

RAMBUS INC
Form 10-Q
August 05, 2011
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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 June 30, 2011

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)

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

1050 Enterprise Way, Suite 700, Sunnyvale, CA 94089

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: **(408) 462-8000**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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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 114,403,839 as of June 30, 2011.

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RAMBUS INC.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Success in the markets of our or our licensees' products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in renewing license agreements;
- Technology product development;
- Acquisitions, mergers or strategic transactions and our related integration efforts;
- Pricing policies of our licensees;
- Engineering, marketing and general and administration expenses;
- Contract revenue;

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- Operating results;
- International licenses and operations, and the operations of our licensees in Japan;
- Issuances of our securities, which could involve restrictive covenants or be dilutive to our existing stockholders;
- Interest and other income, net;
- Effects of changes in the economy and credit market on our industry and business;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Ability to identify, attract, motivate and retain qualified personnel;
- Restructuring activities;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
- Realization of deferred tax assets/release of deferred tax valuation allowance;

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- Repurchases of our Common Stock pursuant to share repurchase programs, contingently redeemable Common Stock (which we are required contractually to repurchase) or other repurchases;
- Trading price of our Common Stock;
- Internal control environment;
- Corporate governance;
- Consequences of the lawsuits related to the stock option investigation;
- The level and terms of our outstanding debt;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation;
- Resolution of the governmental agency matters involving us;
- Litigation expenses;
- Protection of intellectual property;
- Terms of our licenses;
- Amounts owed under licensing agreements;

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- Indemnification and technical support obligations; and

- Likelihood of paying dividends or repurchasing stock.

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

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

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RAMBUS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, 2011 | December 31, 2010 |
|---|--|----------------------|
| | (In thousands, except shares and par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 179,804 | \$ 215,262 |
| Marketable securities | 179,550 | 296,747 |
| Accounts receivable | 1,354 | 2,600 |
| Prepaid expenses and other current assets | 10,448 | 10,898 |
| Deferred taxes | 2,420 | 2,420 |
| Total current assets | 373,576 | 527,927 |
| Deferred taxes, long term | 3,023 | 2,974 |
| Intangible assets, net | 194,205 | 40,986 |
| Goodwill | 115,148 | 18,154 |
| Property, plant and equipment, net | 71,187 | 67,770 |
| Other assets | 6,038 | 5,361 |
| Total assets | \$ 763,177 | \$ 663,172 |
| LIABILITIES, CONTINGENTLY REDEEMABLE COMMON STOCK & STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 11,896 | \$ 5,952 |
| Accrued salaries and benefits | 15,175 | 31,634 |
| Accrued litigation expenses | 7,635 | 4,060 |
| Deferred revenue | 9,574 | 2,482 |
| Other accrued liabilities | 6,966 | 11,683 |
| Total current liabilities | 51,246 | 55,811 |
| Convertible notes, long-term | 127,258 | 121,500 |
| Long-term imputed financing obligation | 34,596 | 27,899 |
| Long-term income taxes payable | 4,633 | 4,577 |
| Other long-term liabilities | 5,251 | 5,102 |
| Total liabilities | 222,984 | 214,889 |
| Commitments and contingencies | | |
| Contingently redeemable common stock: | | |
| Issued and outstanding: 4,788,125 shares at June 30, 2011 and December 31, 2010 | 113,500 | 113,500 |
| Stockholders equity: | | |
| Convertible preferred stock, \$.001 par value: | | |
| Authorized: 5,000,000 shares | | |
| Issued and outstanding: no shares at June 30, 2011 and December 31, 2010 | | |
| Common stock, \$.001 par value: | | |
| Authorized: 500,000,000 shares | | |
| Issued and outstanding: 109,615,714 shares at June 30, 2011 and 102,676,544 shares at December 31, 2010 | 110 | 103 |

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| | | |
|--|------------|------------|
| Additional paid-in capital | 1,018,317 | 911,632 |
| Accumulated deficit | (591,405) | (576,590) |
| Accumulated other comprehensive loss, net | (329) | (362) |
| Total stockholders' equity | 426,693 | 334,783 |
| Total liabilities, contingently redeemable common stock and stockholders' equity | \$ 763,177 | \$ 663,172 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--|-------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (In thousands, except per share amounts) | | | |
| Revenue: | | | | |
| Royalties | \$ 60,970 | \$ 38,192 | \$ 120,205 | \$ 198,734 |
| Contract revenue | 5,244 | 670 | 8,536 | 1,992 |
| Total revenue | 66,214 | 38,862 | 128,741 | 200,726 |
| Operating costs and expenses: | | | | |
| Cost of revenue* | 6,058 | 1,804 | 9,207 | 3,658 |
| Research and development* | 24,220 | 22,985 | 47,537 | 44,676 |
| Marketing, general and administrative* | 37,732 | 29,408 | 70,464 | 60,935 |
| Costs of restatement and related legal activities | 712 | 1,638 | 1,871 | 2,164 |
| Gain from settlement | | (10,300) | (6,200) | (106,200) |
| Total operating costs and expenses | 68,722 | 45,535 | 122,879 | 5,233 |
| Operating income (loss) | (2,508) | (6,673) | 5,862 | 195,493 |
| Interest income and other income (expense), net | (777) | 316 | (1,429) | 741 |
| Interest expense on convertible notes | (5,212) | (3,740) | (10,384) | (9,756) |
| Interest and other income (expense), net | (5,989) | (3,424) | (11,813) | (9,015) |
| Income (loss) before income taxes | (8,497) | (10,097) | (5,951) | 186,478 |
| Provision for income taxes | 2,088 | 2,393 | 8,864 | 48,069 |
| Net income (loss) | \$ (10,585) | \$ (12,490) | \$ (14,815) | \$ 138,409 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.10) | \$ (0.11) | \$ (0.14) | \$ 1.22 |
| Diluted | \$ (0.10) | \$ (0.11) | \$ (0.14) | \$ 1.18 |
| Weighted average shares used in per share calculation: | | | | |
| Basic | 109,992 | 113,321 | 108,809 | 113,227 |
| Diluted | 109,992 | 113,321 | 108,809 | 117,434 |

* Includes stock-based compensation:

| | | | | |
|---------------------------------------|----------|----------|----------|-----------|
| Cost of revenue | \$ 286 | \$ 29 | \$ 409 | \$ 129 |
| Research and development | \$ 2,490 | \$ 2,703 | \$ 5,002 | \$ 5,272 |
| Marketing, general and administrative | \$ 4,253 | \$ 5,199 | \$ 8,908 | \$ 10,364 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2011 | 2010 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (14,815) | \$ 138,409 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Stock-based compensation | 14,319 | 15,765 |
| Depreciation | 5,471 | 4,859 |
| Amortization of intangible assets | 5,981 | 2,288 |
| Non-cash interest expense and amortization of convertible debt issuance costs | 6,072 | 5,444 |
| Deferred tax benefit | (49) | (49) |
| Loss on sale of marketable security | | 72 |
| Change in operating assets and liabilities, net of effects of acquisition: | | |
| Accounts receivable | 2,386 | 705 |
| Prepaid expenses and other assets | 2,485 | (1,877) |
| Accounts payable | 6,185 | (325) |
| Accrued salaries and benefits and other accrued liabilities | (22,235) | 12,645 |
| Accrued litigation expenses | 3,575 | (2,115) |
| Income taxes payable | (1,020) | 432 |
| Deferred revenue | 7,092 | 187 |
| Net cash provided by operating activities | 15,447 | 176,440 |
| Cash flows from investing activities: | | |
| Acquisitions, net of cash acquired | (167,381) | (2,000) |
| Purchases of marketable securities | (94,172) | (189,610) |
| Maturities of marketable securities | 208,003 | 95,806 |
| Proceeds from sale of marketable security | 11 | 1,518 |
| Purchases of property and equipment | (11,015) | (2,543) |
| Acquisition of intangible assets | | (2,250) |
| Net cash used in investing activities | (64,554) | (99,079) |
| Cash flows from financing activities: | | |
| Proceeds received from issuance of common stock under employee stock plans | 7,953 | 9,487 |
| Proceeds from landlord for tenant improvements | 6,997 | |
| Payments under installment payment arrangement | (861) | (1,150) |
| Principal payments against lease financing obligation | (440) | |
| Proceeds received from issuance of contingently redeemable common stock and common stock pursuant to the settlement agreement with Samsung | | 192,000 |
| Repayment of convertible senior notes | | (136,950) |
| Repurchase and retirement of common stock | | (95,285) |
| Net cash provided by (used in) financing activities | 13,649 | (31,898) |
| Net increase (decrease) in cash and cash equivalents | (35,458) | 45,463 |
| Cash and cash equivalents at beginning of period | 215,262 | 289,073 |
| Cash and cash equivalents at end of period | \$ 179,804 | \$ 334,536 |
| Non-cash investing and financing activities: | | |
| Common stock issued pursuant to acquisition | \$ 88,438 | \$ |

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| | | | | |
|--|----|-----|----|-------|
| Property, plant and equipment received and accrued in accounts payable and other accrued liabilities | \$ | 540 | \$ | 1,700 |
| Non-cash obligation for property, plant and equipment | \$ | | \$ | 800 |
| Intangible assets acquired under installment payment arrangement | \$ | | \$ | 731 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Rambus Inc. (Rambus or the Company) and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. Investments in entities with less than 20% ownership or in which the Company does not have the ability to significantly influence the operations of the investee are being accounted for using the cost method and are included in other assets.

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim financial information. Certain information and Note disclosures included in the financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements pursuant to such SEC rules and regulations. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto in Form 10-K for the year ended December 31, 2010.

2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. The amendment becomes effective retrospectively for the Company's interim period ending March 31, 2012. Early adoption is permitted. The Company does not expect that this guidance will have an impact on its financial position, results of operations or cash flows as it is disclosure-only in nature.

In May 2011, the FASB amended its guidance to converge fair value measurement and disclosure guidance about fair value measurement under U.S. GAAP with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The amendment changes the wording used to describe many of the requirements in U.S. GAAP for

measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendment to result in a change in the application of the requirements in the current authoritative guidance. The amendment becomes effective prospectively for the Company's interim period ending March 31, 2012. Early adoption is not permitted. The Company does not expect the amendment to have a material impact on its financial position, results of operations or cash flows.

3. Settlement Agreement with Samsung

On January 19, 2010, the Company, Samsung and certain related entities of Samsung entered into a Settlement Agreement (the "Settlement Agreement") to release all claims against each other with respect to all outstanding litigation between them and certain other potential claims. Pursuant to the Settlement Agreement, the Company and Samsung entered into a Semiconductor Patent License Agreement on January 19, 2010 (the "License Agreement"), under which Samsung licenses from the Company non-exclusive rights to certain Rambus patents over the next five years. In addition, as part of the Settlement Agreement, Samsung purchased approximately 9.6 million shares of common stock of Rambus for cash pursuant to the terms of a Stock Purchase Agreement dated January 19, 2010 (the "Stock Purchase Agreement"). See Note 8, "Stockholders Equity and Contingently Redeemable Common Stock," for further discussion. Finally, pursuant to the Settlement Agreement, the Company and Samsung signed a non-binding memorandum of understanding relating to discussions around a new generation of memory technologies.

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The Samsung Settlement is a multiple element arrangement for accounting purposes. For the multiple element arrangement, the Company identified each element of the arrangement and determined when those elements should be recognized. Using the accounting guidance from multiple element revenue arrangements, the Company allocated the consideration to each element using the estimated fair value of the elements. The Company considered several factors in determining the accounting fair value of the elements of the Samsung Settlement which included a third party valuation using an income approach, the Black-Scholes option pricing model and a residual approach (collectively the Fair Value). The inputs and assumptions used in this valuation were from a market participant perspective and included projected revenue, royalty rates, estimated discount rates, useful lives and income tax rates, among others. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors, including the selection of industry comparables, market growth rates and other relevant factors. Changes in any number of these assumptions may have had a substantial impact on the Fair Value as assigned to each element. These inputs and assumptions represent management's best estimates at the time of the transaction.

During the first two quarters of 2011, the Company received cash consideration of \$50.0 million from Samsung. The amount was allocated between revenue (\$43.8 million) and gain from settlement (\$6.2 million) based on the estimated Fair Value for the remaining elements.

The remaining \$350.0 million is expected to be paid in successive quarterly payments of approximately \$25.0 million (subject to adjustments per the terms of the License Agreement), concluding in the last quarter of 2014.

The cash receipts through June 30, 2011 and the remaining future cash receipts from the agreements with Samsung are expected to be recognized as follows assuming no adjustments to the payments under the terms of the agreements:

| (in millions) | Received in 2010 | Six months Ended June 30, 2011 | Remainder of 2011 | 2012 | 2013 | 2014 | Estimated Fair Value |
|------------------------------------|---------------------|--------------------------------------|----------------------|----------|----------|----------|-------------------------|
| Revenue | \$ 181.2 | \$ 43.8 | \$ 50.0 | \$ 100.0 | \$ 100.0 | \$ 100.0 | \$ 575.0 |
| Gain from settlement | 126.8 | 6.2 | | | | | 133.0 |
| Purchase of Rambus Common Stock | 192.0 | | | | | | 192.0 |
| Total | \$ 500.0 | \$ 50.0 | \$ 50.0 | \$ 100.0 | \$ 100.0 | \$ 100.0 | \$ 900.0 |

4. Comprehensive Income (Loss)

Rambus' comprehensive income (loss) consists of its net income (loss) plus other comprehensive income (loss) consisting of unrealized gains (losses), net, on marketable securities, net of taxes.

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

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| (In thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$ (10,585) | \$ (12,490) | \$ (14,815) | \$ 138,409 |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss), net, on marketable securities, net of tax | 34 | 64 | 33 | (261) |
| Total comprehensive income (loss) | \$ (10,551) | \$ (12,426) | \$ (14,782) | \$ 138,148 |

5. Equity Incentive Plans and Stock-Based Compensation

Stock Option Plans

As of June 30, 2011, 3,522,722 shares of the 14,900,000 shares approved under the 2006 Plan remain available for grant. The 2006 Plan is now the Company's only plan for providing stock-based incentive compensation to eligible employees, executive officers, non-employee directors and consultants.

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

| | Shares Available for Grant |
|--|---------------------------------------|
| Shares available as of December 31, 2010 | 5,348,162 |
| Stock options granted | (1,712,211) |
| Stock options forfeited | 447,417 |
| Stock options expired under former plans | (262,716) |
| Nonvested equity stock and stock units granted (1) | (320,331) |
| Nonvested equity stock and stock units forfeited (1) | 22,401 |
| Total available for grant as of June 30, 2011 | 3,522,722 |

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

General Stock Option Information

The following table summarizes stock option activity under the 1997, 1999 and 2006 Plans for the six months ended June 30, 2011 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of June 30, 2011.

| | Options Outstanding | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term(in years) | Aggregate Intrinsic Value |
|---|-----------------------------|--|--|--|
| | Number of Shares | (Dollars in thousands, except per share amounts) | | |
| Outstanding as of December 31, 2010 | 13,969,383 | \$ 18.85 | | |
| Options granted | 1,712,211 | 20.71 | | |
| Options exercised | (478,974) | 10.29 | | |
| Options forfeited | (447,417) | 11.48 | | |
| Outstanding as of June 30, 2011 | 14,755,203 | 19.57 | 5.61 | \$ 14,793 |
| Vested or expected to vest at June 30, 2011 | 14,209,999 | 19.56 | 5.49 | 14,406 |
| Options exercisable at June 30, 2011 | 10,199,075 | 19.76 | 4.36 | 10,787 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at June 30, 2011, based on the \$14.68 closing stock price of Rambus Common Stock on June 30, 2011 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 June 30, 2011 was 2,529,882 and 1,819,311, respectively.

Employee Stock Purchase Plans

Under the 2006 Employee Stock Purchase Plan (ESPP), the Company issued 146,034 shares at a price of \$16.50 per share during the six months ended June 30, 2011. The Company issued 161,293 shares at a price of \$13.56 per share during the six months ended June 30, 2010. As of June 30, 2011, 439,734 shares under the 2006 ESPP remained available for issuance.

Stock-Based Compensation

For the six months ended June 30, 2011 and 2010, the Company maintained stock plans covering a broad range of potential equity grants including stock options, nonvested equity stock and equity stock units and performance based instruments. In addition, the Company sponsors an ESPP, whereby eligible employees are entitled to purchase Common Stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the Common Stock as of certain specified dates.

Stock Options

During the three and six months ended June 30, 2011, Rambus granted 78,510 and 1,712,211 stock options, respectively, with an estimated total grant-date fair value of \$0.6 million and \$18.3 million, respectively. During the three and six months ended June 30, 2011, Rambus recorded stock-based compensation expense related to stock options of \$5.0 million and \$10.2 million, respectively.

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During the three and six months ended June 30, 2010, Rambus granted 138,350 and 1,725,323 stock options, respectively, with an estimated total grant-date fair value of \$2.0 million and \$22.9 million, respectively. During the three and six months ended June 30, 2010, Rambus recorded stock-based compensation expense related to stock options of \$6.0 million and \$11.7 million, respectively.

As of June 30, 2011, there was \$40.4 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested stock-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 3.4 years. The total fair value of shares vested as of June 30, 2011 was \$141.7 million.

The total intrinsic value of options exercised was \$1.9 million and \$4.0 million for the three and six months ended June 30, 2011, respectively. The total intrinsic value of options exercised was \$3.3 million and \$5.2 million for the three and six months ended June 30, 2010, respectively. Intrinsic value is the total value of exercised shares based on the price of the Company's common stock at the time of exercise less the cash received from the employees to exercise the options.

During the six months ended June 30, 2011, net proceeds from employee stock option exercises totaled approximately \$4.9 million.

Employee Stock Purchase Plans

For the three and six months ended June 30, 2011, the Company recorded compensation expense related to the ESPP of \$0.4 million and \$0.8 million, respectively. For the three and six months ended June 30, 2010, the Company recorded compensation expense related to the ESPP of \$0.4 million and \$0.9 million, respectively. As of June 30, 2011, there was \$0.6 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over four months.

There were no tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units for the three and six months ended June 30, 2011 and 2010 calculated in accordance with accounting for share-based payments.

Valuation Assumptions

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

| Stock Option Plans | | | | |
|---------------------------|-------------|-------------|-------------------------|-------------|
| Three Months Ended | | | Six Months Ended | |
| June 30, | | | June 30, | |
| 2011 | 2010 | 2010 | 2011 | 2010 |

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| Stock Option Plans | | | | |
|--|---------|----------|-----------|----------|
| Expected stock price volatility | 50% | 69% | 50-52% | 61-69% |
| Risk free interest rate | 2.6% | 3.2% | 2.6-2.8% | 2.4-3.2% |
| Expected term (in years) | 6.1 | 6.1 | 6.0 - 6.1 | 5.9 6.1 |
| Weighted-average fair value of stock options granted | \$ 8.58 | \$ 14.38 | \$ 10.71 | \$ 13.27 |

| | Employee Stock Purchase Plan | | | |
|--|------------------------------|---------|------------------|---------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Employee Stock Purchase Plan | | | | |
| Expected stock price volatility | 56% | 54% | 56% | 54% |
| Risk free interest rate | 0.1% | 0.3% | 0.1% | 0.3% |
| Expected term (in years) | 0.5 | 0.5 | 0.5 | 0.5 |
| Weighted-average fair value of purchase rights granted under the purchase plan | \$ 5.96 | \$ 7.46 | \$ 5.96 | \$ 7.46 |

Nonvested Equity Stock and Stock Units

The Company grants nonvested equity stock units to certain officers, employees and directors. For the three months ended June 30, 2011, the Company made no equity stock unit grants. During the six months ended June 30, 2011, the Company granted nonvested

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equity stock units totaling 213,554 shares under the 2006 Plan. These awards have a service condition, generally a service period of four years, except in the case of grants to directors, for which the service period is one year. The nonvested equity stock units were valued at the date of grant giving them a fair value of approximately \$4.5 million. The Company occasionally grants nonvested equity stock units to its employees with vesting subject to the achievement of certain performance conditions. During the three and six months ended June 30, 2011, the achievement of certain performance conditions for certain performance equity stock units was considered probable, and as a result, the Company recognized an insignificant amount of stock-based compensation expense related to these performance stock units for both periods.

For the three and six months ended June 30, 2011, the Company recorded stock-based compensation expense of approximately \$1.6 million and \$3.3 million, respectively, related to all outstanding unvested equity stock grants. For the three and six months ended June 30, 2010, the Company recorded stock-based compensation expense of approximately \$1.5 million and \$3.1 million, respectively, related to all outstanding unvested equity stock grants. Unrecognized stock-based compensation related to all nonvested equity stock grants, net of estimated forfeitures, was approximately \$9.7 million at June 30, 2011. This is expected to be recognized over a weighted average period of 1.9 years.

The following table reflects the activity related to nonvested equity stock and stock units for the six months ended June 30, 2011:

| Nonvested Equity Stock and Stock Units | Shares | Weighted-Average Grant-Date Fair Value |
|--|-----------|--|
| Nonvested at December 31, 2010 | 718,007 | \$ 18.23 |
| Granted | 213,554 | 20.86 |
| Vested | (147,197) | 17.30 |
| Forfeited | (14,934) | 21.76 |
| Nonvested at June 30, 2011 | 769,430 | 19.07 |

6. Marketable Securities

Rambus invests its excess cash and cash equivalents primarily in U.S. government agency and treasury notes, commercial paper, corporate notes and bonds, money market funds and municipal notes and bonds that mature within three years.

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

| (Dollars in thousands) | Fair Value | Amortized Cost | June 30, 2011 Gross Unrealized Gains | Gross Unrealized Losses | Weighted Rate of Return |
|---------------------------------|------------|----------------|--------------------------------------|-------------------------|-------------------------|
| Money market funds | \$ 168,847 | \$ 168,847 | \$ | \$ | 0.01% |
| U.S. government bonds and notes | 65,592 | 65,569 | 23 | - | 0.22% |
| | 113,958 | 114,020 | 2 | (64) | 0.40% |

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| | | | | | |
|--|------------|------------|-------|---------|--|
| Corporate notes, bonds and commercial paper | | | | | |
| Total cash equivalents and marketable securities | 348,397 | 348,436 | 25 | (64) | |
| Cash | 10,957 | 10,957 | | | |
| Total cash, cash equivalents and marketable securities | \$ 359,354 | \$ 359,393 | \$ 25 | \$ (64) | |

| (Dollars in thousands) | Fair Value | Amortized Cost | December 31, 2010 | | Weighted Rate of Return |
|--|------------|----------------|------------------------|-------------------------|-------------------------|
| | | | Gross Unrealized Gains | Gross Unrealized Losses | |
| Money market funds | \$ 132,364 | \$ 132,364 | \$ | \$ | 0.04% |
| U.S. government bonds and notes | 266,817 | 266,840 | 29 | (52) | 0.26% |
| Corporate notes, bonds and commercial paper | 95,724 | 95,773 | 8 | (57) | 0.39% |
| Total cash equivalents and marketable securities | 494,905 | 494,977 | 37 | (109) | |
| Cash | 17,104 | 17,104 | | | |
| Total cash, cash equivalents and marketable securities | \$ 512,009 | \$ 512,081 | \$ 37 | \$ (109) | |

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

| | June 30, 2011 | December 31, 2010 |
|--|------------------|----------------------|
| | (in thousands) | |
| Cash equivalents | \$ 168,847 | \$ 198,158 |
| Short term marketable securities | 179,550 | 296,747 |
| Total cash equivalents and marketable securities | 348,397 | 494,905 |
| Cash | 10,957 | 17,104 |
| Total cash, cash equivalents and marketable securities | \$ 359,354 | \$ 512,009 |

The Company continues to invest in high quality, highly liquid debt securities that mature within three years. The Company holds all of its marketable securities as available-for-sale, marks them to market, and regularly reviews its portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis, proper valuation, and unrealized losses that may be other than temporary. As of June 30, 2011, certain marketable debt securities with a fair value of \$91.4 million, which mature within one year, had insignificant unrealized losses. The unrealized loss, net, at June 30, 2011 was insignificant in relation to the Company's total available-for-sale portfolio. The unrealized loss, net, can be primarily attributed to a combination of market conditions as well as the demand for and duration of the Company's U.S. government bonds and notes. The Company has no intent to sell, there is no requirement to sell and the Company believes that it can recover the amortized cost of these investments. The Company has found no evidence of impairment due to credit losses in its portfolio. Therefore, these unrealized losses were recorded in other comprehensive income (loss). However, the Company cannot provide any assurance that its portfolio of cash, cash equivalents and marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company in the future to record an impairment charge for credit losses which could adversely impact its financial results.

The estimated fair value of cash equivalents and marketable securities classified by date of contractual maturity and the associated unrealized loss, net, at June 30, 2011 and December 31, 2010 are as follows:

| | June 30, 2011 | As of | December 31, 2010 | June 30, 2011 | December 31, 2010 |
|------------------------------|------------------|-------|----------------------|------------------|----------------------|
| | (in thousands) | | Unrealized Loss, net | | |
| Contractual maturity: | | | | | |
| Due within one year | \$ 348,397 | \$ | 494,905 | \$ (39) | \$ (72) |

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

7. Commitments and Contingencies

On December 15, 2009, the Company entered into a definitive triple net space lease agreement with MT SPE, LLC (the Landlord) whereby it leases approximately 125,000 square feet of office space located at 1050 Enterprise Way in Sunnyvale, California (the Sunnyvale Lease). The office space is used for the Company's corporate headquarters, as well as engineering, marketing and administrative operations and activities. The Company moved to the new premises in the fourth quarter of 2010 following substantial completion of leasehold improvements. The Sunnyvale Lease has a term of 120 months from the commencement date. The initial annual base rent is \$3.7 million, subject to a full abatement

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of rent for the first six months of the Sunnyvale Lease term, but with the rent for the seventh month paid in December 2009 in order to gain access to the building. The annual base rent increases each year to certain fixed amounts over the course of the term as set forth in the Sunnyvale Lease and will be \$4.8 million in the tenth year. In addition to the base rent, the Company also pays operating expenses, insurance expenses, real estate taxes and a management fee. The Company has two options to extend the Sunnyvale Lease for a period of 60 months each and a one-time option to terminate the Sunnyvale Lease after 84 months in exchange for an early termination fee.

Since certain improvements to be constructed by the Company are considered structural in nature and the Company is responsible for any cost overruns, for accounting purposes, the Company is treated in substance as the owner of the construction project during the construction period. Accordingly, as of December 31, 2009, the Company had capitalized \$25.1 million in property, plant and equipment based on the estimated fair value of the portion of the unfinished building along with a corresponding financing obligation for the same amount.

Following substantial completion of construction in the fourth quarter of 2010, the Company occupied the building. At completion, the Company concluded that it retained sufficient continuing involvement to preclude de-recognition of the building under the FASB authoritative guidance applicable to the sale leasebacks of real estate. As such, the Company continues to account for the building as

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owned real estate and to record an imputed financing obligation for its obligation to the legal owner. In addition, the Company capitalized \$1.5 million of interest on the building with a corresponding imputed financing obligation for the same amount.

Pursuant to the terms of the Sunnyvale Lease, the landlord has agreed to reimburse the Company approximately \$9.1 million, of which \$0.3 million was received in 2010 and \$7.0 million was received in the first half of 2011. The remaining balance of \$1.8 million has been received in July 2011. The Company recognized the \$7.3 million reimbursement as an additional imputed financing obligation under the FASB authoritative guidance as such payment from the landlord is deemed to be an imputed financing obligation. Monthly lease payments on the facility are allocated between the land element of the lease (which is accounted for as an operating lease) and the imputed financing obligation. The imputed financing obligation is amortized using the effective interest method and the interest rate determined in accordance with the requirements of sale leaseback accounting. For the three and six months ended June 30, 2011, the Company recognized in its statement of operations \$0.8 million and \$1.5 million, respectively, of interest expense in connection with the imputed financing obligation. At June 30, 2011, the imputed financing obligation balance in connection with the new facility was \$33.8 million which was classified under long-term imputed financing obligation. At the end of the initial ten year lease term, should the Company decide not to renew the lease, the Company would reverse the equal amounts of the net book value of the building and the corresponding imputed financing obligation.

In connection with the June 3, 2011 acquisition of Cryptography Research, Inc. (CRI), the Company is obligated to pay a retention bonus to certain CRI employees and contractors, subject to certain eligibility and acceleration provisions including the condition of employment, in cash or stock at the Company's election, in three equal amounts of approximately \$16.7 million, on June 2, 2012, 2013 and 2014, respectively. The total retention bonus commitment is \$50.0 million and may be forfeited in part or whole by the covered employees and contractors upon voluntary departure from employment or discontinuation of services. Any amounts forfeited will be accelerated and paid by the Company to a designated charity. See Note 16, Acquisition, for additional information regarding the acquisition of CRI.

On July 20, 2011, the Company received notice from Samsung exercising their put right to put back to the Company approximately 4.8 million shares of the Company's common stock for cash of \$100.0 million. Refer to Note 17, Subsequent Event for further details.

As of June 30, 2011, the Company's material contractual obligations are (in thousands):

| | Total | Remainder of 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|--|------------|----------------------|-----------|-----------|------------|----------|------------|
| Contractual obligations | | | | | | | |
| (1) | | | | | | | |
| Imputed financing obligation (2) | \$ 47,522 | \$ 2,427 | \$ 4,914 | \$ 5,035 | \$ 5,155 | \$ 5,275 | \$ 24,716 |
| Leases | 4,517 | 1,393 | 2,075 | 371 | 357 | 321 | |
| Software licenses (3) | 4,376 | 1,988 | 2,188 | 200 | | | |
| CRI retention bonus | 50,000 | | 16,667 | 16,667 | 16,666 | | |
| Convertible notes | 172,500 | | | | 172,500 | | |
| Interest payments related to convertible notes | 25,876 | 4,313 | 8,625 | 8,625 | 4,313 | | |
| Total | \$ 304,791 | \$ 10,121 | \$ 34,469 | \$ 30,898 | \$ 198,991 | \$ 5,596 | \$ 24,716 |

(1) The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$13.1 million including \$8.4 million recorded as a reduction of long-term deferred tax assets and \$4.7 million in long-term income taxes payable, as of June 30,

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2011. As noted below in Note 9, Income Taxes, although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time. The above table does not reflect possible payments in connection with the contingently redeemable common stock discussed in Note 8, Stockholders Equity and Contingently Redeemable Common Stock .

- (2) With respect to the imputed financing obligation, the main components of the difference between the amount reflected in the contractual obligations table and the amount reflected on the condensed consolidated balance sheet are the interest on the imputed financing obligation and the estimated common area expenses over the future periods.
- (3) The Company has commitments with various software vendors for non-cancellable license agreements generally having terms longer than one year. The above table summarizes those contractual obligations as of June 30, 2011 which are also listed on the

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Company's balance sheet under current and other long-term liabilities.

Rent expense was approximately \$0.7 million and \$1.3 million for the three and six months ended June 30, 2011, respectively. Rent expense was approximately \$1.8 million and \$3.6 million for the three and six months ended June 30, 2010, respectively.

Deferred rent of \$0.5 million as of June 30, 2011 and \$0.5 million as of December 31, 2010 was included primarily in other long-term liabilities.

Indemnifications

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

Several securities fraud class actions, private lawsuits and shareholder derivative actions were filed in state and federal courts against certain of the Company's current and former officers and directors related to the stock option granting actions. As permitted under Delaware law, the Company has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's term in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has a director and officer insurance policy that reduces the Company's exposure and enables the Company to recover a portion of future amounts to be paid. As a result of these indemnification agreements, the Company continues to make payments on behalf of current and former officers. As of June 30, 2011, the Company had made cumulative payments of approximately \$17.6 million on their behalf, including \$0.7 million in the quarter ended June 30, 2011. As of June 30, 2010, the Company had made cumulative payments of approximately \$13.7 million on their behalf, including \$1.6 million in the quarter ended June 30, 2010. These payments were recorded under costs of restatement and related legal activities in the condensed consolidated statements of operations.

8. Stockholders' Equity and Contingently Redeemable Common Stock

During the second quarter of 2011, the Company acquired CRI. As part of the acquisition, the Company issued approximately 6.4 million shares of the Company's common stock, of which approximately 161 thousand shares were used to satisfy tax withholding obligations for certain former CRI employees and consultants. See Note 16, Acquisition, for additional information regarding the acquisition of CRI.

Contingently Redeemable Common Stock

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On January 19, 2010, pursuant to the terms of the Stock Purchase Agreement, Samsung purchased for cash from the Company 9.6 million shares of the Company (the "Share") with certain restrictions and put rights. The issuance of the Shares by the Company to Samsung was made through a private transaction. The Stock Purchase Agreement provides Samsung a one-time put right, beginning 18 months after the date of the Stock Purchase Agreement and extending to 19 months after the date of the Stock Purchase Agreement, to elect to sell back to the Company up to 4.8 million of the Shares at the original issue price of \$20.885 per share (for an aggregate purchase price of up to \$100.0 million). The 4.8 million shares have been recorded as contingently redeemable common stock on the condensed consolidated balance sheet as of June 30, 2011 and December 31, 2010.

The Stock Purchase Agreement prohibits the transfer of the Shares by Samsung for 18 months after the date of the Stock Purchase Agreement, subject to certain exceptions. After expiration of the transfer restriction period on July 18, 2011, the Stock Purchase Agreement provides that Samsung may transfer a limited number of shares on a daily basis, provides the Company with a right of first offer for proposed transfers above such daily limits, and, if no sale occurs to the Company under the right of first offer, allows Samsung to transfer the Shares. Under the Stock Purchase Agreement, the Company has also agreed that after the transfer restriction period, Samsung will have certain rights to register the Shares for sale under the securities laws of the United States, subject to customary terms and conditions.

On July 20, 2011, the Company received notice from Samsung exercising their put right to put back to the Company approximately 4.8 million shares of the Company's common stock for cash of \$100.0 million. Refer to Note 17, "Subsequent Event" for further details.

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Share Repurchase Program

During the six months ended June 30, 2011, the Company did not repurchase any shares of its Common Stock. As of June 30, 2011, the Company had repurchased a cumulative total of approximately 26.3 million shares of its Common Stock with an aggregate price of approximately \$428.9 million since the commencement of the program in 2001. As of June 30, 2011, there remained an outstanding authorization to repurchase approximately 5.2 million shares of the Company's outstanding Common Stock.

The Company records stock repurchases as a reduction to stockholders' equity. The Company records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the price of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock.

9. Income Taxes

The Company's effective tax rate for the three and six months ended June 30, 2011 was (24.6)% and (148.9)%, respectively. For both periods, the Company's effective tax rate was different from the U.S. statutory tax rate due to foreign withholding taxes, a full valuation allowance on its U.S. net deferred tax assets and foreign losses not benefitted, partially offset by foreign tax credits. During the quarter ended June 30, 2011, the Company calculated its interim tax provision to record taxes incurred by the U.S. entity on a discrete basis because the Company is projecting losses in which a tax benefit cannot be recognized in accordance with FASB Accounting Standards Codification (ASC) 740 Income Taxes. The effective tax rate for the three and six months ended June 30, 2010 was (23.7)% and 25.8%, respectively, which was different from the U.S. statutory tax rate applied to the Company's income before taxes primarily due to a full valuation allowance on its U.S. net deferred tax assets, partially offset by foreign withholding taxes and U.S. and state alternative minimum taxes.

During the three and six months ended June 30, 2011, the Company paid withholding taxes of \$4.1 million each quarter. The Company recorded a provision for income taxes of \$2.1 million and \$8.9 million for the three and six months ended June 30, 2011, which is primarily comprised of withholding taxes and other foreign taxes. As the Company continues to maintain a valuation allowance against its U.S. deferred tax assets, the Company's tax provision is based primarily on the withholding taxes, other foreign taxes and state taxes.

As of June 30, 2011, the Company's condensed consolidated balance sheets included net deferred tax assets, before valuation allowance, of approximately \$131.6 million, which consists of net operating loss carryovers, tax credit carryovers, depreciation and amortization, employee stock-based compensation expenses and certain liabilities, partially reduced by deferred tax liabilities associated with the convertible debt instruments that may be settled in cash upon conversion, including partial cash settlements. As of June 30, 2011, a full valuation allowance has been recorded against the U.S. deferred tax assets. During the six months ended June 30, 2011, the Company increased its deferred tax assets from \$78.3 million to approximately \$131.6 million with a corresponding increase to the valuation allowance related to its U.S. deferred tax assets. This increase of the deferred tax asset and corresponding valuation allowance is primarily related to the increase in temporary differences and a change in treatment of foreign tax credits arising during the six months ended June 30, 2011. Management periodically evaluates the realizability of the Company's net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is solely dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax statutes to fully utilize these assets. The Company intends to maintain the valuation allowance until sufficient positive evidence exists to support its reversal.

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The Company maintains liabilities for uncertain tax positions within its long-term income taxes payable accounts. These liabilities involve judgment and estimation and are monitored by management based on the best information available including changes in tax regulations, the outcome of relevant court cases and other information.

As of June 30, 2011, the Company had approximately \$13.1 million of unrecognized tax benefits, including \$8.4 million recorded as a reduction of long-term deferred tax assets and including \$4.7 million in long-term income taxes payable. If recognized, approximately \$2.8 million would be recorded as an income tax benefit. No benefit would be recorded for the remaining unrecognized tax benefits as the recognition would require a corresponding increase in the valuation allowance. As of December 31, 2010, the Company had \$11.8 million of unrecognized tax benefits, including \$7.2 million recorded as a reduction of long-term deferred tax assets and \$4.6 million in long-term income taxes payable.

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

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision (benefit). At June 30, 2011 and December 31, 2010, an insignificant amount of interest and penalties are included in long-term income taxes payable.

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Rambus files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company is subject to examination by the Internal Revenue Service (IRS) for tax years ended 2007 through 2009. The Company is also subject to examination by the State of California for tax years ended 2006 through 2009. In addition, any R&D credit carryforward or net operating loss carryforward generated in prior years and utilized in these or future years may also be subject to examination by the IRS and the State of California. The Company is also subject to examination in various other foreign jurisdictions, including India, for various periods.

The Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where the Company has higher statutory rates or lower than anticipated in countries where it has lower statutory rates, by changes in valuation of its deferred tax assets and liabilities, or by changes in tax laws or interpretations of those laws.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of incremental common shares issuable upon exercise of stock options, employee stock purchases, restricted stock and restricted stock units and shares issuable upon the conversion of convertible notes. The dilutive effect of outstanding shares is reflected in diluted earnings per share by application of the treasury stock method. This method includes consideration of the amounts to be paid by the employees, the amount of excess tax benefits that would be recognized in equity if the instrument was exercised and the amount of unrecognized stock-based compensation related to future services. No potential dilutive common shares are included in the computation of any diluted per share amount when a net loss is reported. The Company reported approximately 4.8 million shares issued to Samsung as contingently redeemable common stock due to the contractual put rights associated with those shares. As such, the Company uses the two-class method for reporting earnings per share.

The following tables set forth the computation of basic and diluted income (loss) per share:

| | Three Months Ended June 30, | | | |
|--|--|-------------|-----------|-------------|
| | 2011 | | 2010 | |
| | (In thousands, except per share amounts) | | | |
| | CRCS* | Other CS** | CRCS* | Other CS** |
| Basic and diluted net loss per share: | | | | |
| Numerator: | | | | |
| Allocation of undistributed earnings | \$ (461) | \$ (10,124) | \$ (528) | \$ (11,962) |
| Denominator: | | | | |
| Weighted-average common shares outstanding | 4,788 | 105,204 | 4,788 | 108,533 |
| Basic and diluted net loss per share | \$ (0.10) | \$ (0.10) | \$ (0.11) | \$ (0.11) |

| | Six Months Ended June 30, | | | |
|--------------------------------------|--|-------------|----------|------------|
| | 2011 | | 2010 | |
| | (In thousands, except per share amounts) | | | |
| | CRCS* | Other CS** | CRCS* | Other CS** |
| Basic net income (loss) per share: | | | | |
| Numerator: | | | | |
| Allocation of undistributed earnings | \$ (652) | \$ (14,163) | \$ 5,271 | \$ 133,138 |
| Denominator: | | | | |

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| | | | | | | | | |
|--|----|--------|----|----------|----|-------|----|---------|
| Weighted-average common shares outstanding | | 4,788 | | 104,021 | | 4,312 | | 108,915 |
| Basic net income (loss) per share | \$ | (0.14) | \$ | (0.14) | \$ | 1.22 | \$ | 1.22 |
| Diluted net income (loss) per share: | | | | | | | | |
| Numerator: | | | | | | | | |
| Allocation of undistributed earnings for basic computation | \$ | (652) | \$ | (14,163) | \$ | 5,271 | \$ | 133,138 |
| Reallocation of undistributed earnings | | | | | | (189) | | 189 |
| Allocation of undistributed earnings for diluted computation | \$ | (652) | \$ | (14,163) | \$ | 5,082 | \$ | 133,327 |
| Denominator: | | | | | | | | |
| Number of shares used in basic computation | | 4,788 | | 104,021 | | 4,312 | | 108,915 |
| Dilutive potential shares from stock options, ESPP, Convertible notes and nonvested equity stock and stock units | | | | | | | | 4,207 |
| Number of shares used in diluted computation | | 4,788 | | 104,021 | | 4,312 | | 113,122 |
| Diluted net income (loss) per share | \$ | (0.14) | \$ | (0.14) | \$ | 1.18 | \$ | 1.18 |

* CRCS Contingently Redeemable Common Stock

** Other CS Common Stock other than CRCS

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For the three months ended June 30, 2011 and 2010, options to purchase approximately 11.5 million and 6.3 million shares, respectively, and for the six months ended June 30, 2011 and 2010, options to purchase approximately 10.0 million and 6.3 million shares, respectively, were excluded from the calculation because they were anti-dilutive after considering proceeds from exercise, taxes and related unrecognized stock-based compensation expense. For the three months ended June 30, 2011 and 2010, an additional 2.1 million and 4.1 million shares, respectively, and for the six months ended June 30, 2011, an additional 2.4 million shares, including nonvested equity stock and stock units, that would be dilutive have been excluded from the weighted average dilutive shares because there were net losses for the periods.

11. Business Segments and Major Customers

Prior to 2010, Rambus operated in a single industry segment, the design, development and licensing of memory and logic interfaces, lighting and optoelectronics, and other technologies. In 2010, the Company reorganized, and as a result, starting at the end of the fourth quarter of 2010, Rambus has two business groups: Semiconductor Business Group (SBG) which focuses on the design, development and licensing of semiconductor technology, and New Business Group (NBG) which focuses on the design, development and licensing of lighting and display technologies, mobile, data security and other technologies. In addition, the Company acquired CRI during the second quarter of 2011 which is part of NBG.

The Company evaluates the performance of its segments based on segment operating income (loss). Segment operating income (loss) does not include the allocation of any corporate functions (including human resources, facilities, legal, finance, information technology, corporate development, general administration, corporate licensing and marketing expenses, corporate research and development expenses, and cost of restatement) to the segments. Certain expenses are not allocated to the operating segments because they are not considered in evaluating the segments' operating performance. Such unallocated expenses include stock-based compensation expenses, depreciation and amortization expenses, and certain bonus and acquisition expenses which are managed at the corporate level. The Reconciling Items category includes these unallocated and corporate expenses.

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

| | For the Three months Ended June 30, 2011 | | | For the Six months Ended June 30, 2011 | | |
|---------------------------------|--|------------|------------|--|------------|------------|
| | SBG | NBG | Total | SBG | NBG | Total |
| | (In thousands) | | | | | |
| Revenues | \$ 65,775 | \$ 439 | \$ 66,214 | \$ 128,151 | \$ 590 | \$ 128,741 |
| Gain from settlement | \$ | \$ | \$ | \$ 6,200 | \$ | \$ 6,200 |
| Segment operating income (loss) | \$ 56,462 | \$ (3,802) | \$ 52,660 | \$ 114,957 | \$ (6,823) | \$ 108,134 |
| Reconciling items | | | (55,168) | | | (102,272) |
| Total operating income (loss) | | | \$ (2,508) | | | \$ 5,862 |

| | For the Three months Ended June 30, 2010 | | | For the Six months Ended June 30, 2010 | | |
|----------|--|--------|-----------|--|--------|------------|
| | SBG | NBG | Total | SBG | NBG | Total |
| | (In thousands) | | | | | |
| Revenues | \$ 38,675 | \$ 187 | \$ 38,862 | \$ 200,539 | \$ 187 | \$ 200,726 |

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| | | | | | | | | | | | | |
|------------------------------------|----|--------|----|---------|----|----------|----|---------|----|---------|----|----------|
| Gain from settlement | \$ | 10,300 | \$ | | \$ | 10,300 | \$ | 106,200 | \$ | | \$ | 106,200 |
| Segment operating income (loss) | \$ | 40,077 | \$ | (1,663) | \$ | 38,414 | \$ | 288,259 | \$ | (2,583) | \$ | 285,676 |
| Reconciling items | | | | | | (45,087) | | | | | | (90,183) |
| Total Operating income(loss) | | | | | \$ | (6,673) | | | | | \$ | 195,493 |

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The Company's chief operating decision maker is the executive management team and it does not review information regarding assets on an operating segment basis. Additionally, the Company does not record intersegment revenue or expense.

The table below presents a reconciliation of reportable segment profit (loss) to the Company's consolidated income before income taxes.

| (in thousands) | For the Three months Ended June 30, 2011 | | For the Six Months Ended June 30, 2011 | |
|---------------------------------|---|----------|---|----------|
| SBG operating income | \$ | 56,462 | \$ | 114,957 |
| NBG operating loss | | (3,802) | | (6,823) |
| Unallocated amounts: | | | | |
| Corporate expenses | | (30,868) | | (60,582) |
| Unallocated expenses | | (24,300) | | (41,690) |
| Interest and other expense, net | | (5,989) | | (11,813) |
| Loss before income taxes | \$ | (8,497) | \$ | (5,951) |

| (in thousands) | For the Three months Ended June 30, 2010 | | For the Six Months Ended June 30, 2010 | |
|-----------------------------------|---|----------|---|----------|
| SBG operating income | \$ | 40,077 | \$ | 288,259 |
| NBG operating loss | | (1,663) | | (2,583) |
| Unallocated amounts: | | | | |
| Corporate expenses | | (27,754) | | (54,406) |
| Unallocated expenses | | (17,333) | | (35,777) |
| Interest and other expense, net | | (3,424) | | (9,015) |
| Income (loss) before income taxes | \$ | (10,097) | \$ | 186,478 |

Three customers accounted for 38%, 13% and 12%, respectively, of revenue in the three months ended June 30, 2011. Three customers accounted for 38%, 17% and 10%, respectively, of revenue in the three months ended June 30, 2010. Three customers accounted for 34%, 13% and 12%, respectively, of revenue in the six months ended June 30, 2011. One customer accounted for 76% of revenue in the six months ended June 30, 2010.

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

| (In thousands) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|----------------|--------------------------------|-----------|------------|------------------------------|------|------|
| | 2011 | 2010 | 2010 | 2011 | 2010 | 2010 |
| Japan | \$ 26,649 | \$ 18,837 | \$ 56,250 | \$ 37,873 | | |
| Korea | 25,074 | 14,713 | 44,218 | 151,879 | | |
| North America | 14,469 | 5,292 | 28,096 | 10,777 | | |
| Asia-Other | 15 | 13 | 163 | 58 | | |
| Europe | 7 | 7 | 14 | 139 | | |
| Total | \$ 66,214 | \$ 38,862 | \$ 128,741 | \$ 200,726 | | |

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At June 30, 2011, of the \$71.2 million of total property, plant and equipment, approximately \$70.3 million were located in the United States, \$0.8 million were located in India and \$0.1 million were located in other foreign locations. At December 31, 2010, of the \$67.8 million of total property, plant and equipment, approximately \$66.7 million were located in the United States, \$1.0 million were located in India and \$0.1 million were located in other foreign locations.

Table of Contents**12. Amortizable Intangible Assets and Goodwill***Intangible Assets*

The components of the Company's intangible assets as of June 30, 2011 and December 31, 2010 were as follows:

| | Gross Carrying Amount | As of June 30, 2011 Accumulated Amortization (In thousands) | Net Carrying Amount |
|---|--------------------------|--|------------------------|
| Patents (useful life of 3 to 10 years) | \$ 24,433 | \$ (11,167) | \$ 13,266 |
| Customer contracts and contractual relationships (useful life of 1 to 10 years) | 33,550 | (3,782) | 29,768 |
| Existing technology (useful life of 3 to 7 years) | 159,350 | (8,471) | 150,879 |
| Intellectual property (useful life of 4 years) | 10,384 | (10,384) | |
| Non-competition agreement (useful life of 3 years) | 400 | (108) | 292 |
| Total intangible assets | \$ 228,117 | \$ (33,912) | \$ 194,205 |

| | Gross Carrying Amount | As of December 31, 2010 Accumulated Amortization (In thousands) | Net Carrying Amount |
|---|--------------------------|--|------------------------|
| Patents (useful life of 3 to 10 years) | \$ 24,433 | \$ (9,361) | \$ 15,072 |
| Customer contracts and contractual relationships (useful life of 1 to 10 years) | 4,050 | (3,127) | 923 |
| Existing technology (useful life of 3 to 7 years) | 29,950 | (4,959) | 24,991 |
| Intellectual property (useful life of 4 years) | 10,384 | (10,384) | |
| Non-competition agreement (useful life of 3 years) | 100 | (100) | |
| Total intangible assets | \$ 68,917 | \$ (27,931) | \$ 40,986 |

Amortization expense for intangible assets for the three and six months ended June 30, 2011 was \$4.0 million and \$6.0 million, respectively. Amortization expense for intangible assets for the three and six months ended June 30, 2010 was \$1.2 million and \$2.3 million, respectively.

During the second quarter of 2011, the Company acquired CRI. As part of the acquisition, the Company acquired the following intangible assets with fair values determined as of the acquisition date:

| | Total (in thousands) | Estimated Useful Life (in years) |
|------------------------|-------------------------|--|
| Existing technology | \$ 129,400 | 7 |
| Customer relationships | 17,300 | 7 |
| Favorable contracts | 12,200 | 2 |

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| | | | |
|----------------------------|-----------|----------------|---|
| Non-competition agreements | | 300 | 3 |
| Total | \$ | 159,200 | |

The favorable contracts are acquired patent licensing agreements where the Company has no performance obligations. Cash received from these acquired favorable contracts will reduce the favorable contract intangible asset. The estimated useful life is based on expected payment dates related to the favorable contracts. The group of purchased intangible assets has an estimated weighted average useful life of approximately 7 years from the date of acquisition. Refer to Note 16, Acquisition for additional details.

The estimated future amortization expense of intangible assets as of June 30, 2011 was as follows (amounts in thousands):

| Years Ending December 31: | Amount |
|----------------------------------|-------------------|
| 2011 (remaining 6 months) | \$ 16,179 |
| 2012 | 34,536 |
| 2013 | 31,471 |
| 2014 | 27,330 |
| 2015 | 26,679 |
| Thereafter | 58,010 |
| | \$ 194,205 |

Table of Contents**Goodwill**

As a result of the CRI acquisition, the Company recorded approximately \$97.0 million of goodwill during the three months ended June 30, 2011. CRI is a new reporting unit within the NBG reportable segment which focuses on data security technology. Refer to Note 16, Acquisition for additional details.

Goodwill information for each reporting unit is as follows:

| Reporting Units: | December 31, 2010 | Addition to Goodwill (1) (In thousands) | June 30, 2011 |
|---|----------------------|---|------------------|
| SBG | \$ 4,454 | \$ | \$ 4,454 |
| CRI | | 96,994 | 96,994 |
| Lighting and Display Technology group (LDT) | 13,700 | | 13,700 |
| Total | \$ 18,154 | \$ 96,994 | \$ 115,148 |

(1) The addition to goodwill resulted from a business combination which was completed in June 2011. See Note 16, Acquisition for further details.

No goodwill was impaired as of June 30, 2011 and December 31, 2010.

13. Litigation and Asserted Claims***Hynix Litigation****U.S District Court of the Northern District of California*

On August 29, 2000, Hynix (formerly Hyundai) and various subsidiaries filed suit against Rambus in the U.S. District Court for the Northern District of California. The complaint, as amended and narrowed through motion practice, asserts claims for fraud, violations of federal antitrust laws and deceptive practices in connection with Rambus participation in a standards setting organization called JEDEC, and seeks a declaratory judgment that the Rambus patents-in-suit are unenforceable, invalid and not infringed by Hynix, compensatory and punitive damages, and attorneys fees. Rambus denied Hynix's claims and filed counterclaims for patent infringement against Hynix.

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The case was divided into three phases. In the first phase, Hynix tried its unclean hands defense beginning on October 17, 2005 and concluding on November 1, 2005. In its January 4, 2006 Findings of Fact and Conclusions of Law, the court held that Hynix's unclean hands defense failed. Among other things, the court found that Rambus did not adopt its document retention policy in bad faith, did not engage in unlawful spoliation of evidence, and that while Rambus disposed of some relevant documents pursuant to its document retention policy, Hynix was not prejudiced by the destruction of Rambus documents. On January 19, 2009, Hynix filed a motion for reconsideration of the court's unclean hands order and for summary judgment on the ground that the decision by the Delaware court in the pending Micron-Rambus litigation (described below) should be given preclusive effect. In its motion Hynix requested alternatively that the court's unclean hands order be certified for appeal and that the remainder of the case be stayed. Rambus filed an opposition to Hynix's motion on January 26, 2009, and a hearing was held on January 30, 2009. On February 3, 2009, the court denied Hynix's motions and restated its conclusions that Rambus had not anticipated litigation until late 1999 and that Hynix had not demonstrated any prejudice from any alleged destruction of evidence.

The second phase of the Hynix-Rambus trial on patent infringement, validity and damages began on March 15, 2006, and was submitted to the jury on April 13, 2006. On April 24, 2006, the jury returned a verdict in favor of Rambus on all issues and awarded Rambus a total of approximately \$307 million in damages, excluding prejudgment interest. Specifically, the jury found that each of the ten selected patent claims was supported by the written description, and was not anticipated or rendered obvious by prior art; therefore, none of the patent claims was invalid. The jury also found that Hynix infringed all eight of the patent claims for which the jury was asked to determine infringement; the court had previously determined on summary judgment that Hynix infringed the other two claims at issue in the trial. On July 14, 2006, the court granted Hynix's motion for a new trial on the issue of damages unless Rambus agreed to a reduction of the total jury award to approximately \$134 million. The 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. On July 27, 2006, Rambus elected remittitur of the jury's award to approximately \$134 million. On August 30, 2006, the court awarded Rambus prejudgment interest for the period June 23, 2000 through December 31, 2005. Hynix filed a motion on July 7, 2008 to reduce the amount of remitted damages and any supplemental

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damages that the court may award, as well as to limit the products that could be affected by any injunction that the court may grant, on the grounds of patent exhaustion. Following a hearing on August 29, 2008, the court denied Hynix's motion. In separate orders issued December 2, 2008, January 16, 2009, and January 27, 2009, the court denied Hynix's post-trial motions for judgment as a matter of law and new trial on infringement and validity.

On June 24, 2008, the court heard oral argument on Rambus's motion to supplement the damages award and for equitable relief related to Hynix's infringement of Rambus patents. On February 23, 2009, the court issued an order (1) granting Rambus's motion for supplemental damages and prejudgment interest for the period after December 31, 2005, at the same rates ordered for the prior period; (2) denying Rambus's motion for an injunction; and (3) ordering the parties to begin negotiations regarding the terms of a compulsory license regarding Hynix's continued manufacture, use, and sale of infringing devices.

The third phase of the Hynix-Rambus trial involved Hynix's affirmative JEDEC-related antitrust and fraud allegations against Rambus. On April 24, 2007, the court ordered a coordinated trial of certain common JEDEC-related claims alleged by the manufacturer parties (i.e., Hynix, Micron, Nanya and Samsung) and defenses asserted by Rambus in *Hynix v Rambus*, Case No. C 00-20905 RMW, and three other cases then pending before the same court (*Rambus Inc. v. Samsung Electronics Co. Ltd. et al.*, Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.*, Case No. C 06-00244 RMW, each described in further detail below). On December 14, 2007, the court excused Samsung from the coordinated trial based on Samsung's agreement to certain conditions, including trial of its claims against Rambus by the court within six months following the conclusion of the coordinated trial. The coordinated trial involving Rambus, Hynix, Micron and Nanya began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims. Specifically, the jury found that Hynix, Micron, and Nanya failed to meet their burden of proving that: (1) Rambus engaged in anticompetitive conduct; (2) Rambus made important representations that it did not have any intellectual property pertaining to the work of JEDEC and intended or reasonably expected that the representations would be heard by or repeated to others including Hynix, Micron or Nanya; (3) Rambus uttered deceptive half-truths about its intellectual property coverage or potential coverage of products compliant with synchronous DRAM standards then being considered by JEDEC by disclosing some facts but failing to disclose other important facts; or (4) JEDEC members shared a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard. Hynix, Micron, and Nanya filed motions for a new trial and for judgment on certain of their equitable claims and defenses. A hearing on those motions was held on May 1, 2008. A further hearing on the equitable claims and defenses was held on May 27, 2008. On July 24, 2008, the court issued an order denying Hynix, Micron, and Nanya's motions for new trial.

On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial. The court concluded (among other things) that (1) Rambus did not have an obligation to disclose pending or anticipated patent applications and had sound reasons for not doing so; (2) the evidence supported the jury's finding that JEDEC members did not share a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard; (3) the written JEDEC disclosure policies did not clearly require members to disclose information about patent applications and the intent to file patent applications in the future; (4) there was no clearly understood or legally enforceable agreement of JEDEC members to disclose information about patent applications or the intent to seek patents relevant to standards being discussed at JEDEC; (5) during the time Rambus attended JEDEC meetings, Rambus did not have any patent application pending that covered a JEDEC standard, and none of the patents in suit was applied for until well after Rambus resigned from JEDEC; (6) Rambus's conduct at JEDEC did not constitute an estoppel or waiver of its rights to enforce its patents; (7) Hynix, Micron, and Nanya failed to carry their burden to prove their asserted waiver and estoppel defenses not directly based on Rambus's conduct at JEDEC; (8) the evidence did not support a finding of any material misrepresentation, half truths or fraudulent concealment by Rambus related to JEDEC upon which Nanya relied; (9) the manufacturers failed to establish that Rambus violated unfair competition law by its conduct before JEDEC; (10) the evidence related to Rambus's patent prosecution did not establish that Rambus unduly delayed in prosecuting the claims in suit; (11) Rambus did not unreasonably delay bringing its patent infringement claims; and (12) there is no basis for any unclean hands defense or unenforceability claim arising from Rambus's conduct.

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On March 10, 2009, the court entered final judgment against Hynix in the amount of approximately \$397 million as follows: approximately \$134 million for infringement through December 31, 2005; approximately \$215 million for infringement from January 1, 2006 through January 31, 2009; and approximately \$48 million in pre-judgment interest. Post-judgment interest is accruing at the statutory rate. In addition, the judgment orders Hynix to pay Rambus royalties on net sales for U.S. infringement after January 31, 2009 and before April 18, 2010 of 1% for SDR SDRAM and 4.25% for DDR DDR2, DDR3, GDDR, GDDR2 and GDDR3 SDRAM memory devices. On April 9, 2009, Rambus submitted its cost bill in the amount of approximately \$0.85 million. On March 24, 2009,

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Hynix filed a motion under Rule 62 seeking relief from the requirement that it post a supersedeas bond in the full amount of the final judgment in order to stay its execution pending an appeal. Rambus filed a brief opposing Hynix's motion on April 10, 2009. A hearing on Hynix's motion was heard on May 8, 2009. On May 14, 2009, the court granted Hynix's motion in part and ordered that execution of the judgment be stayed on the condition that, within 45 days, Hynix post a supersedeas bond in the amount of \$250 million and provide Rambus with documentation establishing a lien in Rambus's favor on property owned by Hynix in Korea in the amount of the judgment not covered by the supersedeas bond. The court also ordered that Hynix pay the ongoing royalties set forth in the final judgment into an escrow account. Hynix posted the \$250 million supersedeas bond on June 26, 2009. On September 17, 2010, the court granted Rambus's motion for reconsideration of the portion of its order allowing Hynix to establish a lien in lieu of posting a bond for a portion of the judgment; on October 18, 2010, Hynix posted a bond in the full amount of the judgment plus accrued post-judgment interest in the total amount of \$401.2 million. Hynix has deposited amounts into the escrow account pursuant to the court's order regarding ongoing royalties. The escrowed funds will be released only upon agreement of the parties or further court order in accordance with the terms and conditions set forth in the escrow arrangement. On March 8, 2010, the court awarded costs to Rambus in the amount of approximately \$0.76 million. That amount plus accrued interest has been deposited by Hynix into the same escrow account into which ongoing royalties have been deposited.

On April 6, 2009, Hynix filed its notice of appeal. On April 17, 2009, Rambus filed its notice of cross appeal. On August 31, 2009, Hynix filed its opening brief. On December 7, 2009, Rambus filed its answering and opening cross-appeal brief. Hynix's reply and answering brief was filed February 16, 2010, and Rambus's reply was filed February 23, 2010. Oral argument was coordinated with the appeal in the Micron Delaware case (discussed below) and held on April 5, 2010. Oral argument was reheard by an expanded panel of five judges on October 6, 2010. On May 13, 2011, the Federal Circuit issued its opinion (1) concluding that the district court erred in applying too narrow a standard of reasonable foreseeability and vacating the district court's findings of fact and conclusions of law regarding spoliation; (2) affirming the district court's decisions on waiver and estoppel; (3) affirming the district court's claim construction order; (4) affirming the district court's order denying Hynix's motion for judgment as a matter of law or for a new trial on the basis of written description; (5) affirming the district court's order denying Hynix's motion for a new trial on the basis of obviousness; and (6) affirming the district court's grant of Hynix's motion for summary judgment for the claims at issue in Rambus's cross-appeal. The Federal Circuit vacated the district court's final judgment and remanded the case to the district court for further proceedings consistent with the Federal Circuit's opinions in the *Micron* and *Hynix* cases. On June 27, 2011, Rambus filed a petition requesting that the Federal Circuit rehear the *Hynix* appeal if the Federal Circuit accepts the petition for rehearing Rambus filed in the *Micron* case. On June 27, 2011, Hynix filed a petition for rehearing and rehearing en banc with respect to the issues of equitable estoppel, implied waiver, and claim construction. On July 29, 2011, the Federal Circuit denied the parties' petitions.

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 for Delaware. The suit asserts violations of federal antitrust laws, deceptive trade practices, breach of contract, fraud and negligent misrepresentation in connection with Rambus' participation in JEDEC. Micron seeks a declaration of monopolization by Rambus, compensatory and punitive damages, attorneys' fees, a declaratory judgment that eight Rambus patents are invalid and not infringed, and the award to Micron of a royalty-free license to the Rambus patents. Rambus has filed an answer and counterclaims disputing Micron's claims and asserting infringement by Micron of 12 U.S. patents.

This case has been divided into three phases in the same general order as in the *Hynix* 00-20905 action: (1) unclean hands; (2) patent infringement; and (3) antitrust, equitable estoppel, and other JEDEC-related issues. A bench trial on Micron's unclean hands defense began on November 8, 2007 and concluded on November 15, 2007. The court ordered post-trial briefing on the issue of when Rambus became obligated to preserve documents because it anticipated litigation. A hearing on that issue was held on May 20, 2008. The court ordered further post-trial briefing on the remaining issues from the unclean hands trial, and a hearing on those issues was held on September 19, 2008.

On January 9, 2009, the court issued an opinion in which it determined that Rambus had engaged in spoliation of evidence by failing to suspend general implementation of a document retention policy after the point at which the court determined that Rambus should have known litigation was reasonably foreseeable. The court issued an accompanying order declaring the 12 patents in suit unenforceable against Micron (the Delaware Order). On February 9, 2009, the court stayed all other proceedings pending appeal of the Delaware Order. On February 10, 2009, judgment was entered against Rambus and in favor of Micron on Rambus' patent infringement claims and Micron's corresponding claims for declaratory relief. On March 11, 2009, Rambus filed its notice of appeal. Rambus filed its opening brief on July 2, 2009. On August 28, 2009, Micron filed its answering brief. On October 14, 2009, Rambus

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filed its reply brief. Oral argument was coordinated with the appeal in the *Hynix* case (discussed above) and held on April 5, 2010. Oral argument was reheard by an expanded panel of five judges on October 6, 2010. On May 13, 2011, the Federal Circuit issued its opinion affirming the district court's determination that Rambus spoliated documents, vacating the district court's dismissal sanction (including the district court's determination of bad faith and prejudice), and remanding the case to the district court for further consideration consistent with its opinion. On June 27, 2011, Rambus filed a petition for rehearing and rehearing en banc with respect to the issues of spoliation, bad faith, and prejudice. On July 29, 2011, the Federal Circuit denied Rambus's petition.

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

On January 13, 2006, Rambus filed suit against Micron in the U.S. District Court for the Northern District of California. Rambus alleges that 14 Rambus patents are infringed by Micron's DDR2, DDR3, GDDR3, and other advanced memory products. Rambus seeks compensatory and punitive damages, attorneys' fees, and injunctive relief. Micron has denied Rambus' allegations and is alleging counterclaims for violations of federal antitrust laws, unfair trade practices, equitable estoppel, 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.

As explained above, the court ordered a coordinated trial (without Samsung) of certain common JEDEC-related claims and defenses asserted in *Hynix v Rambus*, Case No. C 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. The coordinated trial involving Rambus, Hynix, Micron and Nanya began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims. Specifically, the jury found that Hynix, Micron, and Nanya failed to meet their burden of proving that: (1) Rambus engaged in anticompetitive conduct; (2) Rambus made important representations that it did not have any intellectual property pertaining to the work of JEDEC and intended or reasonably expected that the representations would be heard by or repeated to others including Hynix, Micron or Nanya; (3) Rambus uttered deceptive half-truths about its intellectual property coverage or potential coverage of products compliant with synchronous DRAM standards then being considered by JEDEC by disclosing some facts but failing to disclose other important facts; or (4) JEDEC members shared a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard. Hynix, Micron, and Nanya filed motions for a new trial and for judgment on certain of their equitable claims and defenses. A hearing on those motions was held on May 1, 2008. A further hearing on the equitable claims and defenses was held on May 27, 2008. On July 24, 2008, the court issued an order denying Hynix, Micron, and Nanya's motions for new trial.

On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial. The court concluded (among other things) that (1) Rambus did not have an obligation to disclose pending or anticipated patent applications and had sound reasons for not doing so; (2) the evidence supported the jury's finding that JEDEC members did not share a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard; (3) the written JEDEC disclosure policies did not clearly require members to disclose information about patent applications and the intent to file patent applications in the future; (4) there was no clearly understood or legally enforceable agreement of JEDEC members to disclose information about patent applications or the intent to seek patents relevant to standards being discussed at JEDEC; (5) during the time Rambus attended JEDEC meetings, Rambus did not have any patent application pending that covered a JEDEC standard, and none of the patents in suit was applied for until well after Rambus resigned from JEDEC; (6) Rambus's conduct at JEDEC did not constitute an estoppel or waiver of its rights to enforce its patents; (7) Hynix, Micron, and Nanya failed to carry their burden to prove their asserted waiver and estoppel defenses not directly based on Rambus's conduct at JEDEC; (8) the evidence did not support a finding of any material misrepresentation, half truths or fraudulent concealment by Rambus related to JEDEC upon which Nanya relied; (9) the manufacturers failed to establish that Rambus violated unfair competition law by its conduct before JEDEC; (10) the evidence related to Rambus's patent prosecution did not establish that Rambus unduly delayed in prosecuting the claims in suit; (11) Rambus did not unreasonably delay bringing its patent infringement claims; and (12) there is no basis for any unclean hands defense or unenforceability claim arising from Rambus's conduct.

In these cases (except for the *Hynix* 00-20905 action), a hearing on claim construction and the parties' cross-motions for summary judgment on infringement and validity was held on June 4 and 5, 2008. On July 10, 2008, the court issued its claim construction order relating to the Farmwald/Horowitz patents in suit and denied Hynix, Micron, Nanya, and Samsung's (collectively, the Manufacturers') motions for summary judgment of noninfringement and invalidity based on their proposed claim construction. The

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

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

European Patent Infringement Cases

In 2001, Rambus filed suit against Micron in Mannheim, Germany, for infringement of European patent, EP 1 022 642. That suit has not been active. Two proceedings in Italy remain ongoing relating to Rambus' claim that Micron is infringing European patent, EP 1 004 956, and Micron's purported claim resulting from a seizure of evidence in Italy in 2000 carried out by Rambus pursuant to a court order.

DDR2, DDR3, gDDR2, GDDR3, GDDR4 Litigation (DDR2)

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

On January 25, 2005, Rambus filed a patent infringement suit in the U.S. District Court for the Northern District of California court against Hynix, Infineon, Nanya, and Inotera. Infineon and Inotera were subsequently dismissed from this litigation as was Samsung which had been added as a defendant. Rambus alleges that certain of its patents are infringed by certain of the defendants' SDRAM, DDR, DDR2, DDR3, gDDR2, GDDR3, GDDR4 and other advanced memory products. Hynix and Nanya have denied Rambus' claims and asserted counterclaims against Rambus for, among other things, violations of federal antitrust laws, unfair trade practices, equitable estoppel, and fraud in connection with Rambus' participation in JEDEC.

As explained above, the court ordered a coordinated trial (without Samsung) of certain common JEDEC-related claims and defenses asserted in *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. The coordinated trial involving Rambus, Hynix, Micron and Nanya began on January 29, 2008, and was submitted to the jury on March 25, 2008. On March 26, 2008, the jury returned a verdict in favor of Rambus and against Hynix, Micron, and Nanya on each of their claims. Specifically, the jury found that Hynix, Micron, and Nanya failed to meet their burden of proving that: (1) Rambus engaged in anticompetitive conduct; (2) Rambus made important representations that it did not have any intellectual property pertaining to the work of JEDEC and intended or reasonably expected that the representations would be heard by or repeated to others including Hynix, Micron or Nanya; (3) Rambus uttered

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deceptive half-truths about its intellectual property coverage or potential coverage of products compliant with synchronous DRAM standards then being considered by JEDEC by disclosing some facts but failing to disclose other important facts; or (4) JEDEC members shared a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard. Hynix, Micron, and Nanya filed motions for a new trial and for judgment on certain of their equitable claims and defenses. A hearing on those motions was held on May 1, 2008. A further hearing on the equitable claims and defenses was held on May 27, 2008. On July 24, 2008, the court issued an order denying Hynix, Micron, and Nanya's motions for new trial.

On March 3, 2009, the court issued an order rejecting Hynix, Micron, and Nanya's equitable claims and defenses that had been tried during the coordinated trial. The court concluded (among other things) that (1) Rambus did not have an obligation to disclose pending or anticipated patent applications and had sound reasons for not doing so; (2) the evidence supported the jury's finding that JEDEC members did not share a clearly defined expectation that members would disclose relevant knowledge they had about patent applications or the intent to file patent applications on technology being considered for adoption as a JEDEC standard; (3) the written JEDEC disclosure policies did not clearly require members to disclose information about patent applications and the intent to file patent applications in the future; (4) there was no clearly understood or legally enforceable agreement of JEDEC members to disclose

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information about patent applications or the intent to seek patents relevant to standards being discussed at JEDEC; (5) during the time Rambus attended JEDEC meetings, Rambus did not have any patent application pending that covered a JEDEC standard, and none of the patents in suit was applied for until well after Rambus resigned from JEDEC; (6) Rambus's conduct at JEDEC did not constitute an estoppel or waiver of its rights to enforce its patents; (7) Hynix, Micron, and Nanya failed to carry their burden to prove their asserted waiver and estoppel defenses not directly based on Rambus's conduct at JEDEC; (8) the evidence did not support a finding of any material misrepresentation, half truths or fraudulent concealment by Rambus related to JEDEC upon which Nanya relied; (9) the manufacturers failed to establish that Rambus violated unfair competition law by its conduct before JEDEC; (10) the evidence related to Rambus's patent prosecution did not establish that Rambus unduly delayed in prosecuting the claims in suit; (11) Rambus did not unreasonably delay bringing its patent infringement claims; and (12) there is no basis for any unclean hands defense or unenforceability claim arising from Rambus's conduct.

In these cases (except for the *Hynix* 00-20905 action), a hearing on claim construction and the parties' cross-motions for summary judgment on infringement and validity was held on June 4 and 5, 2008. On July 10, 2008, the court issued its claim construction order relating to the Farmwald/Horowitz patents in suit and denied the Manufacturers' motions for summary judgment of noninfringement and invalidity based on their proposed claim construction. The court issued claim construction orders relating to the Ware patents in suit on July 25 and August 27, 2008, and denied the Manufacturers' motion for summary judgment of noninfringement of certain claims. On September 4, 2008, at the court's direction, Rambus elected to proceed to trial on 12 patent claims, each from the Farmwald/Horowitz family. On September 16, 2008, Rambus granted a covenant not to assert any claim of patent infringement against the Manufacturers under U.S. Patent Nos. 6,493,789 and 6,496,897, and each party's claims relating to those patents were dismissed with prejudice. On November 21, 2008, the court entered an order clarifying certain aspects of its July 10, 2008, claim construction order. On November 24, 2008, the court granted Rambus's motion for summary judgment of direct infringement with respect to claim 16 of Rambus's U.S. Patent No. 6,266,285 by the Manufacturers' DDR2, DDR3, gDDR2, GDDR3, GDDR4 memory chip products (except for Nanya's DDR3 memory chip products). In the same order, the court denied the remainder of Rambus's motion for summary judgment of infringement.

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

European Commission Competition Directorate-General

On or about April 22, 2003, Rambus was notified by the European Commission Competition Directorate-General (Directorate) (the European Commission) that it had received complaints from Infineon and Hynix. Rambus answered the ensuing requests for information prompted by those complaints on June 16, 2003. Rambus obtained a copy of Infineon's complaint to the European Commission in late July 2003, and on October 8, 2003, at the request of the European Commission, filed its response. The European Commission sent Rambus a further request for information on December 22, 2006, which Rambus answered on January 26, 2007. On August 1, 2007, Rambus received a statement of objections from the European Commission. The statement of objections alleges that through Rambus' participation in the JEDEC standards setting organization and subsequent conduct, Rambus violated European Union competition law. Rambus filed a response to the statement of objections on October 31, 2007, and a hearing was held on December 4 and 5, 2007.

On December 9, 2009, the European Commission announced that it has reached a final settlement with Rambus to resolve the pending case. Under the terms of the settlement, the Commission made no finding of liability, and no fine will be assessed against Rambus. Rambus commits to offer licenses with maximum royalty rates for certain memory types and memory controllers on a forward-going basis (the Commitment). The Commitment is expressly made without any admission by Rambus of the allegations asserted against it. The Commitment also does not resolve any existing claims of infringement prior to the signing of any license with a prospective licensee, nor does it release or excuse any of the prospective licensees from damages or royalty obligations through the date of signing a license. Rambus offers licenses with maximum royalty

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rates for five-year worldwide licenses of 1.5% for DDR2, DDR3, GDDR3 and GDDR4 SDRAM memory types. Qualified licensees will enjoy a royalty holiday for SDR and DDR DRAM devices, subject to compliance with the terms of the license. In addition, Rambus offers licenses with maximum royalty rates for five-year worldwide licenses of 1.5% per unit for SDR memory controllers through April 2010, dropping to 1.0% thereafter, and royalty rates of 2.65% per unit for DDR, DDR2, DDR3, GDDR3 and GDDR4 memory controllers through April 2010, then dropping to 2.0%. The Commitment to license at the above rates remains valid for a period of five years from December 9, 2009. All royalty rates are applicable to future shipments only and do not affect liability, if any, for damages or royalties that accrued up to the time of the license grant.

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

Superior Court of California for the County of San Francisco

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

On January 19, 2010, Rambus and Samsung entered into a Settlement Agreement pursuant to which the parties released all claims against each other with respect to all outstanding litigation between them and certain other potential claims. A stipulation of dismissal with prejudice of claims between Rambus and Samsung was filed on February 4, 2010.

A jury trial against Micron and Hynix began on June 20, 2011. Trial remains ongoing.

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.

On May 31, 2006, the first of three shareholder derivative actions was filed in the U.S. District Court for the Northern District of California against Rambus (as a nominal defendant) and certain current and former executives and board members. 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. The consolidated complaint, as amended, alleged violations of certain federal and state securities laws as well as other state law causes of action. The complaint sought disgorgement and damages in an unspecified amount, unspecified equitable relief, and attorneys' fees and costs.

On August 30, 2007, another shareholder derivative action was filed in the U.S. District Court for the Southern District of New York against Rambus (as a nominal defendant) and PricewaterhouseCoopers LLP (*Francl v. PricewaterhouseCoopers LLP et al.*, No. 07-Civ. 7650 (GBD)). On November 21, 2007, the New York court granted PricewaterhouseCoopers LLP's motion to transfer the action to the Northern District of California.

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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 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 SLC was filed with the 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 Rambus. The aggregate value of the settlements to Rambus exceeds \$5.3 million in cash as well as substantial additional value to Rambus relating to the relinquishment of claims to over 2.7 million stock options. On October 5, 2007, Rambus filed a motion to terminate in accordance with the SLC s recommendations. Subsequently, the parties settled *In re Rambus Inc. Derivative Litigation* and *Francl v. PricewaterhouseCoopers LLP et al.*, No. 07-Civ. 7650 (GBD). The settlement provided for a payment by Rambus of \$2.0 million and dismissal with prejudice of all claims against all defendants, with the exception of claims against Ed Larsen (which have now also been settled), in these actions. The \$2.0 million was accrued for during the quarter ended June 30, 2008 within accrued litigation expenses and paid in January 2009. A final approval hearing was held on January 16, 2009, and an order of final approval was entered on January 20, 2009.

On July 17, 2006, the first of six class action lawsuits was filed in the U.S. District Court for the Northern District of California against Rambus and certain current and former executives and board members. These lawsuits were consolidated under the caption, *In*

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re Rambus Inc. Securities Litigation, C-06-4346-JF (N.D. Cal.). The settlement of this action was preliminarily approved by the court on March 5, 2008. Pursuant to the settlement agreement, Rambus paid \$18.3 million into a settlement fund on March 17, 2008. Some alleged class members requested exclusion from the settlement. A final fairness hearing was held on May 14, 2008. That same day the court entered an order granting final approval of the settlement agreement and entered judgment dismissing with prejudice all claims against all defendants in the consolidated 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.)). This action was consolidated with a substantially identical pro se lawsuit filed by another purported Rambus shareholder against the same parties. The consolidated complaint against Rambus alleges violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. Following several rounds of motions to dismiss, on April 17, 2008, the court dismissed all claims with prejudice except for plaintiffs' claims under sections 14(a) and 18(a) of the Securities and Exchange Act of 1934 as to which leave to amend was granted. On June 2, 2008, plaintiffs filed an amended complaint containing substantially the same allegations as the prior complaint although limited to claims under sections 14(a) and 18(a) of the Securities and Exchange Act of 1934. Rambus' motion to dismiss the amended complaint was heard on September 12, 2008. On December 9, 2008, the court granted Rambus' motion and entered judgment in favor of Rambus. Plaintiffs filed a notice of appeal on December 15, 2008. Plaintiffs' filed their opening brief on April 13, 2009. Rambus opposed on May 29, 2009, and plaintiffs filed a reply brief on June 12, 2009. On June 16, 2010, the United States Court of Appeals for the Ninth Circuit issued a decision affirming the judgment in favor of Rambus.

On September 11, 2008, the same pro se plaintiffs filed a separate lawsuit in Santa Clara County Superior Court against Rambus, certain current and former executives and board members, and PricewaterhouseCoopers LLP (*Kelley et al. v. Rambus, Inc. et al.*, Case No. 1-08-CV-122444). The complaint alleges violations of certain California state securities statutes as well as fraud and negligent misrepresentation based on substantially the same underlying factual allegations contained in the pro se lawsuit filed in federal court. On October 31, 2010, the plaintiffs filed a second amended complaint. On December 2, 2010, Rambus filed a demurrer to plaintiffs' second amended complaint on the ground that it is barred by the doctrine of claim preclusion, among other things. On May 12, 2011, the court sustained Rambus' demurrer without leave to amend. Judgment in favor of Rambus was entered on June 15, 2011.

On August 25, 2008, an amended complaint was filed by certain individuals and entities in Santa Clara County Superior Court against Rambus, certain current and former executives and board members, and PricewaterhouseCoopers LLP (*Steele et al. v. Rambus Inc. et al.*, Case No. 1-08-CV-113682). The amended complaint alleges violations of certain California state securities statutes as well as fraud and negligent misrepresentation. On October 10, 2008, Rambus filed a demurrer to the amended complaint. A hearing was held on January 9, 2009. On January 12, 2009, the court sustained Rambus' demurrer without prejudice. Plaintiffs filed a second amended complaint on February 13, 2009, containing the same causes of action as the previous complaint. On March 17, 2009, Rambus filed a demurrer to the second amended complaint. A hearing was held on May 22, 2009. On May 26, 2009, the court sustained in part and overruled in part Rambus' demurrer. On June 5, 2009, Rambus filed an answer denying plaintiffs' remaining allegations. Discovery is ongoing.

NVIDIA Litigation

U.S District Court in the Northern District of California

On July 10, 2008, Rambus filed suit against NVIDIA Corporation (*NVIDIA*) in the U.S. District Court for the Northern District of California alleging that NVIDIA's products with memory controllers for SDR, DDR, DDRx, GDDR, and GDDRy (where DDRx and GDDRy includes at

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least DDR2, DDR3 and GDDR3) technologies infringe 17 patents. On September 16, 2008, Rambus granted a covenant not to assert any claim of patent infringement against NVIDIA under U.S. Patent Nos. 6,493,789 and 6,496,897, accordingly 15 patents remain in suit. On December 30, 2008, the court granted NVIDIA's motion to stay this case as to Rambus' claims that NVIDIA's products infringe nine patents that are also the subject of proceedings in front of the International Trade Commission (described below), and denied NVIDIA's motion to stay the remainder of Rambus' patent infringement claims. Discovery is proceeding as to issues not stayed by the court's order. On August 1, 2011, NVIDIA filed an answer denying Rambus' claims and counterclaims alleging violations of federal antitrust laws, breach of contract, promissory estoppel, and deceptive practices in connection with Rambus' participation in JEDEC and alleged spoliation of evidence. NVIDIA seeks a declaratory judgment that the Rambus patents-in-suit are unenforceable, invalid and not infringed by NVIDIA, compensatory and other damages, injunctive relief, and attorneys' fees. A claim construction hearing is scheduled for January 11, 2012.

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On December 1, 2010, Rambus filed suit against NVIDIA in the U.S. District Court for the Northern District of California alleging that NVIDIA's products with certain peripheral interfaces, including PCI Express and DisplayPort peripheral interfaces, infringe six patents from the Dally family of patents which are owned by Massachusetts Institute of Technology and exclusively licensed by Rambus. On January 20, 2011, NVIDIA filed a motion to stay the case pending resolution of the 2010 ITC investigation (described below). On January 25, 2011, the court granted NVIDIA's motion.

International Trade Commission 2008 Investigation

On November 6, 2008, Rambus filed a complaint with the U. S. International Trade Commission (the ITC) requesting the commencement of an investigation pertaining to NVIDIA products. The complaint seeks an exclusion order barring the importation, sale for importation, or sale after importation of products that infringe nine Rambus patents from the Ware and Barth families of patents. The accused products include NVIDIA products that incorporate DDR, DDR2, DDR3, LPDDR, GDDR, GDDR2, and GDDR3 memory controllers, including graphics processors, and media and communications processors. The complaint names NVIDIA as a proposed respondent, as well as companies whose products incorporate accused NVIDIA products and are imported into the United States. Additional respondents include: Asustek Computer Inc. and Asus Computer International, BFG Technologies, Biostar Microtech and Biostar Microtech International Corp., Diablotek Inc., EVGA Corp., G.B.T. Inc. and Giga-Byte Technology Co., Hewlett-Packard, MSI Computer Corp. and Micro-Star International Co., Palit Multimedia Inc. and Palit Microsystems Ltd., Pine Technology Holdings, and Sparkle Computer Co.

On December 4, 2008, the ITC instituted the investigation. A hearing on claim construction was held on March 24, 2009, and a claim construction order issued on June 22, 2009. On June 5, 2009, Rambus moved to withdraw from the investigation four of the asserted patents and certain claims of a fifth asserted patent in order to simplify the investigation, streamline the final hearing, and conserve Commission resources. A final hearing before the administrative law judge was held October 13-20, 2009, and the parties submitted two rounds of post-hearing briefs.

On January 22, 2010, the administrative law judge issued a final initial determination holding that the importation of the accused NVIDIA products violates section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 because they infringe seventeen claims of three asserted Barth patents. The administrative law judge held that the accused NVIDIA products literally infringe all asserted claims of each asserted Barth and Ware patent, that they infringe three asserted claims under the doctrine of equivalents, that respondents contribute to and induce infringement of all asserted claims, and that the asserted patents are not unenforceable due to unclean hands or equitable estoppel. The administrative law judge held that the asserted Barth patents are not invalid for anticipation or obviousness and are not obvious for double patenting. The administrative law judge further held that, while the accused products infringed eight claims of the two asserted Ware patents and that those patents are not unenforceable due to inequitable conduct, no violation has occurred because the asserted Ware patents are invalid due to anticipation and obviousness. The administrative law judge recommended that the ITC issue (1) a limited exclusion order prohibiting the unlicensed importation of accused products by any respondent; and (2) a cease and desist order prohibiting domestic respondents from engaging in certain activities in the United States with respect to the accused products. On February 12, 2010, the parties filed petitions asking the full Commission to review certain aspects of the final initial determination.

On March 25, 2010, the ITC determined to review certain obviousness findings regarding the Barth patents and certain obviousness and anticipation findings regarding the Ware patents. The parties have submitted briefing on these issues and on the issue of remedy and bonding. On May 24, 2010, the ITC extended the target date for completion of the investigation by two days to May 26, 2010. On May 26, 2010, the ITC requested further briefing on the impact of the license between Rambus and Samsung on the administrative law judge's findings and conclusions, particularly on the issue of patent exhaustion. On June 7, 2010 and June 15, 2010, the parties filed briefs as requested by the ITC. On June 22, 2010, the ITC requested additional briefing to discuss the relevance and effect with respect to the issue of patent exhaustion of a decision issued on May 27, 2010, by the United States Court of Appeals for the Federal Circuit in a case captioned *Fujifilm Corp. v. Benun*. On June 25, 2010, the parties filed briefs as requested by the ITC.

On July 26, 2010, the ITC issued its final determination affirming the administrative law judge's initial determination with certain modifications to provide further analysis of issues related to obviousness. The ITC found that respondents failed to demonstrate that Rambus' patent rights are exhausted with respect to accused products that incorporate Samsung memory. The ITC issued (1) a limited exclusion order prohibiting the unlicensed importation by any respondent of memory controller products and products incorporating a memory controller that infringe one or more of the seventeen claims of three asserted Barth patents; and (2) a cease and desist order prohibiting respondents with commercially significant inventories of infringing products in the United States from importing, selling, marketing, advertising, distributing, offering for sale, transferring (except for exportation), and soliciting U.S. agents or distributors.

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for, memory controller products and products incorporating a memory controller that infringe one or more of the seventeen claims of three asserted Barth patents, in violation of 19 U.S.C. § 1337. The ITC determined that the amount of the bond to permit importation during the sixty-day Presidential review period was 2.65 percent of the entered value of the subject imports. The ITC denied respondents' request for stay and terminated the investigation. The parties have each filed opening, responsive, and reply appellate briefs with the Federal Circuit. No date for oral argument has been scheduled.

International Trade Commission 2010 Investigation

On December 1, 2010, Rambus filed a complaint with the ITC requesting the commencement of an investigation and seeking an exclusion order barring the importation, sale for importation, or sale after importation of, among other things, NVIDIA products with certain peripheral interfaces, including PCI Express and DisplayPort peripheral interfaces, that Rambus alleges infringe three patents from the Dally family. The complaint names, among others, NVIDIA as a respondent, as well as companies whose products incorporate accused NVIDIA products and are imported into the United States, including Asustek Computer Inc. and Asus Computer International Inc., Biostar Microtech (U.S.A.) Corp., Biostar Microtech International Corp., Elitegroup Computer Systems, EVGA Corp., Galaxy Microsystems Ltd., G.B.T. Inc., Giga-Byte Technology Co. Ltd., Gracom Technologies LLC, Hewlett-Packard Company, Jaton Corp., Jaton Technology TPE, Micro-Star International Co., MSI Computer Corp., Palit Microsystems Ltd., Pine Technology Holdings, Ltd., Sparkle Computer Co., Ltd., Zotac International (MCO) Ltd. and Zotac USA Inc. On December 29, 2010, the ITC instituted the investigation. A final hearing before the administrative law judge is scheduled for October 12-20, 2011. Under the current schedule, the final initial determination is due on or before January 4, 2012, and the target date is May 4, 2012.

Broadcom, Freescale, LSI, MediaTek, and STMicroelectronics Litigation

International Trade Commission 2010 Investigation

On December 1, 2010, Rambus filed a complaint with the ITC requesting the commencement of an investigation and seeking an exclusion order barring the importation, sale for importation, or sale after importation of products that incorporate at least DDR, DDR2, DDR3, LPDDR, LPDDR2, mobile DDR, GDDR, GDDR2, and GDDR3 memory controllers from Broadcom, Freescale, LSI, MediaTek and STMicroelectronics that infringe patents from the Barth family of patents, and products having certain peripheral interfaces, including PCI Express interfaces, DisplayPort interfaces, and certain Serial ATA Attachment (SATA) and Serial Attached SCSI (SAS) interfaces, from Broadcom, Freescale, LSI and STMicroelectronics that infringe patents from the Dally family of patents. The complaint names, among others, Broadcom, Freescale, LSI, MediaTek and STMicroelectronics as respondents, as well as companies whose products incorporate those companies' accused products and are imported into the United States, including Asustek Computer Inc. and Asus Computer International Inc., Audio Partnership Plc, Cisco Systems, Garmin International, G.B.T. Inc., Giga-Byte Technology Co. Ltd., Gracom Technologies LLC, Hewlett-Packard Company, Hitachi GST, Motorola, Inc., Oppo Digital, Inc., and Seagate Technology. As described more fully above, the complaint also names NVIDIA and certain companies whose products incorporate accused NVIDIA products with certain peripheral interfaces, including PCI Express and DisplayPort peripheral interfaces, and seeks to bar their importation, sale for importation, or sale after importation. On December 29, 2010, the ITC instituted the investigation. On June 20, 2011, the administrative law judge granted a joint motion by Rambus and Freescale to terminate the investigation as to Freescale pursuant to the parties' settlement agreement. A final hearing before the administrative law judge is scheduled for October 12-20, 2011. Under the current schedule, the final initial determination is due on or before January 4, 2012, and the target date is May 4, 2012.

U.S District Court in the Northern District of California

On December 1, 2010, Rambus filed complaints against Broadcom, Freescale, LSI, MediaTek and STMicroelectronics in the U.S. District Court for the Northern District of California alleging that 1) products that incorporate at least DDR, DDR2, DDR3, LPDDR, LPDDR2, mobile DDR, GDDR, GDDR2, and GDDR3 memory controllers from Broadcom, Freescale, LSI, MediaTek and STMicroelectronics infringe patents from the Barth family of patents; 2) those same products and products from those companies that incorporate SDR memory controllers infringe patents from the Farmwald-Horowitz family; and 3) products having certain peripheral interfaces, including PCI Express, DisplayPort, and certain SATA and SAS interfaces, from Broadcom, Freescale, LSI and STMicroelectronics infringe patents from the Dally family of patents. On January 24, January 26, and March 1, 2011, LSI, Broadcom, and STMicroelectronics filed their respective answers denying Rambus' allegations and asserting counterclaims seeking declarations of non-infringement and invalidity, and unenforceability with respect to at least certain of the patents in suit. Rambus filed answers denying the allegations in LSI's, Broadcom's, and STMicroelectronics' counterclaims on February 14, February 16, and March 22, 2011, respectively. On February 7 and March 7, 2011, Freescale and MediaTek filed their respective answers denying Rambus' allegations. Responses to the complaints in the remainder of these actions are not yet due. On January 26, 2011, Freescale filed a

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motion to stay the case against Freescale. On January 28, 2011, Broadcom, Mediatek, and LSI filed motions to stay their respective actions. On February 4, 2011, STMicroelectronics filed a motion to stay its action. Rambus has opposed entry of any stay as to certain patents not overlapping with patents asserted in the ITC 2010 investigation. A hearing on these motions to stay was held on April 21, 2011. On June 7, 2011, Rambus's complaint against Freescale was dismissed pursuant to the parties' settlement agreement. On June 13, 2011, the Court granted in part the motions to stay and denied them as to certain patents not overlapping with patents asserted in the ITC 2010 investigation. Discovery is ongoing.

Potential Future Litigation

In addition to the litigation described above, companies continue to adopt Rambus technologies into various products. Rambus has notified many of these companies of their use of Rambus technology and continues to evaluate how to proceed on these matters.

There can be no assurance that any ongoing or future litigation will be successful. Rambus spends substantial company resources defending its intellectual property in litigation, which may continue for the foreseeable future given the multiple pending litigations. The outcomes of these litigations as well as any delay in their resolution could affect Rambus' ability to license its intellectual property in the future.

The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies.

14. Fair Value of Financial Instruments

The fair value measurement statement defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and the Company considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

The Company's financial instruments are measured and recorded at fair value, except for cost method investments and convertible notes. The Company's non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

Fair Value Hierarchy

The fair value measurement statement requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

The Company uses unadjusted quotes to determine fair value. The financial assets in Level 1 include money market funds.

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

The Company uses observable pricing inputs including benchmark yields, reported trades, and broker/dealer quotes. The financial assets in Level 2 include U.S. government bonds and notes, corporate notes, commercial paper and municipal bonds and notes.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The financial assets in Level 3 include a cost investment whose value is determined using inputs that are both unobservable and significant to the fair value measurements.

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The Company tests the pricing inputs by obtaining prices from two different sources for the same security on a sample of its portfolio. The Company has not adjusted the pricing inputs it has obtained. The following table presents the financial instruments that are carried at fair value and summarizes the valuation of its cash equivalents and marketable securities by the above pricing levels as of June 30, 2011 and December 31, 2010:

| | Total | As of June 30, 2011 | | |
|---|------------|---|---|--|
| | | Quoted Market Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | (In thousands) | | |
| Money market funds | \$ 168,847 | \$ 168,847 | \$ | \$ |
| U.S. government bonds and notes | 65,592 | | 65,592 | |
| Corporate notes, bonds and commercial paper | 113,958 | | 113,958 | |
| Total available-for-sale securities | \$ 348,397 | \$ 168,847 | \$ 179,550 | \$ |

| | Total | As of December 31, 2010 | | |
|--------------------|------------|---|---|--|
| | | Quoted Market Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | (In thousands) | | |
| Money market funds | \$ 132,364 | | | |