

RAMBUS INC  
Form 10-Q  
November 07, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

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

Commission File Number: 000-22339

\_\_\_\_\_  
**RAMBUS INC.**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

4440 El Camino Real, Los Altos, CA 94022

**94-3112828**  
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices) (zip code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share, was 103,820,383 as of October 15, 2007.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

Resolution of the Federal Trade Commission (the FTC ) and European Commission matters involving us, including the implementation and resolution of the FTC mandated maximum allowable royalties for certain of our contracts;

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

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

The actions of our Special Litigation Committee;

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

Sources, amounts, timing and concentration of revenue, including royalties;

Product development;

Improvements in technology;

Engineering, marketing and general and administration expenses;

Litigation expenses;

Success in the markets of our or our licensees products;

Terms of our licenses;

Success in renewing license agreements;

Pricing policies of our licensees;

Sources of competition;

Protection of intellectual property;

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

Indemnification and technical support obligations;

Likelihood of paying dividends;

Cash and cash equivalents position;

Lease commitments;

Ability to attract and retain qualified personnel;

Internal control environment;

Adoption of new accounting pronouncements;

Trading price of our Common Stock;

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

Operating results;

Realization of deferred tax assets;

Accounting estimates and procedures;

The level and terms of our outstanding debt;

Interest and other income, net;

Effective tax rates;

Amortization of intangible assets; and

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

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

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

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

<i>(In thousands, except share amounts)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 269,258	\$ 73,304
Marketable securities	175,733	351,055
Accounts receivable	2,167	846
Unbilled receivables	1,014	1,748
Deferred and prepaid taxes	11,703	11,388
Prepays and other current assets	5,757	4,403
<b>Total current assets</b>	<b>465,632</b>	<b>442,744</b>
Marketable securities, long-term		11,982
Restricted cash	2,231	2,287
Deferred taxes, long-term	110,648	98,193
Intangible assets, net	14,764	18,697
Property and equipment, net	24,140	26,019
Goodwill	4,454	3,315
Other assets	3,084	1,380
<b>Total assets</b>	<b>\$ 624,953</b>	<b>\$ 604,617</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 14,258	\$ 10,429
Accrued salaries and benefits	9,564	12,788
Accrued litigation expenses	25,311	23,143
Other accrued liabilities	7,604	5,878
Convertible notes		160,000
Deferred revenue	5,510	6,003
Income taxes payable	433	197
<b>Total current liabilities</b>	<b>62,680</b>	<b>218,438</b>
Convertible notes	160,000	
Deferred revenue, less current portion	19	1,554
Long-term income taxes payable	3,136	
Other long-term liabilities	1,276	2,337
<b>Total liabilities</b>	<b>227,111</b>	<b>222,329</b>
Commitments and contingencies (see notes 13 and 14)		
<b>STOCKHOLDERS EQUITY</b>		



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Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at September 30, 2007 and December 31, 2006		
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 103,820,383 shares at September 30, 2007 and December 31, 2006	104	104
Additional paid-in capital	577,856	550,210
Accumulated deficit	(180,170)	(167,396)
Accumulated other comprehensive income (loss)	52	(630)
 Total stockholders' equity	 397,842	 382,288
 Total liabilities and stockholders' equity	 \$ 624,953	 \$ 604,617

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>				
Contract revenues	\$ 6,388	\$ 4,422	\$ 21,145	\$ 17,831
Royalties	35,327	41,523	118,263	124,903
<b>Total revenues</b>	<b>41,715</b>	<b>45,945</b>	<b>139,408</b>	<b>142,734</b>
<b>Costs and expenses:</b>				
Cost of contract revenues*	5,781	6,121	18,878	23,010
Research and development*	18,312	17,695	60,339	51,553
Marketing, general and administrative*	29,914	24,114	79,657	81,869
Costs of restatement and related legal activities	4,169	23,796	18,631	25,690
<b>Total costs and expenses</b>	<b>58,176</b>	<b>71,726</b>	<b>177,505</b>	<b>182,122</b>
<b>Operating loss</b>	<b>(16,461)</b>	<b>(25,781)</b>	<b>(38,097)</b>	<b>(39,388)</b>
Interest and other income, net	5,645	4,472	16,496	11,993
<b>Loss before income taxes</b>	<b>(10,816)</b>	<b>(21,309)</b>	<b>(21,601)</b>	<b>(27,395)</b>
Provision for (benefit from) income taxes	(4,318)	1,337	(8,495)	(11,510)
<b>Net loss</b>	<b>\$ (6,498)</b>	<b>\$ (22,646)</b>	<b>\$ (13,106)</b>	<b>\$ (15,885)</b>
<b>Net loss per share:</b>				
Basic	\$ (0.06)	\$ (0.22)	\$ (0.13)	\$ (0.15)
Diluted	\$ (0.06)	\$ (0.22)	\$ (0.13)	\$ (0.15)
<b>Weighted average shares used in per share calculations:</b>				
Basic	103,820	103,792	103,820	102,792
Diluted	103,820	103,792	103,820	102,792
<b>*Includes stock-based compensation:</b>				
Cost of contract revenues	\$ 1,333	\$ 1,844	\$ 4,069	\$ 6,350
Research and development	\$ 3,190	\$ 4,269	\$ 9,821	\$ 11,442
Marketing, general and administrative	\$ 4,138	\$ 4,366	\$ 14,512	\$ 13,045

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

<i>(In thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (13,106)	\$ (15,885)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Stock-based compensation	28,402	30,837
Depreciation	8,635	8,284
Amortization of intangible assets and note issuance costs	3,963	4,512
Loss on disposal of assets		99
Tax shortfall from equity incentive plans		(112)
<b>Change in operating assets and liabilities:</b>		
Accounts receivable and unbilled receivables	(587)	(486)
Prepays, deferred taxes and other assets	(12,798)	(13,444)
Accounts and income taxes payable, accrued salaries and benefits, and other accrued liabilities	7,606	25,155
Increases in deferred revenue	19,117	16,493
Decreases in deferred revenue	(21,145)	(16,455)
<b>Net cash provided by operating activities</b>	<b>20,087</b>	<b>38,998</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment and leasehold improvements	(6,756)	(8,754)
Purchase of intangible assets	(30)	(300)
Cash paid for acquisition of business	(1,139)	(1,000)
Purchases of marketable securities	(428,219)	(73,763)
Maturities of marketable securities	616,059	101,007
(Increase) decrease in restricted cash	56	(2)
<b>Net cash provided by investing activities</b>	<b>179,971</b>	<b>17,188</b>
<b>Cash flows from financing activities:</b>		
Payments under installment arrangement	(4,250)	(400)
Net proceeds from issuance of Common Stock under equity incentive plans		57,559
Repurchase of Common Stock		(20,955)
<b>Net cash (used in) provided by financing activities</b>	<b>(4,250)</b>	<b>36,204</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>146</b>	<b>(10)</b>
<b>Net increase in cash and cash equivalents</b>	<b>195,954</b>	<b>92,380</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>73,304</b>	<b>42,391</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 269,258</b>	<b>\$ 134,771</b>

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

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

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

**2. Recent Accounting Pronouncements**

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

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

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

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

**3. Revenue Recognition**

*Overview*

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

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

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

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

***Royalty Revenues***

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

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

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

On February 2, 2007, the Federal Trade Commission (the "FTC") issued an order requiring Rambus to limit the royalty rates charged for certain SDR and DDR SDRAM memory and controller products sold after April 12, 2007. The FTC stayed this requirement on March 16, 2007, subject to certain conditions. One such condition of the stay limits the royalties Rambus can receive under certain contracts so that they do not exceed the FTC's Maximum Allowable Royalties ("MAR"). The Company is using its best efforts to comply with these orders. Amounts in excess of MAR that are subject to the order are excluded from revenue. To date, such amounts have not been significant. Depending on the final resolution of the appeal, the Company may or may not be able to recognize any excess amounts as additional revenue.

***Contract Revenues***

Rambus generally recognizes revenue in accordance with the provisions of SOP 81-1 for development contracts related to licenses of its chip interface products, such as XDR and FlexIO that involve significant engineering and integration services. Revenues derived from such license and engineering services may be recognized using the completed contract or percentage-of-completion method. For all license and service agreements accounted for using the percentage-of-completion method, Rambus determines progress to completion using input measures based upon labor-hours incurred. Rambus has evaluated use of output measures versus input measures and has determined that its output is not sufficiently uniform with respect to cost, time and effort per unit of output to use output measures as a measure of progress to completion. Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by Rambus or production of chips by the licensee. The remaining fees may be due on pre-determined dates and include significant up-front fees.





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

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

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

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

**4. Comprehensive Loss**

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

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

<i>(In thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net loss	\$ (6,498)	\$ (22,646)	\$ (13,106)	\$ (15,885)
Other comprehensive income (loss):				
Foreign currency translation adjustments	114	(11)	146	(10)
Unrealized gain on marketable securities, net of tax	217	820	536	711
Other comprehensive income	331	809	682	701
Total comprehensive loss	\$ (6,167)	\$ (21,837)	\$ (12,424)	\$ (15,184)

**5. Stock-Based Compensation**

For the nine months ended September 30, 2007 and 2006, the Company maintained stock plans covering a broad range of potential equity grants including stock options, restricted stock, performance stock and stock units. In addition, the Company sponsors Employee Stock Purchase Plans,

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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. See Note 6, "Employee Stock Option Plans," for a detailed description of the Company's plans.

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

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchase grants, and other equity grants under SFAS 123(R) for the three and nine months ended September 30, 2007 and 2006:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Stock-based compensation expense by type of award:				
Employee stock options	\$ 8,816	\$ 9,898	\$ 27,393	\$ 28,997
Employee stock purchase plan	(575)	170	(241)	978
Nonvested equity stock and equity stock units	420	411	1,250	862
Total stock-based compensation expense	8,661	10,479	28,402	30,837
Tax effect on the stock-based compensation expense	3,387	4,060	11,029	11,791
Net effect of stock-based compensation expense on results of operations	\$ 5,274	\$ 6,419	\$ 17,373	\$ 19,046

*Stock Options:* During the three and nine months ended September 30, 2007, Rambus granted 108,500 and 2,867,950 stock options, respectively, with an estimated total grant-date fair value of \$0.9 million and \$35.2 million, respectively. During the three and nine months ended September 30, 2007, Rambus recorded stock-based compensation expense related to stock options of \$8.8 million and \$27.4 million, respectively, for all unvested options granted prior to and after the adoption of SFAS 123(R), including the modification charge for the extension of expiring options discussed below.

The effect of recording stock-based compensation for the three and nine months ended September 30, 2007 includes a charge resulting from the Company's modifying the terms of 33 and 138 stock option grants, respectively, by offering an extension of time to exercise. An additional charge was taken during the nine-month period to extend the time of the extension of the 59 grants previously extended in 2006. Because the Company suspended all stock option exercises as of July 19, 2006 in connection with the stock option investigation, substantially all of the Company's employees and directors whose options were expiring and terminating employees whose remaining time to exercise vested options would have expired were given extensions of time to exercise those options during the period that their options approached expiration. The total modification charge of \$0.4 million and \$3.2 million during the three and nine months ended September 30, 2007, respectively, is included in the above table under the caption Employee stock options.

There were no option exercises in the first nine months of 2007. Total intrinsic value of options exercised was \$0.2 million and \$110.2 million for the three and nine months ended September 30, 2006, respectively. Intrinsic value is the total value of exercised shares on the date of exercise less the cash received from the employees to exercise the options.

The total cash received from employees as a result of employee stock option exercises was \$55.3 million for the nine months ended September 30, 2006.

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 nine months ended September 30, 2007 and 2006 calculated in accordance with SFAS 123 (R). The Company does not expect to be able to use any tax benefit from stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units to reduce its taxes for the year 2007.

*Employee Stock Purchase Plan ( ESPP ):* Compensation expense in connection with ESPP for the three and nine months ended September 30, 2006 includes a charge resulting from the Company's modifying prior offerings. In accordance with the terms of the 1997 Purchase Plan, if the fair market value on any given purchase date is less than the fair market value on the grant date, the grant offering is cancelled and all

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participants are enrolled in the next subsequent grant offering. A modification charge is recorded as a result of this grant offering cancellation and the issuance of a new grant offering. During the three and nine months ended September 30, 2006, the Company recorded modification charges of \$0.0 million and \$0.2 million, respectively, related to the 1997 Purchase Plan which is included in the table above under the caption Employee Stock Purchase Plan.

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As of July 19, 2006, the 1997 Purchase Plan was suspended in connection with the stock option investigation. Therefore, no purchases were made under the 1997 Purchase Plan after April 30, 2006 through September 30, 2007. The last purchase under the 1997 Purchase Plan was made on October 31, 2007 and the 1997 Purchase Plan has terminated pursuant to its terms.

In the quarter ended September 30, 2007, the Company lowered its estimate of employee contributions that would be made in the October 31, 2007 purchase under the 1997 Purchase Plan. Accordingly, the amount recorded above for the quarter ended September 30, 2007 includes the reversal of approximately \$0.6 million of expenses recorded in prior periods for this change in estimate.

*Valuation Assumptions*

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

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

	Nine Months Ended			
	Three Months Ended		September 30,	
	September 30, 2007	2006	2007	2006
<b>Stock Option Plans</b>				
Expected stock price volatility	53% - 68%	72%	53% - 69%	61% - 72%
Risk-free interest rate	4.38% - 4.93%	5.03%	4.38% - 4.93%	4.40% - 5.03%
Expected term (in years)	6.2	6.5	6.2	6.5 - 6.6
Weighted-average fair value of stock options granted	\$8.44	\$13.17	\$12.28	\$18.21

No grants were made under the employee stock purchase plan during the nine months ended September 30, 2007 and 2006.

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

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

*Expected term:* The expected term of options granted represents the period of time that options granted are expected to be outstanding. Prior to the adoption of SFAS 123(R), the Company used only historical data to estimate option exercise and employee termination within the model. For the three and nine months ended September 30, 2007 and 2006, the average expected life was determined using a Monte Carlo simulation model.

*Tax effects of stock-based compensation*

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

compensation.

On January 1, 2006, Rambus adopted the long method in accordance with SFAS 123(R) to calculate the excess tax credit pool.

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The long method requires a detailed calculation of the January 1, 2006 balance of the portion of the excess/shortfall tax benefit credits recorded in the additional paid-in capital account. The tax effect on stock-based compensation is calculated as the stock-based compensation that the Company believes is deductible, multiplied by the applicable statutory tax rate.

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

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

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

As of September 30, 2007, 5,188,166 shares of the 8,400,000 shares approved under the 2006 Plan remain available for grant. The 2006 Plan is now Rambus' only plan for providing stock-based incentive compensation to eligible employees, executive officers and non-employee directors and consultants.

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

	<b>Shares Available for Grant</b>
Shares available as of December 31, 2006	7,866,200
Stock options granted	(2,867,950)
Stock options forfeited	1,046,102
Stock options expired under former plans	(856,186)
<b>Total available for grant as of September 30, 2007</b>	<b>5,188,166</b>

*General Stock Option Information*

The following table summarizes stock option activity under the 1997, 1999 and 2006 Plans for the nine months ended September 30, 2007 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2007.

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<i>(Dollars in thousands, except per share amounts)</i>	Options Outstanding		Weighted Average Contractual Term (in Years)	Aggregate Intrinsic Value
	Number of Shares	Weighted Average Exercise Price Per Share		
Outstanding as of December 31, 2006	18,672,877	\$ 18.32		
Options granted	2,867,950	18.62		
Options exercised				
Options forfeited	(1,046,102)	19.13		
Outstanding as of September 30, 2007	20,494,725	\$ 18.39	5.84	\$ 96,265
Vested or expected to vest at September 30, 2007	18,649,586	\$ 18.83	5.78	\$ 83,957
Options exercisable at September 30, 2007	11,955,471	\$ 18.03	4.57	\$ 73,355

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at September 30, 2007, based on the \$19.11 closing stock price of Rambus Common Stock on September 28, 2007 on the Nasdaq Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of September 30, 2007 was 14,035,770 and 8,569,327, respectively.

The following table summarizes the information about stock options outstanding and exercisable as of September 30, 2007:

Range of Exercise Prices	Number Outstanding	Options Outstanding Weighted		Options Exercisable	
		Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.25 - \$ 4.86	3,771,068	3.58	\$ 4.08	3,125,466	\$ 4.40
5.93 - 13.75	2,423,892	4.39	11.07	2,005,228	10.79
13.91 - 15.23	2,408,318	7.01	14.80	945,011	14.64
15.26 - 16.84	2,312,662	5.08	15.95	1,705,982	15.82
16.98 - 18.44	998,656	7.04	17.57	541,715	17.69
18.69 - 18.69	2,115,174	9.34	18.69	241,925	18.69
18.90 - 24.15	2,077,482	8.22	21.93	611,541	22.12
24.66 - 32.84	2,185,144	6.53	27.01	897,981	27.54
35.00 - 66.69	2,131,329	3.99	44.55	1,809,622	45.02
75.69 - 83.00	71,000	2.96	77.98	71,000	77.98
\$ 1.25 - \$ 83.00	20,494,725	5.84	\$ 18.39	11,955,471	\$ 18.03

As of September 30, 2007, there was \$80.9 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested share-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of shares vested as of September 30, 2007 was \$213.4 million.

*Employee Stock Purchase Plans*

The Company has two employee stock purchase plans, the 1997 Employee Stock Purchase Plan (the 1997 Purchase Plan) and the 2006 Employee Stock Purchased Plan (the 2006 Purchase Plan). The 1997 Purchase Plan provided for offerings of four consecutive overlapping six



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month offering periods. Under the 1997 Purchase Plan, employees were able to purchase stock at the lower of 85% of the fair market value on the first day of the 24 month offering period (the enrollment date), or the purchase date (the exercise date). Employees generally were not able to purchase more than the number of shares having a value greater than \$25,000 in any calendar year, as measured at the beginning of the offering period.

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The 1997 Purchase Plan was suspended effective July 19, 2006 due to the stock option investigation. As a result, the Company did not issue any shares of Common Stock in the three months ended September 30, 2007 or 2006. As of September 30, 2007, there were 1,391,180 shares available for issuance under the 1997 Purchase Plan. For all participants who elected to stay in the 1997 Purchase Plan, contributions made through that date were applied towards the first purchase date subsequent to the reinstatement of the plan which occurred on October 31, 2007. No further offerings will be made under this plan and the plan terminated effective with the October 31, 2007 purchase date in accordance with its governing documents.

The 2006 Purchase Plan provides for six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees may purchase stock at the lower of 85% of the beginning of the offering period (the enrollment date), or the end of each offering period (the exercise date). Employees generally may not purchase more than the number of shares having a value greater than \$25,000 in any calendar year, as measured at the purchase date. As of September 30, 2007, there have been no offerings under this plan, and therefore, no shares have been issued and there were 1,600,000 shares available for issuance under the 2006 Purchase Plan. The first offering period under this plan commenced on November 1, 2007.

As of September 30, 2007, there was \$0.1 million of total unrecognized compensation cost related to share-based compensation arrangements granted under the Employee Stock Purchase Plan. That cost is expected to be recognized over one month.

## **7. Stockholders Equity**

### *Preferred and Common Stock*

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

### *Contingent Unvested Options*

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

During the nine months ended September 30, 2007, 83,998 contingent unvested options were forfeited. The forfeitures of the contingent unvested options are included in the forfeitures in the table summarizing stock option activity in Note 6, Employee Stock Option Plans.

As of September 30, 2007, there were 637,848 contingent unvested options. As per above, none are expected to vest.

### *Nonvested Equity Stock and Stock Units*

On February 1, 2006, Rambus entered into an amended and restated employment agreement with its then Senior Vice President and General Counsel, John Danforth. Pursuant to the terms of the Agreement, Mr. Danforth was granted 36,603 and 26,780 nonvested equity stock units on February 1, 2006 and May 2, 2006, respectively. The nonvested equity stock units were valued at fair market value at the date of grant, assuming no shares would be forfeited, giving each a valuation of \$1.0 million which will be attributed to expense over the 21 and 18 month vesting periods beginning February 1, 2006 and May 2, 2006, respectively. For the three and nine months ended September 30, 2007, Rambus recorded stock-based compensation expense of approximately \$0.3 million and \$1.0 million, respectively for these grants. For the three and nine months ended September 30, 2006, Rambus recorded stock-based compensation expense of approximately \$0.3 million and \$0.7 million, respectively, for these grants. Unrecognized stock-based compensation cost related to these grants was \$0.1 million at September 30, 2007.

On April 11, 2006, Rambus granted its Chief Financial Officer, Satish Rishi, 40,000 shares of nonvested equity stock at an exercise price of \$0.001 per share. These shares are not transferable until vested and any unvested shares are subject to repurchase upon termination. The nonvested equity stock grant was valued at fair market value at the date of grant, assuming no shares would be forfeited, giving it a valuation of \$1.6 million which will be attributed to expense over the four year vesting period beginning April 11, 2006. For the three and nine months ended September 30, 2007, Rambus recorded stock-based compensation expense of



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approximately \$0.1 million and \$0.3 million, respectively, related to this grant. For the three and nine months ended September 30, 2006, Rambus recorded stock-based compensation expense of approximately \$0.1 million and \$0.2 million, respectively, related to this grant. Unrecognized stock-based compensation cost related to this grant was \$1.0 million at September 30, 2007.

The following table reflects the activity related to nonvested equity stock and stock units for the nine months ended September 30, 2007:

<i>(In thousands, except per share amounts)</i>	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2006	73,770	\$ 36.14
Granted		
Vested	(34,077)	33.23
Forfeited		
Nonvested at September 30, 2007	39,693	\$ 38.63

*Share Repurchase Program*

In October 2001, Rambus Board of Directors (the Board) approved a share repurchase program of its Common Stock, principally to reduce the dilutive effect of employee stock options. To date, the Board has approved the authorization to repurchase up to 19.0 million shares of the Company's outstanding Common Stock over an undefined period of time. As of September 30, 2007, Rambus had repurchased a cumulative total of 13.2 million shares of its Common Stock at an average price per share of \$13.95 since the commencement of this program. As of September 30, 2007, there remained an outstanding authorization to repurchase 5.8 million shares of Rambus' outstanding Common Stock. In connection with the recently completed stock option investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. Therefore, there were no repurchases during the nine months ended September 30, 2007. As the Company is now current with its SEC filings, it may resume its share repurchase program.

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

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

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

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

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Numerator:</b>				
Net loss	\$ (6,498)	\$ (22,646)	\$ (13,106)	\$ (15,885)
<b>Denominator:</b>				
Weighted average shares used to compute basic EPS	103,820	103,792	103,820	102,792
Dilutive potential shares from stock options, ESPP, restricted stock and restricted stock units				
Weighted average shares used to compute diluted EPS	103,820	103,792	103,820	102,792
<b>Earnings per share:</b>				
Basic	\$ (0.06)	\$ (0.22)	\$ (0.13)	\$ (0.15)
Diluted	\$ (0.06)	\$ (0.22)	\$ (0.13)	\$ (0.15)

For all periods presented, approximately 5.9 million shares that would be issued upon the conversion of the contingently issuable convertible notes were excluded from the calculation of earnings per share because the conversion price was higher than the average market price of the Common Stock during the period. For the three months ended September 30, 2007 and 2006, options to purchase approximately 12.5 million and 11.4 million shares, respectively, and for the nine months ended September 30, 2007 and 2006, options to purchase approximately 11.0 million and 6.6 million shares, respectively, were excluded from the calculation because they were antidilutive after considering proceeds from exercise, taxes, and related unrecognized stock-based compensation expense. For the three and nine months ended September 30, 2007, an additional 3.3 million shares that would be dilutive have been excluded from weighted average diluted shares because there was a net loss for such periods. For the three and nine months ended September 30, 2006, an additional 4.4 million and 5.9 million shares, respectively, that would be dilutive have been excluded from weighted average diluted shares because there was a net loss for such periods.

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

Rambus operates in a single industry segment, the design, development and licensing of chip interface technologies and architectures. Four customers accounted for 19%, 16%, 15% and 10% of revenues in the three months ended September 30, 2007. Four customers accounted for 29%, 14%, 13% and 10% of revenues in the three months ended September 30, 2006. Rambus expects that its revenue concentration will decrease over the long term as Rambus licenses new customers.

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

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Japan	\$ 25,619	\$ 33,531	\$ 93,985	\$ 82,866
North America	6,593	6,197	20,454	40,640
Taiwan	875	150	1,025	500
Korea	373	192	859	476
Singapore	532		532	
Europe	7,723	5,875	22,553	18,252
	\$ 41,715	\$ 45,945	\$ 139,408	\$ 142,734

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Revenues are attributed to individual countries according to the countries in which the licensees are headquartered. At September 30, 2007, of the \$24.1 million of total long-lived assets, approximately \$18.9 million are located in the United States and \$4.5 million are located in India.

### **10. Acquisition**

On April 15, 2005, Rambus completed the acquisition of a portion of GDA Technologies ( GDA ) including certain proprietary digital core designs for a preliminary total of \$6.4 million in cash, including transaction costs. Rambus did not have a pre-existing relationship with GDA before the acquisition. Under the terms of the purchase agreement, Rambus paid a total of \$5.3 million in cash to GDA at the initial closing. Rambus was contractually obligated to pay out an additional \$1.0 million in

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conjunction with its acquisition of intellectual property from GDA, and paid this amount in the quarter ended March 31, 2006. In addition, Rambus paid \$0.2 million for legal fees incurred in connection with this transaction. The acquisition has been recorded using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations, ( SFAS 141 ). As a result of the acquisition, Rambus recorded \$3.7 million of purchased intangible assets and \$2.7 million of goodwill.

In addition to the \$6.4 million preliminary purchase price, the purchase agreement calls for an earn-out payment that is based on future performance and events. Under the terms of the purchase agreement, the earn-out payment is computed on cash collections from the sale or license of acquired GDA products. Effective April 11, 2006, Rambus and GDA entered into an amendment to the original agreement that extended the earn-out period from one year from the initial closing date to March 31, 2007. The amendment also reduced the maximum earn-out amount from \$5.0 million to \$3.8 million. In March 2007, the Company was notified, and later confirmed, that cash collections from the sale or license of these products had exceeded the minimum amount as defined in the purchase agreement and that additional payments were due GDA. As a result, Rambus recorded a liability for the earn-out payment and an increase to goodwill of approximately \$1.1 million in the first quarter of fiscal 2007. The liability related to the earn-out has been paid as of September 30, 2007. Total goodwill related to this acquisition is \$3.9 million. See Note 11 Amortizable Intangible Assets for more information on the purchased intangible assets.

**11. Amortizable Intangible Assets**

The components of the Company's intangible assets as of September 30, 2007 and December 31, 2006 were as follows:

<i>(In thousands)</i>	September 30, 2007		Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	
Patents	\$ 9,941	\$ (3,517)	\$ 6,424
Intellectual property	10,084	(7,682)	2,402
Customer contracts and contractual relationships	8,000	(3,121)	4,879
Existing technology	2,700	(1,659)	1,041
Non-competition agreement	100	(82)	18
	\$ 30,825	\$ (16,061)	\$ 14,764

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

Amortization expense for intangible assets for the three and nine months ended September 30, 2007 was \$1.3 million and \$3.9 million, respectively. Amortization expense for intangible assets for the three and nine months ended September 30, 2006 was \$1.3 million and \$3.9 million, respectively.

The estimated future amortization expense of intangible assets as of September 30, 2007 was as follows (amounts in thousands):

Fiscal year ending December 31:	Amount
2007 (remaining 3 months)	\$ 1,323
2008	4,356
2009	2,958
2010	1,921
2011	1,593
Thereafter	2,613
	\$ 14,764

**12. Convertible Notes**

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

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

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

cash in an amount equal to the lesser of

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



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if the conversion value is greater than the principal amount of each note, a number of shares of Rambus Common Stock (the net shares ) equal to the sum of the daily share amounts, calculated as defined. However, in lieu of delivering net shares, Rambus, at its option, may deliver cash, or a combination of cash and shares of its Common Stock, with a value equal to the net shares amount. The initial conversion price is \$26.84 per share of Common Stock (which represents an initial conversion rate of 37.2585 shares of Rambus Common Stock per \$1,000 principal amount of convertible notes). The initial conversion price is subject to adjustment as defined.

The convertible notes are carried at par at September 30, 2007 and December 31, 2006 due to the cash settlement feature. The convertible notes are subject to repurchase in cash in the event of a fundamental change involving Rambus at a price equal to 100% of the principal amount. Rambus may be obligated to pay an additional premium (payable in shares of Common Stock) in the event the convertible notes are converted following a fundamental change. The premium is based on numerous factors and could be up to 33% per \$1,000 principal amount of convertible notes.

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

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

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

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

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

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

certain events of bankruptcy, insolvency or reorganization relating to Rambus.

Rambus may not redeem the convertible notes prior to their maturity date.

During 2005, Rambus repurchased \$140.0 million face value of the outstanding convertible notes, for a price of approximately \$113.0 million, leaving a net balance of \$160.0 million at December 31, 2005. These repurchases were financed from Rambus investment portfolio. At the time of the issuance, Rambus recorded \$7.2 million of related note issuance costs in long-term other assets related to these repurchases, which was subsequently reduced to \$4.2 million. Amortization of note issuance costs was \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2006. There is no amortization of note issuance costs in 2007 due to the acceleration of the remaining amortization into the fourth quarter of 2006 in connection with the notice of acceleration relative to the convertible notes as discussed below.

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

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

As of December 31, 2006, Rambus had reclassified the aggregate principal amount of the convertible notes of \$160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. As of September 30, 2007, the convertible notes have been

reclassified to non-current liabilities in the accompanying unaudited condensed consolidated balance sheet, since the Company has become current with its SEC filings, subsequent to the quarter end, in October 2007.

**13. Litigation and Asserted Claims**

*Stock option investigation related claims*

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

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

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

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

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

On August 24, 2007, the final written report setting forth the findings of the Special Litigation Committee was filed with the California court. As set forth in its report, the SLC determined that all claims should be terminated and dismissed against the named defendants in *In re Rambus Inc. Derivative Litigation* with the exception of claims against named defendant Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in *In re Rambus Inc. Derivative Litigation*. The aggregate value of the settlements to the Company exceeds \$6.5 million in cash and cash equivalents as well as substantial additional value to the Company relating to the relinquishment of claims to over 2.7 million stock options. The SLC stated its intent to assert control over the litigation. The conclusions and recommendations of the SLC are subject to review by the California court. On October 5, 2007, Rambus filed a motion to terminate in accordance with the SLC's recommendations. Plaintiffs have stated their intention to oppose Rambus' motion and to file a motion for leave to amend their complaint. The California court scheduled a hearing on both motions for January 18, 2008.

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

On July 17, 2006, the first of six class action lawsuits was filed in the Northern District of California against Rambus and certain current and former executives and board members. On September 26, 2006, these class action suits were consolidated under the caption, *In re Rambus Inc. Securities Litigation*, C-06-4346-JF (N.D. Cal.). On November 9, 2006, Ronald L. Schwarcz was appointed lead plaintiff. An amended consolidated complaint was filed on February 14, 2007, naming as defendants Rambus, certain of its current and former executives and board members, and PricewaterhouseCoopers LLP. The complaint alleges violations of various federal securities laws. The complaint seeks damages in an unspecified amount as well as attorneys' fees and costs. On April 2, 2007, Rambus and certain individual defendants filed a motion to dismiss the lawsuit. PricewaterhouseCoopers LLP filed a motion to dismiss on May 7, 2007. Per agreement of the parties, briefing on the motions to dismiss was suspended, and the motions were taken off the court's calendar. Subject to approval by the California court, the parties have agreed in principle to settle this dispute. The settlement, which is subject to final documentation as well as review by the California court, provides for a payment by Rambus of \$18.0 million and would lead to a dismissal with prejudice of all claims against all defendants in the class action litigation.

On March 1, 2007, a pro se lawsuit was filed in the Northern District of California by two alleged Rambus shareholders against Rambus, certain current and former executives and board members and PricewaterhouseCoopers LLP (*Kelley et al. v. Rambus, Inc. et al.* C-07-01238-JF (N.D. Cal.)). On April 25, 2007, the plaintiffs filed an amended complaint adding Wilson Sonsini Goodrich & Rosati, P.C., as a defendant. The plaintiffs filed second and third amended complaints without leave of court.



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on May 8 and 14, 2007, respectively. On May 14, 2007 this case was related to the class action, *In re Rambus Inc. Securities Litigation*, C-06-4346-JF. Rambus and the other named defendants filed or joined various motions to dismiss the third amended complaint on June 4 and 5, 2007. On May 8, 2007, a substantially identical pro se lawsuit was filed in the Northern District of California by another purported Rambus shareholder against the same parties. These two pro se lawsuits each allege violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. The two lawsuits were consolidated into a single action by court order dated June 25, 2007. Rambus pending motion to dismiss was taken off calendar, and plaintiffs filed a consolidated amended complaint on July 25, 2007. Rambus and other defendants filed motions to dismiss on August 10, 2007. The California court heard oral argument on these motions on September 7, 2007. On October 15, 2007, the California court granted Rambus' motion with leave to file an amended complaint within 30 days.

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

### ***FTC Complaint***

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

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

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

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

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

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

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

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



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

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

### ***Infineon Litigation***

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

### ***Hynix Litigation***

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

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

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

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

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



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The second phase of the Hynix-Rambus trial on patent infringement, validity and damages began on March 15, 2006, and was submitted to the jury on April 13, 2006. On April 24, 2006, the jury returned a verdict in favor of Rambus on all issues, and awarded Rambus a total of approximately \$307 million in damages, excluding prejudgment interest. Specifically, the jury

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found that each of the ten selected patent claims was supported by the written description, and was not anticipated or rendered obvious by prior art; therefore, none of the patent claims were invalid. The jury also found that Hynix infringed all eight of the patent claims for which the jury was asked to determine infringement; the California court had previously determined on summary judgment that Hynix infringed the other two claims at issue in the trial. The jury further found that Rambus suffered approximately \$31 million in damages as a result of infringement by Hynix's SDR SDRAM products and approximately \$276 million in damages as a result of infringement by Hynix's DDR SDRAM products.

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

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

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

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

On April 4, 2007, the California court held a case management conference involving Rambus, Hynix, Micron, Samsung, and Nanya to discuss how each of the various actions involving Rambus and these other parties should proceed. On April 24, 2007, the California court ordered that this action (*Hynix v Rambus*, Case No. C 00-20905 RMW) and three others pending before the same court (*Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et*



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

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

On October 17, 2007, Hynix, Micron, Samsung, and Nanya filed a motion for collateral estoppel seeking to preclude Rambus from challenging certain enumerated findings of the FTC in the context of the fraud claims and equitable estoppel defenses brought by Hynix, Micron, Samsung, and Nanya. Also on October 17, 2007, Rambus filed motions for summary judgment on Hynix's claims for monopolization and fraud, a motion for summary judgment on Hynix's defense of prosecution laches, and a motion for summary adjudication on the issue of reliance. A hearing on each of these motions is scheduled for November 21, 2007.

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

### *European Patent Infringement Case*

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

### *Micron Litigation*

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

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

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

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

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

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

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July 16, 2007, this case was reassigned to Judge Sue L. Robinson. A bench trial on Micron's unclean hands defense is scheduled to begin on November 8, 2007.

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

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

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

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

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

Following a case management conference held on October 6, 2006, the California court temporarily stayed this action until February 2, 2007, upon which the stay automatically expired. On March 23, 2007, Rambus filed a motion to dismiss certain of Micron's counterclaims. On June 19, 2007, the California court issued an order denying Rambus' motion. On July 9, 2007, Rambus filed its reply to Micron's amended counterclaims, as well as its own counterclaims asserting infringement by Micron's DDR3 products. On July 30, 2007, Micron filed a motion to strike, or alternatively to stay, Rambus' infringement counterclaims in reply. Rambus filed an opposition to Micron's motion on September 25, 2007. A hearing on Micron's motion was held on October 26, 2007. The California court took Micron's motion under submission and has not yet issued a written order.

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

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

On September 21, 2007, Rambus filed a motion to strike Micron's demand that certain of its claims and affirmative defenses be tried to a jury in the January 22, 2008 trial. Micron filed an opposition on October 5, 2007. Rambus filed a reply on October 12, 2007. A hearing on this motion was held on October 26, 2007. On November 4, 2007, the California court issued an order denying Rambus' motion as to Micron's antitrust and fraud claims and granting Rambus' motion as to Micron's breach of contract and declaratory judgment claims and Micron's affirmative defenses.

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

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On October 17, 2007, Hynix, Micron, Samsung, and Nanya filed a motion for collateral estoppel seeking to preclude Rambus from challenging certain enumerated findings of the FTC in the context of the fraud claims and equitable estoppel defenses brought by Hynix, Micron, Samsung, and Nanya. Also on October 17, 2007, Rambus filed motions for summary judgment on Hynix's claims for monopolization and fraud, a motion for summary judgment on Hynix's defense of prosecution laches, and a motion for summary adjudication on the issue of reliance. A hearing on each of these motions is scheduled for November 21, 2007.

*European Patent Infringement Cases*

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

One proceeding in Italy relating to the 642 patent was adjourned at a hearing on June 15, 2007, each party bearing its own costs. In a second proceeding in Italy relating to the 956 patent, the court has scheduled a hearing for November 8, 2007, regarding continuation of the proceedings. On September 29, 2005, Rambus received a letter from Micron seeking to toll a statute of limitations period in Italy for a purported cause of action resulting from a seizure of evidence in Italy in 2000 carried out by Rambus pursuant to a court order. Micron asserts that its damages allegedly caused by this seizure equal or exceed \$30.0 million. Micron formally filed suit against Rambus relating to this seizure in February 2006. Rambus filed its written defense on April 24, 2006. The Italian court has ordered further briefing on issues related to Rambus' suit in Italy for infringement of its 068 patent. A hearing in the Italian court is set for November 13, 2007, on both proceedings involving the 068 patent and Micron's claim for damages related to seizure of evidence.

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

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

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

On February 21, 2006, Rambus filed a motion to dismiss certain of Samsung's amended defenses a