for computing, gaming and graphics, consumer electronics, mobile and general lighting applications. We will need to keep pace with rapid changes in advanced lighting and optoelectronics technology, changing consumer requirements, new product introductions and evolving industry standards, any of which could render our existing technology obsolete if we fail to respond in a timely manner. The extent to which companies in the general lighting industry adopt solid state lighting and license our lighting technologies, and the timing of such adoption and licensing, if it occurs at all, is subject to many factors beyond our control and is not predictable by us. We are subject to many risks beyond our control that influence whether or not a potential licensee or partner company will adopt and license our lighting technologies.

In addition to our CRI and LDT groups, our MTD group is another emerging business. To date, our MTD group has not generated any revenue, but our intent is to grow MTD in order to provide innovative software and technological solutions to satisfy the anticipated requirements of developers, chip suppliers and manufacturers in the market for mobile electronic products. If the development of our MTD business does not occur, our ability to achieve success in this market may be limited, and this may in turn adversely affect our potential for long term revenue growth.

The development, application and licensing of new technologies in security and lighting and display technology is a complex process subject to a number of uncertainties, including the integration of these businesses into the rest of our company. Our competitors have significant marketing, workforce, financial and other resources and longer operating history which could make acceptance of our technologies more difficult. If others develop innovative technologies that are superior to ours or if we fail to accurately anticipate technology and market trends, respond on a timely basis with our own new enhancements and technology and achieve broad market acceptance of these enhancements and technology, our competitive position may be harmed and our operating results may be adversely affected.

In order to grow, we may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.

If new competitors, technological advances by existing competitors, our entry into new markets and/or development of new technologies or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. For the nine months ended September 30, 2012 and 2011, research and development expenses were \$107.4 million and \$79.9 million, respectively. For the years ended December 31, 2011 and 2010, research and development expenses were \$115.7 million and \$92.7 million, respectively. Research and development expenses also include amounts for retention bonuses for employees hired as a result of acquisitions, which will be incurred in greater amounts in 2012 as compared to prior years. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results could decline. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development, including as a result of acquisitions and our investment in new technologies. In order to grow, including entering new markets and/or developing new technologies, we anticipate that we will continue to devote substantial resources to research and development. We expect these expenses to increase in absolute dollars in the foreseeable future as our technology development efforts continue.

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

We have a high degree of revenue concentration. Our top five licensees for each reporting period represented approximately 69% and 68% of our revenues for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, revenues from NVIDIA and Samsung each accounted for 10% or

more of our total revenue. For the nine months ended September 30, 2011, revenue from Elpida, Freescale, NVIDIA and Samsung each accounted for 10% or more of our total revenue. Our top five licensees for each reporting period represented approximately 66% and 85% of our revenues for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2011, revenues from Elpida, NVIDIA and Samsung, each accounted for 10% or more of our revenue. We expect to continue to experience significant revenue concentration for the foreseeable future.

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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, renewal of existing contracts, industry consolidation, including the pending acquisition of Elpida by Micron and the combination in 2010 of NEC and Renesas, 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.

We continue to be in negotiations with licensees and prospective licensees to reach patent license agreements for DRAM devices and DRAM controllers. We expect that 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. A number of our material license agreements are scheduled to expire in 2015. However, we cannot provide any assurance that we will reach agreement on renewal terms or that the royalty rates we will be entitled to receive under the new agreements will be as favorable to us as our current agreements. If we are unsuccessful in renewing any of these patent license agreements, our results of operations may decline significantly. If our counterparties are unable to fulfill their financial and other obligations to us, our business and results of operations may be affected adversely.

Any downturn in economic conditions or other business factors could threaten the financial health of our counterparties, including companies with whom we have entered into licensing arrangements, settlement agreements or that have been subject to litigation judgments that provide for payments to us, and their ability to fulfill their financial and other obligations to us. Such financial pressures on our counterparties may eventually lead to bankruptcy proceedings or other attempts to avoid financial obligations that are due to us under licenses, settlement agreements or litigation judgments. Because bankruptcy courts have the power to modify or cancel contracts of the petitioner which remain subject to future performance and alter or discharge payment obligations related to pre-petition debts, we may receive less than all of the payments that we would otherwise be entitled to receive from any such counterparty as a result of a bankruptcy proceedings. For example, in February 2012, Elpida, one of our top 10 licensees by revenue for the past two years, commenced bankruptcy proceedings in Japan as a result of debt loads, competition and declining prices for memory chips, among other reasons, and on July 2, 2012, Micron Technology, Inc. announced that it entered into a definitive sponsor agreement for Micron to acquire and support Elpida, expected to close in the first half of 2013 subject to numerous closing conditions and approvals. In addition, in 2009, two of our counterparties, Qimonda and Spansion, were subject to insolvency proceedings in their applicable jurisdictions as a result of a downturn in business which led to lower than anticipated or no payment to us. If we are unable to collect royalties or any other payments owed to us or if counterparties such as Elpida are unable to exit bankruptcy proceedings or we otherwise suffer a loss of business as a result of such proceedings, including due to any change in business after the acquisition of our counterparty out of such proceedings, or if other of our counterparties enter into bankruptcy or otherwise seek to renegotiate their financial obligations to us as a result of the deterioration of their financial health, our business and results of operations may be affected adversely.

If we cannot respond to rapid technological change in our target markets by developing new innovations in a timely and cost-effective manner, our operating results will suffer.

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 semiconductor industry is characterized by rapid technological change, with new generations of semiconductors being introduced periodically and with ongoing improvements. 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.

Our 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 devote significant engineering resources to addressing the 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:

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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 to implement these new technologies.

In all of our target markets, 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 our innovation efforts, or that we will have, or be able to expend, sufficient resources required for the development of our innovations. In addition, there is market risk associated with these products for which we develop technological innovations, 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 target consumer market, our business results could suffer.

Security breaches or vulnerabilities in our data security technologies could harm our reputation, result in financial losses and divert resources.

Because the techniques used by hackers to access or sabotage secure chip and other technologies change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and may not address them in our CRI data security technologies. Furthermore, our data security technologies may also fail to detect or prevent security breaches due to a number of reasons such as the evolving nature of such threats and the continual emergence of new threats. An actual or perceived security breach of our licensees or their end-customers, regardless of whether the breach is attributable to the failure of our data security technologies, could adversely affect the market's perception of our security technologies. We may not be able to correct any security flaws or vulnerabilities promptly, or at all. Any breaches, defects, errors or vulnerabilities in our data security technologies could result in:

- expenditure of significant financial and research and development resources in efforts to analyze, correct, eliminate or work-around breaches, errors or defects or to address and eliminate vulnerabilities;
- financial liability to licensees for breach of certain contract provisions;
- loss of existing or potential licensees;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- negative publicity, which will harm our reputation; and
- litigation, regulatory inquiries or investigations that may be costly and harm our reputation.

We have in the past and may in the future make acquisitions or enter into mergers, strategic transactions or other arrangements that may or may not produce the expected operating and financial results.

We evaluate and engage in investments in or acquisitions of companies, products, patents or technologies, and may enter into strategic transactions or other arrangements from time to time. We have completed a number of acquisitions from 2009 to date, including the acquisition of CRI in 2011, our largest transaction to date. These acquisitions, investments, transactions or arrangements are likely to range in size, some of which may be significant. After completing our acquisitions, we may experience difficulty integrating personnel and operations, which could negatively affect our operating results. In addition:

- the key personnel of the acquired entity or business may decide not to work for us or may not perform according to our expectations;
- we may experience additional legal, financial and accounting challenges and complexities in areas such as licensing, tax planning, cash management and financial reporting;
- we may experience challenges with existing or prospective licensees as a result of potential conflict between pre-existing and historical relationships and any newly acquired engagements and agreements;
- our ongoing business, including our operations, technology development and deliveries to our customers, may be disrupted, and employee retention and productivity could also suffer;
- we may not be able to recognize the financial benefits we anticipated and/or we may suffer losses, both with respect to our ongoing business and the acquired entity or business;



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our increasing international presence resulting from acquisitions may lead to additional risks associated with operating outside the United States, including with respect to legal, employment and other areas of focus, and may increase our exposure to international currency, tax and political risks; and

our lack of experience with new products or technologies in new markets may cause us to fail to achieve expected financial and strategic benefits of the acquisition.

In connection with any future acquisitions or mergers, strategic transactions or other arrangements, we may incur substantial expenses regardless of whether any transactions occur. Further, the risks described above may be exacerbated as a result of managing multiple acquisitions simultaneously.

In addition, we may be required to assume the liabilities of the companies or related to the businesses we acquire. The assumption of such liabilities may include 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, which debt or equity securities could involve restrictive covenants or be dilutive to our existing stockholders.

From time to time, we may divest assets, where we may provide certain representations, warranties and covenants.

While we would ensure the accuracy of such representations and warranties and fulfillment of any ongoing obligations, we may be subject to claims by a purchaser of such assets.

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.

Our licensing cycle is lengthy and costly, and our marketing and licensing efforts may be unsuccessful.

The process of persuading customers to adopt and license our chip interface, lighting, display and data security, other technologies can be lengthy. Even if successful, there can be no assurance that our technologies will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to us.

We generally incur significant marketing and sales expenses prior to entering into our license agreements, generating a license fee and establishing a royalty stream from each licensee. The length of time it takes to establish a new licensing relationship can take many months or even years. In addition, our ongoing intellectual property litigation and regulatory actions have and will likely continue to have an impact on our ability to enter into new licenses and renewals of licenses. We may incur costs in any particular period before any associated revenue stream begins, if at all. If our marketing and sales efforts are very lengthy or unsuccessful, then we may face a material adverse effect on our business and results of operations as a result of failure or delay to obtain royalties.

Future revenue is difficult to predict for several reasons, and our failure to predict revenue accurately may result in our stock price declining.

Our lengthy and costly license negotiation cycle and our ongoing intellectual property litigation make our future revenue difficult to predict because we may not be successful in entering into licenses with our customers on our estimated timelines and we are reliant on the litigation timelines for any results or settlements.

While some of our license agreements provide for fixed, quarterly royalty payments, many of our license agreements provide for volume-based royalties, and may also be subject to caps on royalties in a given period. The sales volume and prices of our licensees' products in any given period can be difficult to predict. As a result, our actual results may differ substantially from analyst estimates or our forecasts in any given quarter.

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 revenue and may result in our missing previously announced earnings

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guidance or analysts' estimates which would likely cause our stock price to decline.

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

For the nine months ended September 30, 2012 and 2011, revenue received from our international customers constituted approximately 74% and 69% of our total revenue, respectively. For the years ended December 31, 2011 and 2010, revenue received from our international customers constituted approximately 67% and 93%, respectively, of our total revenue. As a result of our continued focus on international markets, we expect that future revenue derived from international sources will continue to represent a significant portion of our total revenue.

To date, all of the revenue from international licensees has 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.

We currently have international design operations in India and Italy and business development operations in Japan and Korea. Our international operations and revenue 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;
- treatment of revenue from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions, such as withholding taxes in Korea;
- foreign government laws and regulations and changes in these laws and regulations;
- 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;
- hiring, maintaining and managing a workforce remotely and under various legal systems;
- natural disasters, acts of war, terrorism, widespread illness or securities breaches;
- social, political and economic instability;
- geo-political issues; including changes in diplomatic and trade relationships; and
- cultural differences in the conduct of business both with licensees and in conducting business in our international facilities and international sales offices.

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

Weak global economic conditions may adversely affect demand for the products and services of our licensees.

Our operations and performance depend significantly on worldwide economic conditions, and the U.S. and world economies have experienced a prolonged period of weak economic conditions, and the threats of further regional or worldwide downturn are evident today. Uncertainty about global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values, which could have a material negative effect on the demand for the products of our licensees in the foreseeable future. Other factors that could influence demand include continuing increases in fuel and energy costs, competitive pressures, including pricing pressures, from companies that have competing products, changes in the credit market, conditions in the residential real estate and mortgage markets, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. If our licensees experience reduced demand for their products as a result of economic conditions or otherwise, our business and results of operations could be harmed.

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





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Our success is dependent upon our ability to identify, attract, compensate, motivate and retain qualified personnel, especially engineers, who can enhance our existing technologies and introduce new technologies. Competition for qualified personnel, particularly those with significant industry experience, is intense, in particular in the San Francisco Bay Area where we are headquartered and in the area of Bangalore, India where we have a design center. 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, and any changes in our strategic direction or business as a result of having new senior management, could be disruptive to our development efforts or business relationships and could cause our business and operations to suffer.

We are subject to various government restrictions and regulation, including on the sale of products and services that use encryption technology and those related to privacy and other consumer protection matters.

Regulatory initiatives throughout the world can also create new and unforeseen regulatory obligations on us and the technology we develop. The impact of these potential obligations varies based on the jurisdiction, but any such changes could impact whether we enter, maintain or expand our presence in a particular market or with particular potential licensees.

Various countries have adopted controls, license requirements and restrictions on the export, import and use of products or services that contain encryption technology. In addition, from time to time, governmental agencies have proposed additional requirements for encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. Restrictions on the sale or distribution of products or services containing encryption technology may impact the ability of CRI to license its data security technologies to the manufacturers and providers of such products and services in certain markets or may require CRI or its licensees to make changes to the licensed data security technology that is embedded in such products to comply with such restrictions. Government restrictions, or changes to the products or services of CRI licensees to comply with such restrictions, could delay or prevent the acceptance and use of such licensees' products and services. In addition, the United States and other countries have imposed export controls that prohibit the export of encryption technology to certain countries, entities and individuals. Our failure to comply with export and use regulations concerning encryption technology of CRI could subject us to sanctions and penalties, including fines, and suspension or revocation of export or import privileges.

We are subject to a variety of laws and regulations in the United States, the European Union and other countries that involve, for example, user privacy, data protection and security, content and consumer protection. A number of proposals are pending before federal, state, and foreign legislative and regulatory bodies that could significantly affect our business. Existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs and subject us to claims or other remedies.

Our operations are subject to risks of natural disasters, acts of war, terrorism, widespread illness or security breach 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 facilities, 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 facilities and transportation for our employees are susceptible to damage from earthquakes and other natural disasters such as fires, floods and similar events. Should a catastrophe 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. We also rely on our network infrastructure and technology systems for operational support and business activities, which are subject to damage from malicious code and other related vulnerabilities common to networks and computer systems, including acts of vandalism and potential security breach by third parties. Acts of terrorism, widespread illness, war and any event that causes failures or interruption in our network infrastructure and technology systems could have a negative effect at our international and domestic facilities and could harm our business, financial condition, and operating results.

Unanticipated changes in our tax rates or in the tax laws and regulations could expose us to additional income tax liabilities which could affect our operating results and financial condition.

We are subject to income taxes in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision (or benefit) for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations as well as other factors. Our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions which could affect our operating results.

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

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policies.

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations, including the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities, as described elsewhere in this report. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, expense accrual, investments, income taxes, litigation, goodwill and intangibles, and other contingencies. 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. In addition, actual results may differ from these estimates under different assumptions or conditions.

Changes in those methods, estimates and judgments could significantly affect our results of operations. In particular, the measurement of share-based compensation expense requires us to use valuation methodologies 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. Changes in these factors may affect both our reported results (including cost of contract revenue, research and development expenses, marketing, general and administrative expenses and our effective tax rate) and any forward-looking projections we make that incorporate projections of share-based compensation expense. Furthermore, there are no means, under applicable accounting principles, to compare and adjust our reported 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.

As a result of increased uncertainty regarding current and future market conditions and dynamics and the decline in our stock price, making a judgment on the value of our goodwill asset is becoming increasingly difficult, and may require management to perform an assessment on the value of goodwill more frequently.

To the extent that the market stock prices are depressed for prolonged periods of time and market conditions stagnate or worsen as a result of global debt fears and the threat of another financial crisis, or if we experience significant decreases in revenues, profitability, our stock price may continue to be adversely affected. Our stock price has had a precipitous decline over the last 18 months, and may continue to decrease and be subject to extreme volatility.

Although the stock price is just one factor in the calculation of fair value, if the stock price declines further, reaching the conclusion that fair value exceeds carrying value of goodwill, over time, the judgment of asset value will become increasingly more difficult. As a result, subsequent impairment tests may be more frequent and be based upon more negative assumptions and future cash flow projections, which may result in an impairment of this asset. Any impairment could reduce the recorded amount of goodwill with a corresponding charge to our earnings, which will adversely impact our results of operations.

Our business and operating results will be harmed if we are unable to manage growth in our business or if we undertake any restructuring activities.

Our business historically has experienced periods of rapid growth that have placed, and may continue to place, significant demands on our managerial, operational and financial resources. In managing 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.

From time to time, we may undertake to restructure our business, such as the reduction in our workforce that we announced in August 2012. There are several factors that could cause a restructuring to have an adverse effect on our business, financial condition and results of operations. These include potential disruption of our operations, the development of our technology, the deliveries to our customers and other aspects of our business. Employee morale and productivity could also suffer and we may lose employees whom we want to keep. Loss of sales, service and engineering talent, in particular, could damage our business. Any restructuring would require substantial management time and attention and may divert management from other important work. Employee reductions or other restructuring

activities also cause us to incur restructuring and related expenses such as severance expenses. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense.

**Risks Related to Capitalization Matters and Corporate Governance**

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.

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Our common stock 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 we expect to continue in the future in response to, among other things, the following:

- new litigation or developments in current litigation, including an unfavorable outcome to us from court proceedings relating to our ongoing litigation and reaction to any settlements that we enter into with former litigants, such as the November 2011 verdict against us in our San Francisco antitrust proceeding, and the unpredictability of litigation results or settlements and the timing and amount of any litigation expenses;
- any progress, or lack of progress, real or perceived, in the development of products that incorporate our innovations and technology companies' acceptance of our products, including the results of our efforts to expand into new target markets;
- our signing or not signing new licensees and the loss of strategic relationships with any licensee;
- the success of high volume consumer applications;
- the dependence of our royalties upon fluctuating sales volumes and prices of products that include our technology, including the seasonal shipment patterns of systems incorporating our products and semiconductor or system companies discontinuing major products incorporating our products;
- announcements of our technological innovations or new products by us, our licensees or our competitors;
- changes in our 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, whether voluntarily or as a result of financial difficulties;
- changes in our strategies, including changes in our licensing focus and/or acquisitions of companies with business models or target markets different from our own;
- changes in the economy and credit market and their effects upon demand for our technology and the products of our licensees;
- positive or negative reports by securities analysts as to our expected financial results and business developments;
- developments with respect to patents or proprietary rights and other events or factors;
- trading activity related to our share repurchase plans; and
- issuance of additional securities by us, including in acquisitions.

In addition, the stock market in general, and prices for companies in our industry in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

Because our outstanding senior convertible notes are convertible into shares of our common stock, volatility or depressed prices of our common stock could have a similar effect on the trading price of our notes. In addition, the existence of the notes may encourage short selling in our common stock by market participants because the conversion of the notes could depress the price of our common stock.

Sales of substantial amounts of shares of our common stock in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline. In addition, lack of positive performance in our stock price may adversely affect our ability to retain key employees.

We have been party to, and may in the future be subject to, lawsuits relating to securities law matters 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.

In connection with our stock option investigation, we and certain of our current and former officers and directors, as well as our current auditors, were subject to several stockholder derivative actions, securities fraud class actions and/or individual lawsuits 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 and state securities laws and state law claims for fraud and breach of fiduciary duty. While we have settled most of these actions, certain individual lawsuits continue to be adjudicated. For more information about the historic litigation described above, see Note 13, "Litigation and Asserted Claims," of Notes to Unaudited Condensed Consolidated Financial Statements contained in this Form 10-Q. The amount of time to resolve these current and any future



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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 expensed or accrued for 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 may exceed our current estimated accruals, possibly significantly.

Unfavorable outcomes and significant judgments, settlements and legal expenses in litigation related to our past and any future securities law claims could have material adverse impacts on our business, financial condition, results of operations, cash flows and the trading price of our common stock.

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, to protect and enforce our intellectual property and other needs.

We have indebtedness. In 2009, we issued \$172.5 million aggregate principal amount of our 2014 Notes. 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, litigation, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations in the future will be dedicated to the payment of the principal of our indebtedness as we are required to pay the principal amount of our 2014 Notes in cash upon conversion if specified conditions are met or when due;
- if upon any conversion of our 2014 Notes we are required to satisfy our conversion obligation with shares of our common stock or we are required to pay a “make-whole” premium with shares of our 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 all of our notes. Any required repayment of our notes as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

If we are at any time unable to generate sufficient cash flows 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.

If securities or industry analysts change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business or our market on the Internet or in the press. If one or more of the analysts who cover us change their recommendation regarding our stock adversely or otherwise publishes a negative analysis, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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 the historic Sarbanes-Oxley Act and recent Dodd-Frank Act, and new Securities and Exchange Commission regulations and NASDAQ rules, have historically created uncertainty for companies such as ours. Any 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. Any new investment of resources to comply with evolving laws, regulations and standards, 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 and our business and operations would suffer.

Our restated certificate of incorporation and bylaws, Delaware law and our outstanding convertible notes contain provisions

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that could discourage transactions resulting in a change in control, which may negatively affect the market price of our common stock.

Our restated certificate of incorporation, our bylaws and Delaware law contain provisions that might enable our management to discourage, delay or prevent a 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. Pursuant to such provisions:

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, which means that a new stockholder rights plan could be implemented by our board to replace our old plan that expired in 2010;

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;

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

our stockholders have no authority to call special meetings of stockholders; and

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

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.

Certain provisions of our outstanding convertible notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the notes will have the right, at their option, to require us to repurchase, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest on the notes, all or a portion of their notes. We may also be required to issue additional shares of our common stock upon conversion of such notes in the event of certain fundamental changes.

**Litigation, Regulation and 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 and make other claims, which could broadly impact our intellectual property rights, distract our management and cause substantial expenses and declines in our revenue 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, we became involved in litigation related to such efforts against different parties in multiple jurisdictions. In each of these cases, we have claimed infringement of certain of our patents, while the manufacturers of such products have generally sought damages and a determination that the patents in suit are invalid, unenforceable and not infringed. Among other things, the opposing parties have alleged that certain of our patents are unenforceable because 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). We have also become involved in litigation related to infringement of our patents related to products having certain peripheral interfaces. In addition, we did not prevail at jury trial in our antitrust suit against certain memory manufacturers in November 2011, which caused the market price of our stock to drop significantly, and we face appeals and further proceedings related to such actions. See Note 13, “Litigation and Asserted Claims,” of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

There can be no assurance that any or all of the opposing 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, delay paying royalties for the use of our patented technology, or obtain orders to require us to pay or reimburse their costs or attorneys’ fees in material amounts or post bonds to cover such amounts. Moreover, there is a risk that if one party prevails against us, other parties could use the

adverse result to defeat or limit our claims against them; conversely, there can be no assurance that if we prevail against one party, we will succeed against other parties on similar claims, defenses, or counterclaims. In addition, there is the risk that the pending litigations and other circumstances may cause

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us to accept less than what we now believe to be fair consideration in settlement.

Any of these matters or any future intellectual property litigation, whether or not determined in our favor or settled by us, is costly, may cause delays (including delays in negotiating licenses with other actual or potential licensees), 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.

Even if we are successful in our litigation, or any settlement of such litigation, there is no guarantee that the applicable opposing parties will be able to pay any damages awards timely or at all as a result of financial difficulties or otherwise. Delay or any or all of these adverse results could cause substantial expenses or declines in our revenue and stock price.

From time to time, we are subject to proceedings by government agencies, such as our Federal Trade Commission and European Commission proceedings over the past several years. These proceedings may result in adverse determinations against us or in other outcomes that could limit our ability to enforce or license our intellectual property, and could cause our revenue to decline substantially.

An adverse resolution by or with a governmental agency could result in severe limitations on our ability to protect and license our intellectual property, and would cause our revenue to decline substantially.

Third parties have and may attempt to use adverse findings by a government agency to limit our ability to enforce or license our patents in private litigations, to challenge or otherwise act against us with respect to such government agency proceedings, such as the attempts by Hynix to appeal our settlement with the European Commission and to assert claims for monetary damages against us, and other attempts by other adverse parties to challenge our settlement. Although we have successfully defeated certain attempts to do so, there can be no assurance that other third parties will not be successful in the future or that additional claims or actions arising out of adverse findings by a government agency will not be asserted against us.

Further, third parties have sought and may seek review and reconsideration of the patentability of inventions claimed in certain of our patents by the U.S. Patent and Trademark Office (“PTO”) and/or the European Patent Office (the “EPO”). Currently, we are subject to numerous re-examination proceedings, including proceedings initiated by Hynix and Micron as a defensive action in connection with our litigation against those companies. A number of these re-examination proceedings are being reviewed by the PTO’s Board of Patent Appeals and Interferences (“BPAI”). The BPAI has issued decisions in a few cases, finding the challenged claims of Rambus’s patents to be invalid. Decisions of the BPAI are subject to further PTO proceedings and appeal to the Court of Appeals for the Federal Circuit. A final adverse decision by the PTO or EPO could invalidate some or all of these patent claims and could also result in additional adverse consequences affecting other related U.S. or European patents, including in our intellectual property litigation. If a sufficient number of such patents are impaired, our ability to enforce or license our intellectual property would be significantly weakened and this could cause our revenue to decline substantially.

The pendency of any governmental agency acting as described above may impair our ability to enforce or license our patents or collect royalties from existing or potential licensees, as our litigation opponents may attempt to use such proceedings to delay or otherwise impair any pending cases and our existing or potential licensees may await the final outcome of any proceedings before agreeing to new licenses or pay royalties.

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 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. As we develop additional products and technology, we may face claims of infringement of various patents and other intellectual property rights by 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. Threatened or ongoing third-party claims of infringement actions may prevent us from pursuing additional development and licensing arrangements for some period. For example, we may

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discontinue negotiations with certain customers for additional licensing of our patents due to the uncertainty caused by our ongoing litigation on the terms of such licenses or of the terms of such licenses on our litigation. 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.

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;
- 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 or enforcing patents;
- changes in law will not be implemented, or changes in interpretation of such laws will occur, that will affect our ability to protect and enforce our patents and other intellectual property, including as a result of the passage of the America Invents Act of 2011 (which codifies several significant changes to the U.S. patent laws and will remain subject to certain rule-making and interpretation, including changing from a “first to invent” to a “first inventor to file” system, limiting where a patentee may file a patent suit, requiring the apportionment of patent damages, replacing interference proceedings with derivation actions, and creating a post-grant opposition process to challenge patents after they have issued);
- new legal theories and strategies utilized by our competitors will not be successful;

• others will not independently develop similar or competing chip interfaces or design around any patents that may be issued to us; or

• factors such as difficulty in obtaining cooperation from inventors, pre-existing challenges or litigation, or license or other contract issues will not present additional challenges in securing protection with respect to patents and other intellectual property that we acquire.

If any of the above were to occur, our operating results could be adversely affected.

In addition, our patents will continue to expire according to their terms, with expiration dates ranging from 2012 to 2030. Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations, or cash flows.

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

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.

We rely upon the accuracy of our licensees’ recordkeeping, and any inaccuracies or payment disputes for amounts owed to us under our licensing agreements 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 rarely are undertaken because they can be expensive, time consuming, and potentially detrimental to our ongoing business relationship with our licensees.

Therefore, we typically rely on the accuracy

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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 revenue than we are entitled to under the terms of our license agreements. If we conduct royalty audits in the future, such audits may 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. 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, and some require us to provide technical support and information to a licensee that is involved in litigation involving use of our technology. In addition, we may agree to indemnify others in the future. Any of these 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, lighting and display, mobile communications and data security technologies could be severely disrupted or shut down as a result of litigation, which in turn could severely hamper our business operations and financial condition as a result of lower or no royalty payments.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Not Applicable

Item 3. Defaults Upon Senior Securities  
Not Applicable

Item 4. Mine Safety Disclosures  
Not Applicable

Item 5. Other Information  
Not Applicable

Item 6. Exhibits  
Refer to the Exhibit Index of this quarterly report on Form 10-Q.

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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.

RAMBUS INC.

Date: October 29, 2012

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



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INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1 (1)	Amended and Restated Certificate of Incorporation of Registrant filed May 29, 1997.
3.2 (2)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Registrant filed June 14, 2000.
3.3 (3)	Amended and Restated Bylaws of Registrant dated February 23, 2012.
10.1*	Separation Agreement between Sharon Holt and the Registrant, dated as of August 30, 2012.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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\*Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

(1) Incorporated by reference to the Form 10-K filed on December 15, 1997.

(2) Incorporated by reference to the Form 10-Q filed on May 4, 2001.

(3) Incorporated by reference to the Form 8-K filed on February 28, 2012.

