

RAMBUS INC  
Form 10-Q  
April 29, 2005  
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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 March 31, 2005

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**4440 El Camino Real, Los Altos, CA 94022**

(Address of principal executive offices) (zip code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (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 99,503,227 as of April 15, 2005.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**RAMBUS INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except share and per share amounts)

(unaudited)

	<b>March 31,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 208,021	\$ 48,310
Marketable securities	96,802	89,483
Accounts receivable	3,596	1,435
Prepaid and deferred taxes	13,710	13,861
Prepays and other current assets	4,009	4,094
	<u>          </u>	<u>          </u>
Total current assets	326,138	157,183
Property and equipment, net	18,130	17,578
Marketable securities, long term	155,360	98,567
Restricted investments	5,076	5,067
Deferred taxes, long term	74,507	75,295
Purchased intangible assets	20,844	21,765
Other assets	8,418	1,269
	<u>          </u>	<u>          </u>
Total assets	<u>608,473</u>	<u>376,724</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	8,837	6,880
Income taxes payable	9	200
Accrued salaries and benefits	4,225	3,907
Other accrued liabilities	8,600	6,457
Deferred revenue	13,447	19,271
	<u>          </u>	<u>          </u>
Total current liabilities	35,118	36,715
Deferred revenue, less current portion	5,314	4,552
Convertible debt	300,000	
	<u>          </u>	<u>          </u>
Total liabilities	<u>340,432</u>	<u>41,267</u>
Commitments and contingencies (Notes 6, 8 and 9)		
<b>STOCKHOLDERS EQUITY</b>		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares; Issued and outstanding: no shares at March 31, 2005 and December 31, 2004		
Common stock, \$.001 par value:		
	99	103

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Authorized: 500,000,000 shares; Issued and outstanding: 99,324,124 shares at March 31, 2005 and 102,971,000 shares at December 31, 2004

Additional paid-in capital	325,344	341,080
Deferred stock-based compensation	(1,548)	
Accumulated deficit	(54,237)	(4,848)
Accumulated other comprehensive loss	(1,617)	(878)
	<hr/>	<hr/>
Total stockholders' equity	268,041	335,457
	<hr/>	<hr/>
Total liabilities and stockholders' equity	608,473	376,724
	<hr/>	<hr/>

See Notes to Unaudited Consolidated Condensed Financial Statements.

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**RAMBUS INC. AND SUBSIDIARIES**

**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

**(in thousands, except per share amounts)**

**(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Contract revenues	\$ 6,600	\$ 5,079
Royalties	33,011	27,462
<b>Total revenues</b>	<b>39,611</b>	<b>32,541</b>
<b>Costs and expenses:</b>		
Cost of contract revenues	5,603	5,234
Research and development	8,591	7,427
Marketing, general and administrative (includes \$1.1 million and \$0 of stock-based compensation for the three months ended March 31, 2005 and 2004, respectively)	20,498	11,208
<b>Total costs and expenses</b>	<b>34,692</b>	<b>23,869</b>
<b>Operating income</b>	<b>4,919</b>	<b>8,672</b>
Interest and other income, net	2,129	4,104
<b>Income before income taxes</b>	<b>7,048</b>	<b>12,776</b>
Provision for income taxes	2,608	4,471
<b>Net income</b>	<b>\$ 4,440</b>	<b>\$ 8,305</b>
<b>Net income per share:</b>		
Basic	\$ 0.04	\$ 0.08
Diluted	\$ 0.04	\$ 0.07
<b>Number of shares used in per share calculations:</b>		
Basic	100,280	100,966
Diluted	105,913	111,198

See Notes to Unaudited Consolidated Condensed Financial Statements.

**Table of Contents****RAMBUS INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,440	\$ 8,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Tax benefit of stock option exercises	774	20,247
Depreciation	1,972	1,020
Amortization of intangible assets and debt issuance costs	1,163	330
Gain on sale of investment		(3,166)
Amortization of deferred stock-based compensation	1,141	
Change in operating assets and liabilities:		
Accounts receivable	(2,161)	9,473
Prepays, deferred taxes and other assets	883	(16,922)
Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities	4,227	881
Increases in deferred revenue	3,478	5,450
Decreases in deferred revenue	(8,540)	(7,029)
<b>Net cash provided by operating activities</b>	<b>7,377</b>	<b>18,589</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,524)	(665)
Purchases of marketable securities	(85,370)	(75,372)
Maturities of marketable securities	20,571	45,886
Increase in restricted investments	(9)	(518)
Proceeds from sale of investment		4,866
<b>Net cash used in investing activities</b>	<b>(67,332)</b>	<b>(25,803)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of Common Stock	1,968	28,278
Repurchase of Common Stock	(75,000)	
Net proceeds from issuance of convertible debt	292,750	
<b>Net cash provided by financing activities</b>	<b>219,718</b>	<b>28,278</b>
Effect of exchange rates on cash and cash equivalents	(52)	15
<b>Net increase in cash and cash equivalents</b>	<b>159,711</b>	<b>21,079</b>
Cash and cash equivalents at beginning of period	48,310	42,005
<b>Cash and cash equivalents at end of period</b>	<b>\$ 208,021</b>	<b>\$ 63,084</b>

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See Notes to Unaudited Consolidated Condensed Financial Statements.

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**RAMBUS INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying consolidated condensed financial statements include the accounts of Rambus Inc. (Rambus or the Company) and its wholly-owned subsidiaries, Rambus K.K., located in Tokyo, Japan, Rambus Deutschland GmbH, located in Hamburg, Germany, Rambus, located in George Town, Grand Caymans, BWI and Rambus Chip Technologies (India) Private, Limited located in Bangalore, India. All intercompany accounts and transactions have been eliminated in the accompanying consolidated condensed financial statements.

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

The consolidated condensed financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, applicable to interim financial information. Certain information and footnote disclosures included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements pursuant to such SEC rules and regulations. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto, for the year ended December 31, 2004, included in Rambus's 2004 Annual Report filed on Form 10-K with the SEC on February 17, 2005.

**2. Significant Accounting Policies and Recent Accounting Pronouncements**

*Stock-Based Compensation*

Rambus accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Stock options are generally granted with exercise prices equivalent to fair market value, and no compensation cost is recognized. When stock options are granted with exercise prices below fair market value, employee stock-related compensation expense is recognized accordingly.

On January 10, 2005, Rambus granted 125,000 shares of restricted stock to its CEO. The price of the underlying shares is \$0.001 per share. The shares will fully vest on or about July 19, 2005. Rambus recorded deferred stock-based compensation of \$2.7 million based on the fair market value of Rambus's common stock on the date of grant. The deferred stock-based compensation is being amortized ratably over the vesting period and a total of \$1.1 million had been amortized and was included in marketing, general and administrative expense in the quarter ended March 31, 2005. The remaining balance of deferred stock-based compensation was \$1.6 million at March 31, 2005.



**Table of Contents****RAMBUS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****2. Significant Accounting Policies and Recent Accounting Pronouncements (continued)**

Rambus complies with the disclosure provisions as required under Statement of Financial Accounting Standards, or SFAS No. 123, Accounting for Stock-Based Compensation. In December 2002, the Financial Accounting Standards Board, or FASB, issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS No. 123. If Rambus had recognized compensation expense based upon the fair value of stock option awards, including shares issued under the Rambus employee stock purchase plan (collectively called stock awards), at the grant date consistent with the methodology prescribed under SFAS No. 123, Rambus's net income (loss) and net income (loss) per share would have changed to the pro forma amounts indicated below (in thousands, except share data):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net Income, as reported	\$ 4,440	\$ 8,305
Add: Stock-based employee compensation expense included in reported net earnings, net of tax	718	
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(8,989)	(6,974)
<b>Pro forma net income (loss)</b>	<b>\$ (3,831)</b>	<b>\$ 1,331</b>
<b>Basic income (loss) per share</b>		
As reported	\$ 0.04	\$ 0.08
Pro forma	\$ (0.04)	\$ 0.01
<b>Diluted income (loss) per share</b>		
As reported	\$ 0.04	\$ 0.07
Pro forma	\$ (0.04)	\$ 0.01
<b>Number of shares used in per share calculations:</b>		
Basic	100,280	100,966
<b>Diluted (1)</b>	<b>100,280</b>	<b>111,198</b>

Note 1: If the pro forma disclosures result in a net loss, the diluted shares used in the pro forma per share calculations for diluted pro forma loss per share are the same as the basic shares. Using the actual diluted shares would be anti-dilutive.

For purposes of pro forma disclosures, the estimated fair value of the stock awards is amortized ratably to expense over the awards vesting period. The effects of applying SFAS No. 123 on the pro forma disclosures for the quarters ended March 31, 2005 and 2004 are not necessarily indicative of the effects on pro forma disclosures in future periods.

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For the quarter ended March 31, 2005, Rambus used an equally weighted historical and market-based implied volatility for the computation of stock-based compensation. For the quarter ended March 31, 2004, Rambus used historical volatility for the computation of stock-based compensation.

### *Recent Accounting Pronouncements*

In September 2004, the EITF reached a consensus on EITF Issue No. 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings per Share. In accordance with EITF Issue No. 04-8, potential shares issuable under contingently convertible securities with a market price trigger should be accounted for the same way as other convertible securities and included in the diluted earnings per share computation, regardless of whether the market price trigger has been met. Potential shares should be calculated using the if-converted method or the net share settlement method. EITF Issue No. 04-8 is effective for periods ending after December 15, 2004 and would be applied by retrospectively restating previously reported diluted earnings per share. Rambus has considered this EITF Issue No. 04-8 in relation to its subsequent event regarding the issuance of \$300 million aggregate principal amount of zero coupon senior convertible notes due February 1, 2010 and concluded that the adoption of EITF Issue No. 04-8 did not have an impact on its financial statements for the twelve months ended December 31, 2004. Under EITF Issue No. 04-8, convertible notes will be included in the diluted earnings per share computation, unless these shares are deemed to be anti-dilutive effective February 1, 2005.

In December 2004, FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment. The new pronouncement replaces the existing requirements under SFAS No. 123 and APB 25. According to SFAS No. 123(R), all forms of share-based payments to employees, including employee stock options and employee stock purchase plans, would be treated the same as any other form of compensation by

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

recognizing the related cost in the statement of operations. This pronouncement eliminates the ability to account for stock-based compensation transactions using APB No. 25 and generally would require that such transactions be accounted for using a fair-value based method. For public companies, FASB has determined that SFAS No. 123(R) is effective for awards and stock options granted, modified or settled in cash in interim or annual periods beginning after June 15, 2005. On April 14, 2005, the SEC announced the adoption of a new rule that amended the compliance dates for SFAS No. 123(R). Under the new rule, companies are allowed to implement SFAS No. 123(R) at the beginning of the next fiscal year, instead of the next reporting period, that begins after June 15, 2005. SFAS No. 123(R) provides transition alternatives for public companies to restate prior interim periods or prior years. Rambus is in the process of evaluating the impact of this standard on its financial statements and will implement SFAS No. 123(R) for the fiscal year beginning January 1, 2006.

**3. Revenue Recognition**

Rambus's revenues consist of royalty revenues and contract revenues generated from the following six types of agreements with semiconductor and systems companies: (1) SDRAM and DDR-compatible patent licenses, which are licenses that cover the use of Rambus's patents in various memory chips, including SDRAM and DDR, and controllers which control such memory (2) a patent cross-license with Intel (3) XDR and FlexIO licenses, which are licenses for chips fully compatible with Rambus's XDR and FlexIO interfaces, (4) DDR2 interface cell licenses, which are licenses for chips implemented with Rambus's DDR memory interface, (5) RaSer licenses, which are licenses for Rambus's RaSer interface that licensees integrate into their logic semiconductors, and (6) RDRAM licenses, which are licenses for chips fully compatible with Rambus's RDRAM memory interface. Rambus does not recognize contract revenues in excess of cash received if collectibility is not probable. The excess of contract fees billed over revenue recognized is shown on the balance sheet as deferred revenue.

Rambus recognizes royalty revenues upon notification by the licensees if collectibility is probable. The terms of the royalty agreements generally require licensees to give Rambus notification and to pay the royalties within 60 days of the end of the quarter during which the sales occur. Rambus engages accounting firms independent of Rambus's independent registered public accounting firm to perform, on Rambus's behalf, periodic audits of some of the licensee's reports of royalties to Rambus and any adjustment resulting from such royalty audits is recorded in the period such adjustment is determined.

*SDRAM-compatible and DDR-compatible Patent Licenses.* SDRAM-compatible and DDR-compatible patent licenses generally provide for the payment of fees, which include compensation for use of Rambus's patents from the time Rambus notifies the licensee of potential infringement. Accordingly, these fees are classified as royalty revenues, which are recognized ratably over the contract period, which is typically five years. All but one of the contracts related to the license of Rambus's patents for SDRAM and DDR-compatible products have expired or will expire in 2005. Four contracts expired on March 31, 2005, two contracts will expire June 30, 2005 and one contract will expire September 30, 2005. Pursuant to the terms of each expiring contract, Rambus expects to receive payment and recognize revenue in the quarter after the contract expires. As previously announced, Rambus renewed its patent license agreement with NECEL, which was one of the agreements that expired on March 31, 2005. Rambus is in negotiations with other licensees to renew expired and expiring contracts.

*Intel Cross-License.* In September 2001, Rambus entered into a cross-license agreement with Intel that grants Intel a license to Rambus's patent portfolio. Rambus recognizes revenue from this arrangement on a quarterly basis as amounts become due and payable. The agreement terminates in September 2006 and after that date Intel will have a paid-up license for the use of all of the patents that Rambus owns claiming priority prior to September 30, 2006 and for which Rambus owns applications as of that date. The final payment on this agreement is expected to occur in the second quarter of 2006.

*XDR and FlexIO Licenses.* XDR and FlexIO interface licenses currently provide for the payment of license fees and engineering fees, as well as royalties. Generally, Rambus recognizes license and engineering fees on XDR and FlexIO licenses using the percentage-of-completion method of accounting in accordance with the American Institute of Certified Public Accountants, or AICPA, Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Rambus determines progress-to-completion using input measures based on labor-hours incurred. A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Rambus reviews assumptions regarding the work necessary to complete projects on a quarterly basis. If Rambus determines that it is

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

necessary to revise the estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the new estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees would be recognized over a longer period. Part of these XDR and FlexIO license contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by us or production of chips by the licensee. The remaining fees are due on pre-determined dates and generally include significant up-front fees. Rambus currently expects to recognize revenue on its existing XDR and FlexIO percentage-of-completion contracts through 2005.

*DDR2 Interface Cell Licenses.* DDR2 interface cell licenses currently provide for the payment of license fees, engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support is expected to be provided, independent of the payment schedules under the contract. Post-contract customer support periods are evaluated on a case by case basis. DDR2 interface cell licenses generally allow a semiconductor manufacturer to use Rambus's DDR2 memory interface and to receive engineering implementation services and customer support.

*RaSer Licenses.* RaSer interface licenses provide for the payment of license fees, engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support periods are expected to be provided, independent of the payment schedules under the contract. Post-contract customer support is evaluated on a case by case basis. Revenue on one contract is being recognized using the percentage-of-completion method of accounting. Rambus determines progress-to-completion using input measures based on labor hours incurred. A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. Rambus reviews assumptions regarding the work necessary to complete projects on a quarterly basis. If Rambus determines that it is necessary to revise the estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the new estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees would be recognized over a longer period.

*RDRAM Licenses.* RDRAM licenses provide for the payment of license fees, engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support is expected to be provided, independent of the payment schedules under the contract. Post-contract customer support periods are evaluated on a case by case basis. Some licensees have contracted to have Rambus provide the specific engineering implementation services required to optimize the generalized circuit layout for the licensee's manufacturing process. The RDRAM licenses also provide for the right to receive ongoing customer support, which includes technical advice on chip specifications, enhancements, debugging and testing.

Other than the licenses using percentage-of-completion, Rambus recognizes revenue on its other interface licenses in accordance with the AICPA Statement of Position, or SOP 97-2, SOP 98-4 and SOP 98-9, Software Revenue Recognition. These SOPs apply to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. Contract fees for the products and services provided under these agreements are comprised of license fees and engineering service fees. Contract fees are bundled together as the total price of the agreement does not vary as a result of inclusion or exclusion of services and vendor specific objective evidence, or VSOE, for the undelivered element has not been established. Accordingly, the revenues from such contracts are recognized ratably over the period during which the post-contract customer support is expected to be provided independent of the payment schedules under the contract, including milestones. At the time Rambus begins to recognize revenue under an interface license, the remaining obligations are no longer significant. These remaining obligations are primarily to keep the product updated and include activities such as responding to inquiries and periodic customer meetings. Part of these contract fees may be due

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upon the achievement of certain milestones, such as provision of certain deliverables by Rambus or production of chips by the licensee. The remaining fees are due on pre-determined dates and include significant up-front fees. Rambus reviews assumptions regarding the post-contract customer support periods on a regular basis. If Rambus determines that it is necessary to revise the estimates of the support periods, the total amount of revenue recognized over the life of the contract would not be affected. However, if the new estimated periods were shorter than the original assumptions, the

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contract fees would be recognized ratably over a shorter period. Conversely, if the new estimated periods were longer than the original assumptions, the contract fees would be recognized ratably over a longer period.

**4. Comprehensive Income**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities, net of any taxes. Other comprehensive income is presented in the balance sheet under accumulated other comprehensive income (loss) in stockholders' equity.

Comprehensive income is as follows (in thousands; unaudited):

	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
Net Income	\$ 4,440	\$ 8,305
Other comprehensive income (loss):		
Foreign currency translation adjustments	(52)	15
Unrealized gain (loss) on marketable securities, net of tax	(687)	254
	<u>          </u>	<u>          </u>
Other comprehensive income (loss)	(739)	269
	<u>          </u>	<u>          </u>
Total comprehensive income	<u>\$ 3,701</u>	<u>\$ 8,574</u>

**5. Employee Stock Option Plans***Stock Option Program Description*

Rambus officers and employees are eligible to participate in the 1997 Stock Plan. Employees who are not executive officers are also eligible to participate in the 1999 Stock Plan. The 1997 Stock Plan permits the Board of Directors of Rambus (Board) or the Compensation Committee of the Board to grant stock options, stock purchase rights and Common Stock Equivalents to employees, including executive officers, on such terms as the Board or the Compensation Committee may determine. The 1999 Stock Plan permits the Board or the Compensation Committee to grant stock options to employees on such terms as the Board or the Compensation Committee may determine. The Board or the Compensation Committee has authority to grant and administer stock options to all

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Rambus employees.

In determining the size of a stock option grant to a new officer or other key employee, the Board or the Compensation Committee takes into account equity participation by comparable employees within Rambus, external competitive circumstances and other relevant factors. These options typically vest over 60 months and thus require the employee's continued service to Rambus. Additional options may be granted to current employees to reward exceptional performance or to provide additional unvested equity incentives for retention. The method of vesting of additional options granted to current employees has and will vary over time based on the determination of the Board or the Compensation Committee.

In addition, under the 1997 Stock Plan, the Board has delegated to two executive officers the authority to grant new hire options to non-executive officer employees. Each option granted to a new employee under this authority is subject to the following terms:

The grant date is the first business day of the month following the employee's first day of work

The exercise price is our closing price as quoted on Nasdaq on the day of grant

The grant must be within the range for the employee's level as specified by the Board or Compensation Committee and all such grants are subject to a pre-determined cap

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No options grant, or series of related options grants shall be exercisable for in excess of 100,000 shares

The total number of shares for which options issuable under this authority without further Board or Compensation Committee approval is 1,000,000 shares

*Distribution and Dilutive Effect of Options*

The following table illustrates the grant dilution and exercise dilution of options granted and exercised during the periods presented (in thousands, except percentages; unaudited):

	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	_____	_____
Shares of common stock outstanding	99,324	102,167
Granted	579	346
Canceled	(208)	(31)
Net options granted	371	315
Grant dilution (1)	0.4%	0.3%
Exercised	280	3,013
Exercise dilution (2)	0.3%	2.9%

Note (1): The percentage for grant dilution is computed based on options granted less options canceled as a percentage of total outstanding shares of common stock.

Note (2): The percentage for exercise dilution is computed based on options exercised as a percentage of total outstanding shares of common stock.

The following table summarizes the options granted to the named executive officers. The named executive officers are Rambus's Chief Executive Officer and the four other most highly paid executive officers whose salary and bonus for the year ended December 31, 2004 were in excess of \$100,000.

**Three Months**

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	<u>Ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Options granted to the named executive officers (1)	250,000	160,000
Options granted to the named executive officers as a % of total options granted	43.2%	46.2%
Options granted to the named executive officers as a % of net options granted	67.3%	50.9%
Options granted to the named executive officers as a % of outstanding shares	0.3%	0.2%
Cumulative options held by named executive officers as a % of total options outstanding (2)	34.3%	30.4%

Note (1) Includes options for 250,000 shares of Rambus' s common stock granted to Harold Hughes who assumed the position of Chief Executive Officer as of January 9, 2005

Note (2) Includes options held by Harold Hughes as of March 31, 2005 including those shares granted to him during his tenure as member of the Rambus Board of Directors

**Table of Contents****RAMBUS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS***General Option Information*

A summary of activity under all stock option plans is as follows:

	Options Available for Grant	Options Outstanding	
		Number of Shares	Weighted Average Exercise Price Per Share
Outstanding as of December 31, 2003	3,916,659	27,643,801	\$ 14.80
Shares reserved	3,653,146		
Options granted	(3,153,800)	3,153,800	\$ 19.81
Options exercised		(4,618,914)	\$ 8.97
Options canceled	1,214,603	(1,214,603)	\$ 20.34
Outstanding as of December 31, 2004	5,630,608	24,964,084	\$ 16.25
Shares reserved	2,211,276		
Options granted	(579,000)	579,000	\$ 19.99
Options exercised		(279,987)	\$ 7.03
Options canceled	207,791	(207,791)	\$ 17.39
Outstanding as of March 31, 2005	7,470,675	25,055,306	\$ 16.43

The following table summarizes information about outstanding and exercisable options as of March 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.75 - \$ 3.75	1,488,107	3.83	\$ 2.28	644,261	\$ 1.98
\$ 3.82 - \$ 4.72	1,370,213	7.28	4.39	585,092	4.37
\$ 4.86 - \$ 4.86	3,868,012	6.40	4.86	2,365,762	4.86
\$ 5.93 - \$ 9.07	2,542,852	7.18	8.15	1,120,062	8.27
\$ 9.09 - \$13.91	2,024,039	4.44	12.41	1,662,720	12.56
\$14.00 - \$15.55	2,748,621	6.77	15.07	1,235,902	14.96
\$15.66 - \$15.67	2,860,701	4.56	15.67	2,860,701	15.67
\$15.78 - \$24.04	2,673,962	8.92	19.59	515,715	17.20

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\$24.15 - \$26.19	2,637,800	8.69	25.28	120,100	26.02
\$28.35 - \$83.00	2,840,999	5.81	46.55	1,561,966	46.81
<b>\$ 0.75 - \$83.00</b>	<b>25,055,306</b>	<b>6.49</b>	<b>\$ 16.43</b>	<b>12,672,281</b>	<b>\$ 15.30</b>

As of March 31, 2005, a total of 32,525,981 shares of Common Stock (25,055,306 of which are outstanding and 7,470,675 of which are available for future grant) were reserved for issuance under all stock option plans. As of March 31, 2005 and December 31, 2004, options for the purchase of 12,672,281 and 11,968,699 shares, respectively, were exercisable without being subject to repurchase by Rambus.

The following table presents the option exercises for the quarter ended March 31, 2005 and option values as of that date for the named executive officers:

	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at March 31, 2005		Intrinsic Values of Unexercised, In-the-Money Options at March 31, 2005 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Named executive officers (2)	10,000	\$ 133,745	4,925,546	3,665,119	\$ 12,865,258	\$ 12,329,315

Note (1): Market value of the underlying securities based on the closing price of Rambus' s Common Stock on March 31, 2005 (the last trading day of the quarter ended March 31, 2005) on the Nasdaq Stock Market of \$15.07 per share minus the exercise price per share.

Note (2): Includes options for 250,000 shares of Rambus' s common stock granted to Harold Hughes in connection with his appointment as Chief Executive Officer of Rambus on January 9, 2005 and all options held by Mr. Hughes through such date, including options granted to him as a member of Rambus' s Board of Directors.

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**6. Stockholders' Equity**

*Warrants*

In October 1998, Rambus's Board of Directors authorized an incentive program in the form of warrants for a total of up to 1,600,000 shares of Rambus Common Stock to be issued to various RDRAM licensees. The warrants, which were issued at the time certain targets were met, have an exercise price of \$2.50 per share and a life of five years from the date of issuance. These warrants vest and become exercisable only upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM chipsets, which could result in a non-cash charge to the statement of operations based on the fair value of the warrants if and when the achievement of the Intel milestones becomes probable. Since Intel has phased out the 850E chipset, the likelihood that the unvested warrants will vest is considered remote. As of March 31, 2005, warrants exercisable for a total of 1,520,000 shares had been issued and 1,160,000 remain outstanding. These warrants began to expire in February 2004 and will have expired by January 2006. The impact of these warrants has been excluded from the calculation of net income per share.

*Contingent Common Stock Equivalents and Options*

As of March 31, 2005, there were 1,000,000 contingent unvested Common Stock Equivalents, or CSEs, and 843,846 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM chipsets. These CSEs were granted to Rambus's previous CEO and President in 1999 and the options were granted to certain Rambus employees in 1999 and 2001. The CSEs were granted with a term of 10 years and the options were granted with an exercise price of \$2.50 and a term of 10 years. If and when the achievement of the Intel milestones become probable, there would be an almost entirely non-cash charge to Rambus's statement of operations based on the fair value of the CSEs and options. Since Intel has phased out the 850E chipset, the likelihood that the unvested CSEs and options will vest is considered remote. The impact of these CSEs and options has been excluded from the calculation of net income per share.

*Restricted Stock*

As referenced to the information set forth in Note 2 titled "Significant Accounting Policies and Recent Accounting Pronouncements" of the Notes to Unaudited Consolidated Condensed Financial Statements of this Form 10-Q, on January 10, 2005, Rambus granted 125,000 shares of restricted stock to its CEO. The shares will fully vest on or about July 19, 2005. As of March 31, 2005, no shares had vested and the restricted stock was subject to repurchase.

*Stock Repurchase Program*

In October 2001, Rambus's Board of Directors approved a stock repurchase program of its Common Stock principally to reduce the dilutive effect of future stock issuances, including from employee stock options. Since the beginning of the program, Rambus's Board

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has authorized the purchase of up to 14.1 million shares of its outstanding Common Stock over an undefined period of time. As of March 31, 2005, Rambus had repurchased 11.6 million shares of its Common Stock at an average price per share of \$13.02, which includes 4.1 million shares repurchased in connection with Rambus' \$300 million zero coupon senior convertible subordinated note offering on February 1, 2005. As of March 31, 2005, there remained an outstanding authorization to repurchase 2.5 million shares of its outstanding Common Stock. The purchase price for the shares of Rambus' common stock repurchased was reflected as a reduction to stockholders' equity. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, Rambus is required to allocate the purchase price of the repurchased shares as a reduction to retained earnings and common stock and additional paid-in capital.

**Table of Contents****RAMBUS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****7. Net Income Per Share**

Net income per share is computed in accordance with SFAS No. 128, Earnings Per Share, which requires the presentation of basic and diluted net income per share. Basic net income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of common shares and dilutive potential shares, if dilutive, outstanding during the period. Net income per share is calculated as follows (in thousands, except per share data; unaudited):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
<b>Numerator:</b>		
Net income	\$ 4,440	\$ 8,305
	<u>          </u>	<u>          </u>
<b>Denominator:</b>		
Weighted average shares used to compute basic EPS	100,280	100,966
Dilutive potential shares (1)	5,585	10,162
Dilutive common stock warrants	48	70
	<u>          </u>	<u>          </u>
<b>Weighted average shares used to compute diluted EPS</b>	<b>105,913</b>	<b>111,198</b>
	<u>          </u>	<u>          </u>
<b>Net income per share:</b>		
Basic	\$ 0.04	\$ 0.08
Diluted	\$ 0.04	\$ 0.07

Note 1: Includes unvested restricted stock in the quarter ended March 31, 2005

For the quarter ended March 31, 2005, there were approximately 7.0 million anti-dilutive shares, which were excluded from the calculation of diluted weighted average shares outstanding. In contrast, for the quarter ended March 31, 2004, there were approximately 3.0 million anti-dilutive shares, which were excluded from the calculation of diluted weighted average shares outstanding. These options' exercise prices were greater than the average market price of the common shares for the period or the options, CSEs or warrants, were contingent upon the satisfaction of certain conditions, as described in Note 6 under Warrants and Contingent Common Stock Equivalents and Options that had not been met as of March 31, 2005 and 2004. Shares issuable under the provisions of convertible notes were anti-dilutive and have been excluded from the computation of diluted net income per share for the quarter ended March 31, 2005.

**8. Litigation and Asserted Claims**

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Please refer to Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations for the full names of the companies discussed below.

### *Overview*

As of March 31, 2005, Rambus is involved in certain legal proceedings. Based upon consultation with the outside counsel handling Rambus's defense in these matters and an analysis of potential results, Rambus has not accrued any amounts for potential losses related to these proceedings. Because of uncertainties related to both the amount and range of loss on the pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, Rambus will assess the potential liability related to Rambus's pending litigation. Rambus will record accruals for losses if and when it determines the negative outcome of such matters to be probable and reasonably estimable. Rambus's estimates regarding such losses could differ from actual results. Revisions in Rambus's estimates of the potential liability could materially impact its results of operations, financial position, and cash flows. Rambus recognizes litigation expenses in the period in which the litigation services were provided.

### *Infineon Litigation*

On August 8, 2000, Rambus filed suit in the U.S. District Court for the Eastern District of Virginia, or the Virginia court, against Infineon, and its North American subsidiary for patent infringement of two U.S. patents. Subsequent to that date, there were extensive proceedings in the case as reported in previous Rambus filings. On March 1, 2005, the Virginia judge made statements from the bench dismissing Rambus's patent case against Infineon for unclean hands and spoliation. On March 1, 2005, the court stated that it was dismissing Rambus's remaining patent claims against Infineon based on unclean hands and spoliation, and that it would thereafter issue written findings of fact and conclusions of law. On March 21, 2005, pursuant to a settlement agreement, Rambus and Infineon filed a stipulation of dismissal of prejudice of all claims and defenses in that lawsuit. The Virginia court did not enter any of the written findings and conclusions that it had referenced in its March 1, 2005 ruling. On March 21, 2005, prior to entry of the findings of fact and written decision that the Court indicated it would

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enter, Rambus and Infineon settled all disputes between them, dismissing with prejudice all outstanding lawsuits between the companies worldwide and entering into broad releases. The settlement included a license of Infineon products under Rambus patents. The settlement also included a settlement and waiver of past liabilities that may have existed between Rambus and Siemens AG, the former parent of Infineon. As a result, the litigations in the Eastern District of Virginia and the District Court in Mannheim, Germany have been dismissed with prejudice. Additionally, Rambus has dismissed from the DDR2 patent litigation in Federal district Court in the Northern District of California filed in January 2005 and dismissed Infineon and its former parent, Siemens from the antitrust litigation in California state court in San Francisco filed in May 2004. Infineon has withdrawn from all related opposition proceedings against Rambus patents in the European Patent Office. Finally, both parties have notified the European Commission (EC) of their withdrawal from the complaints each filed against the other (leaving Hynix as complainant in the Hynix and Infineon proposed action by the EC against Rambus, and Hynix and Micron as potential respondents in the Rambus proposed action by the EC against Infineon/Siemens, Hynix and Micron).

*Hynix Litigation*

On August 29, 2000, Hyundai and various subsidiaries filed suit against Rambus in the U.S. District Court for the Northern District of California. Since filing suit, Hyundai has changed its name to Hynix. The suit asserts breach of contract in connection with Rambus' participation in JEDEC and seeks a declaratory judgment that eleven Rambus patents are invalid and not infringed by Hynix.

On October 17, 2000, Hynix amended its complaint to further assert violations of federal antitrust laws, deceptive trade practices, breach of contract, fraud and negligent misrepresentation in connection with Rambus' participation in JEDEC. Hynix seeks a declaration of monopolization by Rambus, compensatory and punitive damages, and attorneys' fees. On February 5, 2001, Rambus filed its answer and counterclaims, whereby Rambus disputes Hynix's claims and asserts infringement of eleven U.S. patents. Relying solely on the principle of collateral estoppel, the California court ruled on November 21, 2001, that the claim construction then, applied in the Virginia case against Infineon should be applied in the case with Hynix, and, as a result, dismissed most of Rambus' claims of patent infringement against Hynix. In doing so, the California court relied on the principles of collateral estoppel and declined to decide whether, on the merits, the Virginia claim construction was correctly or incorrectly decided. On December 17, 2001, the California court stayed the Hynix case until the U.S. Court of Appeals for the Federal Circuit (CAFC) decided the Rambus v. Infineon appeal of, inter alia, that court's claim constructions. On May 10, 2002, Hynix filed a motion to lift the stay. Hynix also moved to file a second amended reply to add new affirmative defenses of estoppel and waiver to Rambus' counterclaims of infringement. Rambus opposed the motion to lift the stay, but did not oppose Hynix's motion to file the second amended reply. Argument on this motion was heard on June 14, 2002. On June 18, 2002, the court denied Hynix's motion to lift the stay, granted its motion for leave to file a second amended reply to counterclaims, and scheduled another case management conference for September 20, 2002. At that case management conference, Hynix renewed its motions to lift the stay, which were denied, except with respect to discovery that would not be affected by the CAFC decision in the Infineon case.

At that same September 2002 conference, the court permitted Rambus to move to amend its complaint to add new claims for patent infringement. Rambus filed its motion on October 4, 2002, bringing the total number of patents at issue in the litigation to 15, and the motion was granted. A further case management conference occurred on November 22, 2002 at which point the California court considered proposed trial schedules and fully lifted the stay. Following the CAFC's claim construction holding in the Infineon Virginia appeal on January 29, 2003, Rambus later filed and won a motion to vacate the California court's previous collateral estoppel summary judgment order. Accordingly, Rambus' patent infringement claims that were subject to this earlier ruling have been reinstated into the case. On September 3, 2004, Rambus moved to bifurcate the trial, with the patent and spoliation claims going forward first, and Hynix's allegations of Rambus misconduct to be tried at a later date. The Court granted Rambus' motion and set the pre-trial schedule on December 6, 2004, including a trial date for the patent and spoliation portions of the suit on March 21, 2005, which was later reset to April 11, 2005. The remainder of the suit, namely the portions related to Rambus' conduct at JEDEC and

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new allegations that Rambus has disparaged the market introduction of a competing memory technology called DDR SDRAM, was set to be tried on June 13, 2005.

On January 12, 2004, both parties filed summary judgment motions related to the patents in suit. Rambus filed a motion for summary judgment of infringement on multiple claims in seven of the patents in suit. Hynix filed six motions for summary judgment on a variety of issues relating to alleged invalidity and/or non-infringement of Rambus' s asserted claims. Hearings on the parties proposed claim constructions and on both sides' motions for

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partial summary judgment took place on March 23 and 24, 2004. On November 15, 2004, the Court issued its Claim Construction Order. In January 2005, the court issued its summary judgment orders. The Court denied five of Hynix's motions, but granted the sixth, resulting in a finding that nine of the 59 claims asserted by Rambus are not infringed (specifically, those claims containing the words "second external clock signal"). Rambus defeated Hynix's motions as to the remaining 50 claims. In addition, in a Clarified and Corrected Order on Rambus's motion for summary judgment, the Court held that Hynix infringed 29 of our patent claims (subject to Hynix's defenses of invalidity and nonenforceability which remain to be decided). On January 21, 2005, pursuant to the court's instruction, Rambus elected 10 out of the remaining 50 asserted claims on which to go forward in the patent trial. On January 25, 2005, Hynix filed a motion for relief from the order granting Rambus summary judgment of infringement as to certain claims. Rambus's response to this motion was filed on February 11, 2005 and Hynix replied on February 18, 2005. On March 4, 2005, the court granted Hynix's request, resulting in the vacature of its infringement holding as to 18 of the 29 claims previously held infringed. The Court also permitted Rambus to file additional summary judgment motions with respect to these 18 claims. Rambus's motions for summary judgment of infringement with respect to these claims, as well as certain additional summary judgment motions of invalidity and/or infringement filed by Hynix with respect to the 10 claims that Rambus elected for the patent trial, have been fully briefed. A hearing on both parties' pending summary judgment motions is currently set for May 6, 2005.

On October 1, 2004, Hynix filed a motion to dismiss Rambus's patent claims as a default judgment based on the preliminary findings of spoliation that had been entered by the trial court in Virginia Infineon case. In the alternative, Hynix asked that the California district court apply the Virginia court's spoliation decisions by way of collateral estoppel and permit Hynix access to the same documents. The Court delayed judgment on Hynix's motion to dismiss, but ordered Rambus to submit to the court for *in camera* review the privileged documents Rambus was ordered to produce to Infineon in the Virginia court. Based on its review of those documents, the Hynix Court stated on December 16, 2004, that it was tentatively going to order that Hynix had shown a *prima facie* case of spoliation, but that in contrast to the holding in the Infineon case in Virginia, Rambus was entitled to be heard on whether or not this evidence amounted to a crime or fraud sufficient to warrant a piercing of the attorney-client privilege. Rambus submitted its brief for *in camera* review on January 14, 2005. Hynix's opposition brief was filed on January 25, 2005, and a hearing was held on January 28, 2005. On January 25, 2005, Hynix also filed a motion for leave to amend its pleadings to add a defense of unclean hands. Following a hearing, on January 31, 2005 the Court issued its order finding reasonable cause to pierce Rambus's attorney-client privilege to the extent that documents and testimony had already been provided in the Infineon case on these topics. The Court also scheduled a further hearing on Hynix's motion to dismiss for March 11, 2005. During the January 31, 2005 hearing, the Court also moved the patent trial to April 11, 2005. The remainder of the suit, namely the portions related to Rambus's conduct at JEDEC and other alleged misconduct not directly tied to patent issues, was set to be tried on June 13, 2005. These dates were subsequently rescheduled to May 9, 2005 for the unclean hands trial, June 20, 2005 for the patent trial and October 17, 2005 for the conduct trial.

These dates are likely to shift again due to recent events. On March 17, 2005, in the course of preparations for the May 9th hearing in the Hynix case, Rambus discovered that it has recoverable data on computer backup tapes not previously reviewed as part of any prior document search or production efforts. An ensuing analysis of the tapes, which is on-going, has determined that at least some of these tapes contain recoverable e-mails and other documents likely to be both relevant to various discovery requests and non-duplicative of documents previously collected for litigation purposes. Some are emails from the mid-1990s. Rambus's analysis of the content of these tapes and the circumstances surrounding them is at its early stages and it is premature to opine on what impact, if any, the tapes will have on anything other than trial schedules. Rambus has disclosed the existence of these tapes and its investigation to Hynix and the Court hearing the Hynix case. The Court accordingly vacated the May 9th and June 20th trial dates. On April 22<sup>nd</sup>, the Court heard argument on a Hynix motion seeking dismissal of Rambus's patent claims based on a unclean hands theory relying on and the doctrine of collateral estoppel and various rulings and statements from the Infineon proceedings in Virginia. On April 25<sup>th</sup>, the Court issued its order denying this motion.

On September 4, 2000, Rambus filed suit against Hynix in courts in Mannheim, Germany, in Paris, France (the Tribunal de Grande Instance de Paris) and in London, Great Britain (the High Court of Justice, Chancery Division, Patents Court at the Royal Courts of Justice) for infringement of a European patent. The French suit included court-sanctioned seizure of documents and samples from a

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Hynix facility. Hynix, along with Infineon and Micron, then challenged the validity contested patent (the 068 patent) in the European Patent Office (EPO). On December 7, 2001, in the German suit, an order for evidence calling for the appointment of an independent expert was issued by the Mannheim court. After the completion of briefing by the parties in response to the Mannheim

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court's expert report, the validity of the same Rambus European patent was confirmed by an opposition board of the EPO, in a hearing conducted on September 10 and 11, 2002. All parties appealed aspects of the September 2002 ruling. On February 12, 2004, the EPO Technical Appeals Board issued a ruling revoking the '068 patent, which was explained in written findings on May 13, 2004. This ruling did not address or serve to revoke any of Rambus's other issued or pending patents. Further proceedings in Mannheim on the Hynix matter are currently stayed pending a final decision with respect to a related utility model patent (discussed below), which is also being appealed.

On January 13, 2005, the European Patent Office revoked a second Rambus patent (EP 1 004 956), holding that the claimed method of operating the device extends beyond the content of the earlier application as filed. The written decision issued on February 9, 2005. Rambus is appealing this decision to an appellate panel of the EPO. This result leaves Rambus with one remaining issued patent in Europe that it believes reads on the same memory products. Rambus also has several pending applications in Europe that, if issued, would, it believes, read on the same memory products.

*Micron Litigation*

On August 28, 2000, Micron filed suit against Rambus in the U.S. District Court in Delaware. The suit asserts violations of federal antitrust laws, deceptive trade practices, breach of contract, fraud and negligent misrepresentation in connection with Rambus's participation in JEDEC. Micron's suit 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. In February 2001, Rambus filed its answer and counterclaims, whereby Rambus disputed Micron's claims and asserted infringement by Micron of the eight U.S. patents. Both sides filed a number of potentially dispositive motions for summary judgment. On February 27, 2002, the court ruled on some of these motions, denying Micron's motion for summary judgment on its claims of fraud. The Delaware court also postponed trial on all of the issues in the Micron case until after the CAFC reviewed the judgments of the Virginia court in the Infineon matter.

On September 29, 2004, Rambus filed a motion to lift the stay imposed on February 27, 2002 as a condition for delaying trial on the case until after the appeal from the Infineon trial in Virginia. This stay currently prevents Rambus from filing new patent litigation against Micron throughout the world on certain Rambus patents and Micron products. It also required that the parties stay certain other litigations in Germany, Italy, France and the United Kingdom.

On April 21, 2005, the Delaware Court heard a motion by Micron seeking to stay the case until an early hearing could be held on Rambus's alleged spoliation and unclean hands. That motion was denied on April 21<sup>st</sup> and the Court indicated that discovery would proceed, but that it would suspend the existing pretrial and trial schedule and instead hold a further status conference in approximately 90 days. At that same April 21<sup>st</sup> hearing, the Delaware Court declined to rule on a Rambus motion seeking to remove the stay imposed on February 27, 2002, indicating that this issue would also be addressed at the next status conference. Also at this hearing, Rambus informed the Court that it was seeking to add additional patents into this Micron action and that should the stay be lifted, Rambus intended to seek leave to amend to add Micron into an action filed by Rambus in the Northern District of California on January 25, 2005 (described below).

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On September 11, 2000, Rambus filed suit against Micron in Mannheim, Germany, Paris, France, London, Great Britain, and Monza, Italy, for infringement of its '068 patent (described above). The '068 patent was subject to the EPO Technical Appeals Board revocation ruling and written opinion, which the EPO issued on May 13, 2004 and is described above in the Hynix patent case. On June 18, 2004, Rambus withdrew the revoked patent from its infringement case against Micron, with Micron's consent. Further proceedings against Micron in Mannheim, including claims from other Rambus patents directed to Micron's DDR products, are currently stayed pending a final decision with respect to the utility model patent the revocation of which by the EPO is being appealed by Rambus. Meanwhile, the French suit remains stayed and the British suit has been, in effect, dismissed based on the same EPO Technical Appeals Board's opinion. On April 8, 2004, Micron requested that Rambus pay Micron's costs for the British suit. While the amount remains in dispute, an interim payment of £135,000, or approximately \$256,000, was awarded to Micron on July 30, 2004 for attorneys' and court fees. A final award will be determined by the court unless the parties resolve this matter by

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mutual agreement. That award will include interest running on the costs for some portion of period of time since those costs were incurred. Micron has submitted a final bill of costs in the amount of US \$895,562.06 (which includes the interim payment of approximately \$256,000), on April 6, 2005. Rambus continues to oppose payment of this amount and it is unlikely that the issue will be resolved outside of court.

On May 2, 2001, the independent experts appointed by the Monza court issued a report that confirmed the validity of the Rambus patent in suit and determined that Micron's SDRAM products infringe the Rambus patent. On May 25, 2001, the Monza court declined to grant Rambus a preliminary injunction due to its conclusion that the experts had not addressed one technical issue. Rambus appealed the Monza court's ruling, and on July 18, 2001, the Appeals Court rejected the appeal on jurisdictional grounds. The infringement suit against Micron in Italy on the first European patent has been stayed, but if it resumes, it will resume in the District Court of Milan rather than in Monza.

In December 2000, Micron filed a declaratory judgment suit of non-infringement of a second European patent against Rambus in the District Court of Avezzano, Italy. In response, Rambus asserted infringement of the second European patent in Milan, Italy. The actions on the second European patent in Italy have also been stayed. Further, Rambus filed suit against Micron in Germany and Italy for infringement of a third European patent. Both of these additional suits have also been stayed.

*FTC Complaint and European Commission Competition Directorate-General Request for Information*

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

On July 5, 2002, Rambus moved to stay the FTC action until the CAFC issued a ruling in the *Rambus v. Infineon* appeal; this motion was denied, and Rambus filed its answer to the complaint on July 29, 2002. There was substantial motion practice, including a motion filed by FTC complaint counsel seeking a default judgment based on alleged document destruction deriving from a 1998 Rambus document retention plan. The administrative law judge, or ALJ, denied complaint counsel's motion, although he did enter certain rebuttable presumptions against Rambus as sanctions for what the ALJ called Rambus's gross negligence in implementing Rambus's document retention plan and failing to keep an inventory of documents not retained. Among other motions, the Department of Justice, or DOJ, successfully sought to intervene in the FTC action, and obtained a limit on certain deposition questioning by Rambus pending completion of the DOJ's criminal investigation of DRAM manufacturers for price-fixing. Rambus was informed that it is not a target of the DOJ investigation. The ALJ denied Rambus's motion for summary judgment and entered other rulings on pre-hearing motions in the action. On February 17, 2004, the FTC ALJ issued his initial decision dismissing the FTC's complaint against Rambus on multiple independent grounds. Complaint counsel filed their opening appellate brief on April 16, 2004. Rambus opposed this brief and filed its own cross-appeal on June 2, 2004. Briefing to the five FTC Commissioners on this appeal was concluded on July 16, 2004. A technical presentation by the parties was presented to the commissioners on September 21, 2004 and an oral argument was presented on December 9, 2004. All substantive briefing and argument has been completed on this appeal. Shortly before the final argument and in response to Complaint Counsel's July 2, 2004 motion seeking to reopen the record to admit documents regarding spoliation, the Commission requested that the parties file Responses designating portions of the record that pertain to the alleged spoliation. The parties submitted Responses in December 2004 and the issue remains undecided. Rambus

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believes that a number of allegations made by Complaint Counsel in its Response including letters in December and on March 30, 2005, by Complaint Counsel to the FTC Commissioners regarding the dismissal of Rambus's patent case against Infineon in Virginia and re-emphasizing Complaint Counsel's request to reopen the record were improper and inaccurate. Rambus submitted a reply to Complaint Counsel's December letter on February 4, 2005.

On or about April 22, 2003, Rambus received courtesy copies of requests for information from the European Commission Competition Directorate-General indicating that it had received complaints from Infineon and Hynix apparently making similar allegations. Rambus answered those requests on June 16, 2003. Rambus obtained a copy of Infineon's complaint to the EU in late July, and on October 8, 2003, at the request of the Directorate, filed its response. Rambus has not heard from the EU on this matter since that date.

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**RAMBUS INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

On June 18, 2004, Rambus requested that the EU investigate the collusive activities of Infineon/Siemens, Hynix, and Micron, as described in Rambus's complaint filed in San Francisco Superior Court on May 5, 2004. On March 10, 2005, Rambus received a letter from the EU requesting certain additional information related to Rambus's June 18, 2004 complaint. Rambus is in the process of replying to this request. Also, as noted above, on March 29, 2005, as part of its settlement with Infineon, Rambus withdrew this complaint to the extent that it was directed to Infineon/Siemens.

*Collusion Case*

On May 5, 2004, Rambus filed a lawsuit against Micron, Hynix, Infineon and Siemens in San Francisco Superior Court seeking damages for conspiring to fix prices (California Bus. & Prof. Code §§16720), conspiring to monopolize under the Cartwright Act (California Bus. & Prof. Code §§16720), intentional interference with prospective economic advantage, and unfair competition (California Bus. & Prof. Code §§17200). Damages are estimated to exceed \$1 billion dollars. This lawsuit is based on evidence some endorsed in the fact findings that are part of the FTC ALJ's February 17, 2004 initial decision indicating that there were concerted efforts beginning in the 1990's to deter innovation in the DRAM market and to boycott Rambus and/or deter market acceptance of Rambus's RDRAM product. Defendants have not yet answered the complaint or responded to Rambus's discovery requests. Defendants moved the court for a change of venue to Santa Clara county on October 5, 2004. The judge denied defendants' motion on January 3, 2005. The parties are currently disputing the proper terms for a protective order in the case, after which Rambus expects its attorneys to get access to discovery from the defendants, including the documents defendants submitted to the DOJ as part of its investigation of certain DRAM manufacturers for price fixing. As a result of that investigation, Infineon pled guilty to criminal price fixing on October 20, 2004, and agreed to pay a fine of \$160 million. This was followed on December 16, 2004, by guilty pleas, jail time and fines in the amount of \$250,000 each from four of Infineon's executives. Since then, Micron has indicated that it is cooperating with the DOJ, and that although it does not expect fines or jail sentences, there is evidence that it did fix prices with fellow DRAM manufacturers. In addition, Hynix has recently indicated that it will also enter a guilty plea in the DOJ investigation and agree to pay a fine of \$185 million.

On January 3, 2005, the Court ruled in Rambus's favor that venue was proper in San Francisco. Defendants thereafter filed a petition with a California state appellate court seeking a writ directing the trial court to grant defendant's motion for change of venue. On February 11, 2005, the appellate court declined to overturn that decision. Defendants did not appeal this decision to the California Supreme Court. Defendants filed a demurrer in this action, and together with outstanding disputes regarding the protective order, that demurrer was heard and overruled by the trial court on April 22, 2005. During the same April 22, 2005 hearing, the trial court also resolved certain issues relating to the proposed protective order, and ordered that defendants within 30 days after the entry of that order produce to Rambus all documents previously produced to the DOJ as part of its pending price fixing investigation. As noted above, on March 21, 2005, as part of its settlement with Infineon, Rambus dismissed with prejudice Infineon and Siemens from this action.

*New Patent Infringement Litigation*

On January 25, 2005, Rambus filed a patent infringement suit in the U.S. District Court in the Northern District of California against Hynix, Infineon, Nanya Technology Corporation and Inotera Memories, Inc. regarding DDR2 and GDDR2, and GDDR3 products. As noted above, Rambus has dismissed with prejudice Infineon from this litigation. Rambus has recently begun to serve this Complaint on defendants. Also as noted above, Rambus has expressed its desire to seek leave to amend this complaint to add Micron into this action should the Delaware Court (*Micron v. Rambus*) lift the stay.

*Potential Future Litigation*

In addition to the above, the DRAM and controller markets continue to adopt Rambus technologies into various products. Rambus has notified many companies of their use of Rambus technology and continues to evaluate how to proceed on these matters. There can be no assurance that litigation related to these various additional products, if brought, will be successful.

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**RAMBUS INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**9. Convertible Debt**

On February 1, 2005, Rambus issued \$300 million aggregate principal amount of zero coupon senior convertible notes due February 1, 2010 to Credit Suisse First Boston LLC (Credit Suisse) and Deutsche Bank Securities (Deutsche Bank) in a private offering.

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

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

cash in an amount equal to the lesser of

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

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

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

The notes are subject to repurchase in cash in the event of a fundamental change involving Rambus at a price equal to 100% of the principal amount. Rambus may be obligated to pay an additional premium (payable in shares of common stock) in the event the notes are converted following a fundamental change. The premium is based on numerous factors and could be up to 33% per \$1,000 principal amount of notes.

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

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

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

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

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

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

**Table of Contents****RAMBUS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

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

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

As a result of this issuance, Rambus recorded \$7.2 million of related debt issuance costs in long-term other assets which are being amortized over the term of the notes. Rambus recorded an amortization expense of \$242,000 for the quarter ended March 31, 2005.

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

*Rambus operates in a single industry segment.*

The top three customers accounted for 25%, 17% and 10%, respectively, of revenues in the quarter ended March 31, 2005. Three customers accounted for 31%, 17% and 12%, respectively, of revenues in the quarter ended March 31, 2004.

Rambus sells its interfaces and licenses to customers in the Far East, North America, and Europe. The net income for all periods presented are derived primarily from Rambus North American operations, which generates revenues from the following geographic regions (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Japan	\$ 24,487	\$ 18,031
United States	11,204	11,098
Taiwan	60	
Korea	3,807	3,353
Europe	53	59
	<b>\$ 39,611</b>	<b>\$ 32,541</b>

Revenues are attributed to individual countries according to the countries in which the licensees are headquartered.

Long-lived assets are primarily located in the United States.

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**Item 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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:

Sources, amounts and concentration of revenue;

Product development;

Improvements in technology;

Engineering, marketing and general and administration expenses;

Research and development expenses;

Success in the market of our or our licensees' products;

Success in renewing license agreements;

Sources of competition;

Outcome and effect of current and potential future litigation;

Protection of intellectual property;

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

Status of our leveraged positions;

Cash and cash equivalents position;

Lease commitments;

Adoption of accounting pronouncements;

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Terms of our licenses;

Trading price of our common stock;

Operating results;

Realization of deferred tax assets;

Accounting estimates and procedures;

Valuation allowance for deferred tax assets; and

Amortization of intangible assets.

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

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

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

Double Data Rate	DDR
Dynamic Random Access Memory	DRAM
Graphics Double Data Rate	GDDR
Rambus Dynamic Random Access Memory	RDRAM
Synchronous Dynamic Random Access Memory	SDRAM

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

ARM Holdings plc	ARM
Cadence Design Systems, Inc.	Cadence
Elpida Memory, Inc.	Elpida
GDA Technologies, Inc.	GDA Technologies
Hynix Semiconductor	Hynix
Hyundai Electronics Industries Co., Ltd.	Hyundai
Infineon Technologies AG	Infineon
Intel Corporation	Intel
Micron Technologies, Inc.	Micron
NEC Electronics Corporation	NECEL
Samsung Electronics Co., Ltd.	Samsung
Siemens Nixdorf Informations System AG/FI	Siemens
Sony Corporation	Sony
Synopsys Inc.	Synopsys
Tessera Technologies, Inc.	Tessera
Toshiba Corporation	Toshiba

**Overview**

Rambus Inc. creates a broad range of chip interface technologies that improve the time-to-market, performance and cost-effectiveness of our customers' semiconductor and system products. Our products can be grouped into three major categories: patent licenses, memory interfaces and logic interfaces. Our patent licenses provide rights to elements or all of our broad patent portfolio. Our memory interface technologies provide an interface between memory chips and logic chips. Our logic interface technologies provide an interface between two logic chips. Our licensed products are used in a broad range of computing, consumer electronics and communications applications.

Our chip interface technologies are covered by 395 U.S. and international patents. In addition, we have 408 patent applications currently pending. These patent and patent applications cover important inventions in memory and logic chip interfaces, in addition to other technologies. We believe that our interface technologies provide a lower risk, more cost-effective alternative for our customers than can be achieved through their own internal research and development efforts.

We offer our semiconductor and system customers a number of alternatives for using our chip interface technologies in their products. First, we license elements, or all, of our patent portfolio, for which they pay us royalties. Second, we develop chip interface designs and license elements of our patent portfolio, for which they pay us royalties and license fees. Third, we offer engineering implementation and support services, for which they pay us engineering services fees.

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Royalties represent a substantial portion of our total revenue. The remaining part of our revenue is contract revenue which includes license fees and engineering services fees. Amounts invoiced to our customers in excess of recognized revenue are recorded as deferred revenues. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms, and can have a significant impact on deferred revenues in any given period.

We have a high degree of customer concentration, with our top five customers representing 70% and 78% of our revenues for the quarter ended March 31, 2005, and 2004, respectively. For the quarter ended March 31, 2005, revenue from Intel and Elpida each accounted for greater than 10% of our total revenues. For the quarter

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ended March 31, 2004 revenues from Intel, Toshiba, Elpida and Samsung, each accounted for greater than 10% of total revenues. Our revenue from companies based outside of the United States accounted for 72% and 66% of our revenues for the quarter ended March 31, 2005 and 2004, respectively. We expect that we may continue to experience significant revenue concentration for the foreseeable future and have significant revenues from sources outside the United States for the foreseeable future.

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

**Table of Contents****Results of Operations***Results of Operations*

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

	Three Months Ended	
	March 31,	
	2005	2004
	(unaudited)	(unaudited)
<b>Revenues:</b>		
Contract revenues	16.7%	15.6%
Royalties	83.3%	84.4%
<b>Total revenues</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Costs and expenses:</b>		
Cost of contract revenues	14.1%	16.1%
Research and development	21.7%	22.8%
Marketing, general and administrative	51.7%	34.4%
<b>Total costs and expenses</b>	<b>87.5%</b>	<b>73.3%</b>
<b>Operating income</b>	<b>12.5%</b>	<b>26.7%</b>
Interest and other income, net	5.4%	12.6%
<b>Income before income taxes</b>	<b>17.9%</b>	<b>39.3%</b>
Provision for income taxes	6.6%	13.8%
<b>Net income</b>	<b>11.3%</b>	<b>25.5%</b>

	Three Months Ended		
	March 31,		
	2005	2004	Change
	(unaudited)	(unaudited)	
<b>Total Revenues (in millions)</b>			
Contract revenue	\$ 6.6	\$ 5.1	29.4%
Royalties	\$ 33.0	\$ 27.4	20.4%
<b>Total revenues</b>	<b>\$ 39.6</b>	<b>\$ 32.5</b>	<b>21.8%</b>

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For the quarter ended March 31, 2005, as compared to the same period in 2004, the increase in contract revenue was due primarily to the increase in recognition of revenue associated with our XDR and FlexIO contracts (approximately \$1.3 million), and RaSer interface contracts (approximately \$0.2 million). In general, we recognize revenue on XDR and FlexIO contracts using the percentage-of-completion method of accounting. We began recognizing revenue on one of our RaSer contracts during the quarter ended September 30, 2004 using the percentage-of-completion method of accounting. We determine progress-to-completion using input measures based on labor hours incurred. The increase in recognition of revenue during the March 31, 2005 quarter was primarily a result of additional progress-to-completion and an increase in the contract amount associated with the XDR and FlexIO contracts. We currently expect to recognize revenue on our existing XDR and FlexIO percentage-of-completion contracts through 2005. We believe that contract revenues will continue to fluctuate over time based on our ongoing contractual requirements, the amount of work performed under the contracts accounted for using the percentage-of-completion method of accounting and the value of new contracts booked over time.

In the quarters ended March 31, 2005 and 2004, our largest category of royalties was related to the license of our patents for SDRAM and DDR-compatible products. Royalties increased by approximately \$6.1 million for SDRAM and DDR-compatible products in the quarter ended March 31, 2005 as compared to the same period in 2004, primarily due to increased shipment volumes of SDRAM and DDR controllers and higher fixed quarterly payments associated with DRAM.

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For the quarters ended March 31, 2005, SDRAM and DDR-compatible royalties were recognized based on a percentage of the licensee's revenue with the exception of two contracts that allowed for fixed quarterly payments until there was a favorable resolution to pending litigation. On March 21, 2005, we granted to Infineon a worldwide license to our existing and future patents and patent applications for use in Infineon memory products. In exchange, Infineon will pay, and we expect to recognize, a quarterly license fee of \$5.85 million starting by November 15, 2005. Beginning November 15, 2007, and only if we enter into additional specified licensing agreements with certain other DRAM manufacturers, Infineon will make additional quarterly payments which may accumulate up to a maximum of an additional \$100 million. As a result of the Infineon agreement, one of the two contracts that allowed for fixed quarterly royalty payments, the agreement with Samsung, reverted to its original payment terms. We anticipate that the effect of this change will be limited to our results for the third quarter as the underlying agreement expires by its terms on June 30, 2005.

All but one of our contracts related to the license of our patents for SDRAM and DDR-compatible products have expired or will expire in 2005. Four contracts expired on March 31, 2005, two contracts will expire on June 30, 2005 and one contract will expire on September 30, 2005. Pursuant to the terms of each expiring contract, we expect to receive payment and recognize revenue in the quarter after the contract expires. As previously announced, we renewed our patent license agreement with NECEL which was one of the agreements that expired on March 31, 2005. We are in negotiations with other licensees to renew expired and expiring contracts. There can be no assurance that we will be able to renew these agreements in a timely manner, or at all, or that such agreements if renewed, will have term beneficial to us. We expect SDRAM and DDR-compatible royalties will continue to vary from period to period based on our success in renewing existing license agreements and adding new licensees, as well as the level of variation in our licensees' reported shipment volumes, sales price and mix, offset in part by the proportion of licensee payments that are fixed.

The Intel patent cross-license agreement represented the second largest category of royalties in the quarter March 31, 2005 and 2004. Royalties under this agreement were unchanged in the quarter March 31, 2005 as compared to the same period in 2004. We expect to continue recognizing revenue from this agreement through June 30, 2006, at which time, Intel will have a paid-up license for the use of all of the patents that we own claiming priority prior to September 30, 2006 and for which we own applications as of that date.

Royalties from RDRAM memory chips and controllers decreased during the quarter ended March 31, 2005 as compared to the same period in 2004 by approximately \$0.7 million as a result of lower shipment volumes of both controllers and memory chips. In the future, we expect RDRAM royalties will continue to vary from period to period based on our licensees' reported shipment volumes, sales prices, and product mix.

Certain semiconductor companies are now marketing semiconductors which combine logic and DRAM on the same chip. Such technology, called embedded DRAM, eliminates the need for an external chip-to-chip memory interface. The impact of embedded DRAM on our business is difficult to predict. If embedded DRAM were to gain widespread acceptance in the electronics industry, and if new royalty-generating contracts were not entered into between us and the manufacturers and/or users of the embedded DRAM products, embedded DRAM would have a negative impact on the royalties that we receive for the use of our patents. However, we believe embedded DRAM does not appear to be gaining significant acceptance in the industry. We do not currently receive royalties for embedded DRAM. There can be no assurance that competition from embedded DRAM will not increase in the future.

	Three Months Ended		
	March 31,		
	2005	2004	Change
	(unaudited)	(unaudited)	
<b>Engineering costs (in millions)</b>			
Cost of contract revenues	\$ 5.6	\$ 5.2	7.7%
Research and development	\$ 8.6	\$ 7.4	16.2%

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Total Engineering costs	\$ 14.2	\$ 12.6	12.7%
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For the quarter ended March 31, 2005 as compared to the same period in 2004, the increase in total engineering costs was a result of an increase in depreciation (approximately \$0.9 million) and an increase in amortization of intangible assets costs (approximately \$0.6 million). The increase in depreciation was primarily due to the addition of software tools. The increase in amortization of intangible assets costs was primarily due to our purchase of serial link intellectual property from Cadence during the quarter ended September 30, 2004.

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For the quarter ended March 31, 2005, as compared to the same period in 2004, the increase in cost of contract revenues was primarily a result of an increase in total engineering costs and an increase in the amount of customer specific work associated with RaSer products (approximately \$0.5 million). We believe that in the future, cost of contract revenues will continue to vary both in absolute dollars and as a percentage of revenue based on the nature of engineering deployed as part of our ongoing contractual requirements in any given period.

For the quarter ended March 31, 2005 as compared to the same period in 2004, the increase in research and development was primarily a result of the increase in total engineering costs partially offset by the increase in customer specific work associated with RaSer products. We believe that in the future, research and development will continue to vary in both absolute dollars and as a percentage of revenue from period to period based on the nature, timing, and the number of research and development projects underway. A change in engineering headcount deployment in any given period will also cause research and development spending to vary both in absolute dollars and as a percentage of revenue.

On April 15, 2005, we acquired from GDA Technologies certain digital core intellectual property (IP) assets. Specifically, we acquired digital core IP assets compatible with PCI Express, Ethernet, SPI-4, USB and SATA protocols, as well as additional products that are currently in development. We extended offers to 31 employees in India and 7 employees in the United States. Based on this transaction, we expect our engineering costs to increase in the future.

	Three Months Ended		
	March 31,		
	2005	2004	Change
	(unaudited)	(unaudited)	
<b><i>Marketing, general and administrative costs (in millions)</i></b>			
Marketing, general and administrative costs	\$ 9.4	\$ 7.0	34.3%
Litigation Expense	\$ 11.1	\$ 4.2	164.3%
<b>Total Marketing, general and administrative costs</b>	<b>\$ 20.5</b>	<b>\$ 11.2</b>	<b>83.0%</b>

The increase in total marketing, general and administrative costs including litigation expense for the quarter ended March 31, 2005 as compared to the same period in 2004 was primarily due to increased expenses associated with the defense of our intellectual property (approximately \$6.9 million), stock-based compensation costs associated with the restricted stock grant to our CEO (approximately \$1.1 million) and investments in sales and marketing (approximately \$0.4 million) which included public relations, market research and marketing events. We expect to recognize additional stock-based compensation costs of approximately \$1.6 million, most of which will be recognized in the quarter ended June 30, 2005.

In the future, marketing, general and administrative expenses will vary from period to period based on the trade shows, advertising, legal, and other marketing and administrative activities undertaken, and the change in sales, marketing and administrative headcount in any given period. Litigation expenses are expected to vary from period to period due to the volatility of litigation activities. We expect such costs will increase in 2005 relative to 2004 as we continue to engage in simultaneous private litigation in multiple jurisdictions.

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	Three Months Ended		
	March 31,		
	2005	2004	Change
	(unaudited)	(unaudited)	
<b><i>Interest and other income, net (in millions)</i></b>			
Interest and other income, net	\$ 2.1	\$ 4.1	(48.8%)

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Interest and other income, net consists primarily of gains on the sale of equity investments and interest income from our investments. In the quarter ended March 31, 2005 as compared to the same period in 2004, the decrease in interest and other income, net was primarily due to a gain on the sale of our investment in Tessera in 2004 (approximately \$3.2 million in the quarter) offset in part by an increase in interest income (approximately \$1.2 million) primarily due to higher cash and marketable securities as a result of the convertible debt offering.

	Three Months Ended		
	March 31,		
	2005	2004	Change
	(unaudited)	(unaudited)	
<b><i>Provision for income taxes (in millions)</i></b>			
Provision for income taxes	\$ 2.6	\$ 4.5	(42.2%)

In the quarter ended March 31, 2005, our effective tax rate was 37% as compared with a rate of 35% for the comparable period in 2004. The effective tax rate increased primarily due to an increase in state taxes and a decrease in research and development tax credits.

At March 31, 2005, our balance sheet included net deferred tax assets of approximately \$87.9 million, relating primarily to the difference between tax and book treatment of depreciation and amortization, employee stock related compensation expenses and deferred revenue, net operating loss carryovers and tax credits. In the quarter ended March 31, 2005, we decreased our net deferred tax assets by \$1.0 million, mainly due to the provision for income taxes for the current quarter, partially offset by an increase in our deferred tax assets resulting from the tax benefits from the exercise of employee stock options.

The deferred tax asset valuation allowance is subject to periodic adjustment as facts and circumstances warrant. The ability to realize the deferred tax asset is dependent on sufficient levels of future taxable income and other factors.

**Stock Repurchase Program***Stock Repurchase Program*

In October 2001, our Board of Directors approved a stock repurchase program of our Common Stock principally to reduce the dilutive effect of future stock issuances, including from employee stock options. Since the beginning of the program, our Board has authorized the purchase of up to 14.1 million shares of our outstanding Common Stock over an undefined period of time. As of March 31, 2005, we had repurchased 11.6 million shares of our Common Stock at an average price per share of \$13.02, which includes 4.1 million shares repurchased in connection with our \$300 million zero coupon senior convertible subordinated note offering on February 1, 2005. As of March 31, 2005, there remained an outstanding authorization to repurchase 2.5 million shares of its outstanding Common Stock. The purchase price for the shares of our common stock repurchased was reflected as a reduction to stockholders' equity. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, we are required to allocate the purchase price of the repurchased shares as a reduction to retained earnings and common stock and additional paid-in capital.

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

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, investments, income taxes, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### **Recent Accounting Pronouncements**

See Note 2 titled "Significant Accounting Policies and Recent Accounting Pronouncements" of the Notes to Unaudited Consolidated Condensed Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

### ***Revenue Recognition***

Our revenues consist of royalty revenues and contract revenues generated from the following six types of agreements with semiconductor and systems companies: (1) SDRAM and DDR-compatible patent licenses, which are licenses that cover the use of our patents in various memory chips, including SDRAM and DDR, and controllers which control such memory (2) a patent cross-license with Intel (3) XDR and FlexIO licenses, which are licenses for chips fully compatible with our XDR and FlexIO interfaces, (4) DDR2 interface cell licenses, which are licenses for chips implemented with our DDR memory interface, (5) RaSer licenses, which are licenses for our RaSer interface that licensees integrate into their logic semiconductors, and (6) RDRAM licenses, which are licenses for chips fully compatible with our RDRAM memory interface. We do not recognize contract revenues in excess of cash received if collectibility is not probable. The excess of contract fees billed over revenue recognized is shown on the balance sheet as deferred revenue.

We recognize royalty revenues upon notification by our licensees if collectibility is probable. The terms of the royalty agreements generally require licensees to give us notification and to pay us royalties within 60 days of the end of the quarter during which the sales occur. We engage accounting firms independent of our independent registered public accounting firm to perform, on our behalf, periodic audits of some of our licensee's reports of royalties to us and any adjustment resulting from such royalty audits is recorded in the period such adjustment is determined.

*SDRAM-compatible and DDR-compatible Patent Licenses.* SDRAM-compatible and DDR-compatible patent licenses generally provide for the payment of fees, which include compensation for use of our patents from the time we notify the licensee of potential infringement. Accordingly, these fees are classified as royalty revenues, which are recognized ratably over the contract period, which is typically five years. All but one of our contracts related to the license of our patents for SDRAM and DDR-compatible products have expired or will expire in 2005. Four contracts expired on March 31, 2005, two contracts will expire June 30, 2005 and one contract will expire September 30, 2005. Pursuant to the terms of each expiring contract, we expect to receive payment and recognize

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revenue in the quarter after the contract expires. As previously announced, we renewed our patent license agreement with NECEL which was one of the agreements that expired on March 31, 2005. We are in negotiations with other licensees to renew expired and expiring contracts.

*Intel Cross-License.* In September 2001, we entered into a cross-license agreement with Intel that grants Intel a license to our patent portfolio. We recognize revenue from this arrangement on a quarterly basis as amounts become due and payable. The agreement terminates in September 2006 and after that date Intel will have a paid-up license for the use of all of the patents that we own claiming priority prior to September 30, 2006 and for which we own applications as of that date. The final payment on this agreement is expected to occur in the second quarter of 2006.

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*XDR and FlexIO Licenses.* XDR and FlexIO interface licenses currently provide for the payment of license fees and engineering fees, as well as royalties. Generally, we recognize license and engineering fees on XDR and FlexIO licenses using the percentage-of-completion method of accounting in accordance with the American Institute of Certified Public Accountants, or AICPA, Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. We determine progress-to-completion using input measures based on labor-hours incurred. A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. We review assumptions regarding the work necessary to complete projects on a quarterly basis. If we determine that it is necessary to revise our estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the new estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees would be recognized over a longer period. Part of these XDR and FlexIO license contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by us or production of chips by the licensee. The remaining fees are due on pre-determined dates and generally include significant up-front fees. We currently expect to recognize revenue on our existing XDR and FlexIO percentage-of-completion contracts through 2005.

*DDR2 Interface Cell Licenses.* DDR2 interface cell licenses currently provide for the payment of license fees and engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support is expected to be provided, independent of the payment schedules under the contract. Post-contract customer support periods are evaluated on a case by case basis. DDR2 interface cell licenses generally allow a semiconductor manufacturer to use our DDR2 memory interface and to receive engineering implementation services and customer support.

*RaSer Licenses.* RaSer interface licenses provide for the payment of license fees, engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support periods are expected to be provided, independent of the payment schedules under the contract. Post-contract customer support is evaluated on a case by case basis. Revenue on one contract is being recognized using the percentage-of-completion method of accounting. We determine progress-to-completion using input measures based on labor hours incurred. A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. We review assumptions regarding the work necessary to complete projects on a quarterly basis. If we determine that it is necessary to revise our estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the new estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees would be recognized over a longer period.

*RDRAM Licenses.* RDRAM licenses provide for the payment of license fees, engineering fees and royalties. Generally, license and engineering fees are recognized ratably over the period during which the post-contract customer support is expected to be provided, independent of the payment schedules under the contract. Post-contract customer support periods are evaluated on a case by case basis. Some licensees have contracted to have us provide the specific engineering implementation services required to optimize the generalized circuit layout for the licensee's manufacturing process. The RDRAM licenses also provide for the right to receive ongoing customer support, which includes technical advice on chip specifications, enhancements, debugging and testing.

Other than the licenses using percentage-of-completion, we recognize revenue on our other interface licenses in accordance with the AICPA Statement of Position, or SOP 97-2, SOP 98-4 and SOP 98-9, Software Revenue Recognition. These SOPs apply to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. Contract fees for the products and services provided under these agreements are comprised of license fees and engineering service fees. Contract fees are bundled together as the total price of the agreement does not vary as a result of inclusion or exclusion of services and vendor specific objective evidence, or VSOE, for the undelivered element has not been established. Accordingly, the revenues from such contracts are recognized ratably over the period during which the post-contract customer support is expected to be provided independent of the payment schedules under the contract, including



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milestones. At the time we begin to recognize revenue under an interface license, the remaining obligations are no longer significant. These remaining obligations are primarily to keep the product updated and include activities such as responding to inquiries and periodic customer meetings. Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by us or production of chips by the licensee. The remaining fees are due on pre-determined dates and include significant up-front fees. We review assumptions regarding the post-contract customer support periods on a regular basis. If we determine that it is necessary to revise our estimates of the support periods, the total amount of revenue recognized over the life of the contract would not be affected. However, if the new estimated periods were shorter than the original assumptions, the contract fees would be recognized ratably over a shorter period. Conversely, if the new estimated periods were longer than the original assumptions, the contract fees would be recognized ratably over a longer period.

## ***Litigation***

As of March 31, 2005, we are involved in certain legal proceedings, as discussed in Note 8 titled *Litigation and Asserted Claims* of our Notes to Unaudited Consolidated Condensed Financial Statements. Based upon consultation with the outside counsel handling our defense in these matters and an analysis of potential results, we have not accrued any amounts for potential losses related to these proceedings. Because of uncertainties related to both the amount and range of loss on the pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation. We will record accruals for losses if and when we determine the negative outcome of such matters to be probable and reasonably estimable. Our estimates regarding such losses could differ from actual results. Revisions in our estimates of the potential liability could materially impact our results of operations, financial position, and cash flows. We recognize litigation expenses in the period in which the litigation services were provided.

## ***Marketable Securities***

We classify all of our marketable securities as available-for-sale. We carry these investments at fair value, based on quoted market prices, and unrealized gains and losses are included in accumulated other comprehensive income, net of taxes, which is reflected as a separate component of stockholders' equity. Realized gains and losses are recorded in our consolidated statement of operations. If we believe that an other-than-temporary decline exists, it is our policy to record a write-down to reduce the investments to fair value and record the related charge as a reduction of interest income.

## ***Income Taxes***

As part of preparing our Unaudited Consolidated Condensed Financial Statements, we are required to calculate the income tax expense or benefit which relates to the pretax income or loss for the period. In addition, we are required to assess the realization of the tax asset or liability to be included on the consolidated balance sheet as of the reporting dates.

This process requires us to calculate various items including permanent and temporary differences between the financial accounting and tax treatment of certain income and expense items, differences between federal and state tax treatment of these items, the amount of taxable income reported to various states, foreign taxes and tax credits. The differing treatment of certain items for tax and accounting purposes results in deferred tax assets and liabilities, which are included on our consolidated balance sheet.

At March 31, 2005, our balance sheet included net deferred tax assets of approximately \$87.9 million, relating primarily to the difference between tax and book treatment of depreciation and amortization, employee stock related compensation expenses and deferred revenue, net operating loss carryovers and tax credits. We have established a partial valuation allowance against our deferred

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tax assets due to the uncertainty surrounding the realization of certain assets. The valuation allowance as of March 31, 2005 of approximately \$1.0 million relates primarily to the tax benefit of the employee stock related compensation expense.

The valuation allowance is based on our estimates of taxable income by jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from the estimates or we adjust the estimates in future periods, an additional valuation allowance may have to be recorded, which could materially impact our financial position and results of operation.

**Table of Contents****Liquidity and Capital Resources**

	Three Months Ended March 31,	
	2005	2004
	(unaudited)	(unaudited)
<b><i>Cash flows (in millions)</i></b>		
<i>Net cash provided by operating activities</i>	\$ 7.4	\$ 18.6
<i>Net cash used in investing activities</i>	\$ (67.3)	\$ (25.8)
<i>Net cash provided by financing activities</i>	\$ 219.7	\$ 28.3

*Operating Activities*

Cash generated by operating activities in the quarter ended March 31, 2005 was primarily the result of net income of \$4.4 million adjusted for certain non-cash items including depreciation of \$2.0 million, amortization of intangible assets and debt costs of \$1.2 million, amortization of stock-based compensation of \$1.1 million and an increase in the tax benefit of stock options exercised of \$0.8 million. In addition, accounts and taxes payable, accrued salaries and benefits and other accrued liabilities increased by \$4.2 million primarily due to an increase in accrued legal expenses. This cash generated by operating activities was partially offset by a net decrease in deferred revenue of \$5.1 million and an increase in accounts receivable of \$2.2 million. The net decrease in deferred revenue represents revenues recognized in excess of contract billings, primarily related to the revenue associated with our XDR and FlexIO contracts which we expect to continue recognizing through 2005. The increase in accounts receivable was primarily due to an increase in royalties receivable.

Cash generated by operating activities in the quarter ended March 31, 2004 was primarily the result of net income adjusted for depreciation, a decrease in accounts receivable of \$9.5 million primarily related to payments for XDR and Redwood interface contracts and an increase of the tax benefit of stock options exercised of \$20.2 million. This cash generated from operations was partially offset by an increase in prepaid, deferred taxes and other assets of \$16.9 million and by a net decrease in deferred revenue of \$1.6 million. The decrease in deferred revenue represents revenues recognized in excess of contract billings.

*Investing Activities*

Cash used in investing activities in the quarter ended March 31, 2005 primarily consisted of net purchases of marketable securities of \$64.8 million resulting from the investment of a portion of the net proceeds from the issuance of convertible debt. In addition, \$2.5 million was used for the purchase of property and equipment, primarily computer and software purchases in the United States and computer equipment, software, leasehold improvements and office equipment and furniture for our new facility in India.

Cash used in investing activities in the quarter ended March 31, 2004 primarily consisted of purchases and maturities of marketable securities of \$29.5 million and proceeds from the sales of investments. Investing activities also included \$4.9 million in cash proceeds received on the sale of 85% of our investment in Tessera. The remaining 15% of our investment in Tessera was sold in April 2004.

*Financing Activities*

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Net cash provided by financing activities was \$219.7 million in the quarter ended March 31, 2005. We received net proceeds of \$292.8 million from the issuance of convertible debt and \$2.0 million of net proceeds from the issuance of Common Stock associated with exercises of employee stock options. This cash provided from the issuance of convertible debt and Common Stock was partially offset by \$75.0 million we used to repurchase Common Stock.

For the quarter ended March 31, 2004, we generated net proceeds of \$28.3 million from the issuance of Common Stock associated with the exercises of employee stock options.

We currently anticipate that existing cash and cash equivalents will be adequate to meet our cash needs for at least the next 12 months.

**Table of Contents****Contractual Obligations**

We lease our present office facilities in Los Altos, California, under an operating lease agreement through December 31, 2010. As part of this lease transaction, we provided a letter of credit restricting \$600,000 of our cash as collateral for certain of our obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under our investment policy. We have also signed a lease for a facility in Chapel Hill through November 15, 2009, where our North Carolina employees relocated in June 2004 and for a lease for a design center in Bangalore, India through November 30, 2009.

On February 1, 2005, we issued \$300 million aggregate principal amount of zero coupon senior convertible notes due February 1, 2010 to Credit Suisse First Boston LLC (Credit Suisse) and Deutsche Bank Securities (Deutsche Bank). We elected to pay the principal amount of the notes in cash when they are due and the initial conversion price of the notes is \$26.84 per share. See Note 9 titled **Convertible Debt** to our Notes to Unaudited Consolidated Condensed Financial Statements for the terms of these notes.

As of March 31, 2005, our material net contractual obligations are (in thousands):

<b>Contractual Obligations</b>	<b>Payments due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Convertible Debt	\$ 300,000	\$	\$	\$ 300,000	\$
Operating Leases	\$ 31,543	\$ 6,216	\$ 10,671	\$ 10,589	\$ 4,067
<b>Total</b>	<b>\$ 331,543</b>	<b>\$ 6,216</b>	<b>\$ 10,671</b>	<b>\$ 310,589</b>	<b>\$ 4,067</b>

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### **Risk Factors**

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

We seek to diligently protect our intellectual property rights. In connection with the extension of our licensing program to SDRAM compatible and DDR compatible products in 2000-01, we became involved in litigation related to such efforts. As of March 31, 2005, we were in litigation with four such potential SDRAM compatible and DDR compatible licensees. In each of these cases, we have claimed infringement of our patents while the potential licensees have generally sought damages and a determination that our patents at suit are invalid and not infringed. These potential licensees have also relied or may rely upon defenses and counterclaims (some not yet formally asserted) that our patents are unenforceable based on various allegations concerning our alleged conduct in the 1990s and early 2000s, including that we engaged in litigation misconduct and/or acted improperly during our 1991-96 participation in the JEDEC standard setting organization.

For example, Hynix has now broadened its counterclaims to attempt to include our 1990s relationship with Intel and our alleged disparagement of DDR and SDRAM products in the 1990s. By way of further example, Micron and Hynix have alleged that we have unclean hands based on alleged litigation misconduct and document spoliation, allegations that overlap with those successfully used by Infineon to obtain the recent dismissal of Rambus patent claims in the Rambus case against Infineon in Virginia. There can be no assurance that such claims will not again be successfully used to defeat or limit Rambus patent or other claims. In addition, we have recently discovered potentially relevant and recoverable data on numerous computer back-up tapes. While our analysis of the contents and circumstances of these tapes is ongoing, there can be no assurance that the fact of such a discovery or the contents of the tapes will not harm our on going litigation.

There can be no assurance that parties will not succeed with such claims against us or that they will not in some other way establish broad defenses against our patents or otherwise avoid or delay paying what we believe to be appropriate royalties for the use of our patents or that the pending litigations and other circumstances will not reach a point where we elect to compromise for less than what we now believe to be fair consideration. Among other things, there can be no assurance that we will succeed in negotiating future settlements or licenses on terms better than those recently extended in our most recent settlement. There can be no assurances that the circumstances under which we negotiated our most recent settlement will turn out to be significantly different from the circumstances of future cases and future settlements, although we currently believe that to be the case.

Any of these matters, whether or not determined in our favor or settled by us, is costly and diverts the efforts and attention of our management and technical personnel from normal business operations. Furthermore, any adverse determination or other resolution in litigation could result in our losing certain rights, beyond the rights at issue in a particular case, including, among other things: our being effectively barred from suing others for violating certain or all of our intellectual property rights; our patents being held invalid or unenforceable; our being subjected to significant liabilities; our being required to seek licenses from third parties; our being prevented from licensing our patented technology; or our being required to renegotiate with current licensees on a temporary or permanent basis. Failure to achieve positive results in litigation will also result in a failure to trigger certain contractual provisions which would convert certain flat rate royalty arrangements to per unit royalties. Any or all of these adverse results could cause a substantial decline in our revenues.

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

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If there were an adverse determination by, or other resolution with, a government agency, we may be limited in enforcing our intellectual property rights and in obtaining licenses, which would cause our revenues to decline substantially. For example, in June 2002, the FTC filed a complaint against us alleging, among other things, that we had failed to disclose certain patents and patent applications during our participation in the establishment of SDRAM standards with JEDEC and that we should be precluded from enforcing our intellectual property rights in patents with a priority date prior to June 1996. Although the initial decision in the FTC proceeding supported Rambus and dismissed the complaint, that initial decision has been appealed by the FTC staff and may be reversed by the FTC or subject to some future compromise given developments in that case or the totality of circumstances we face. The European Commission has directed inquiries to us relating to similar

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topics. If proceedings by one of these agencies, or any other governmental agency, resulted in a resolution that could limit our ability to enforce or license our intellectual property, our revenues could decline substantially.

On May 13, 2004, the Technical Appeals Board of the European Patent Office issued its written opinion as to the revocation of European Patent No. 0525068. In addition, on January 13, 2005, an opposition board of the European Patent Office revoked our European Patent No. 004956, but has not yet issued its written decision. Although we intend to appeal this decision to an appellate panel of the European Patent Office, this result leaves us with one remaining issued patent in Europe relating to DDR DRAM memory products, which patent is currently subject to a pending opposition proceeding. If a sufficient number of our other patents are similarly impaired or revoked, our ability to enforce or license our intellectual property would be significantly impaired and would cause our revenues to decline substantially.

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

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

any current or future U.S. or foreign patent applications would be approved;

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

the validity of our patents will be upheld;

our patents will not be declared unenforceable;

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

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

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

*Our inability to protect and own the intellectual property created by us would cause our business to suffer.*

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

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

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

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terms with our licensees and such disagreements could hamper customer relations, divert the efforts and attention of our management from normal operations and impact our business operations and financial condition.

*We may not succeed in satisfying the requirements under the Infineon settlement and license agreement that would require Infineon to pay us up to an additional \$100 million in royalty payments.*

On March 21, 2005, we entered into a settlement and license agreement with Infineon (and its former parent Siemens) which, among other things, requires Infineon to pay to us aggregate royalties of \$50 million in quarterly installments of \$5.85 million starting by November 15, 2005. The settlement and license agreement further provides that if we enter into licenses with certain other DRAM manufacturers, Infineon will be required to make additional royalty payments to us which may aggregate up to \$100 million. We may not succeed in entering into these additional license agreements necessary to trigger Infineon's obligations under the agreement to pay to us additional royalty payments, thereby reducing the value of the settlement and license agreement to us.

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

For the quarter ended March 31, 2005 and 2004, revenues from our top five licensees accounted for approximately 70% and 78% of our revenues, respectively. For the quarter ended March 31, 2005, revenues from Intel and Elpida each accounted for greater than 10% of our total revenues. In contrast, for the quarter ended March 31, 2004, revenues from Intel, Toshiba, Elpida and Samsung each accounted for greater than 10% of total revenues. We expect that we may continue to experience significant revenue concentration for the foreseeable future.

Substantially all of our licensees, including Intel, have the right to cancel their licenses, and all but one of our patent licenses covering SDRAM and DDR SDRAM memory and controllers are set to expire in 2005. Failure to renew our existing licenses and/or the loss of any of our top five licensees would cause revenues to decline substantially.

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

Four contracts expired on March 31, 2005, two contracts will expire June 30, 2005 and one contract will expire September 30, 2005. Pursuant to the terms of each expiring contract, we expect to receive payment and recognize revenue in the quarter after the contract expires. As previously announced, we renewed our patent license agreement with NECEL which was one of the agreements that expired on March 31, 2005. We are in negotiations with other licensees to renew expired and expiring contracts.

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

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We have significant indebtedness. On February 1, 2005, we issued \$300 million aggregate principal amount of zero coupon senior convertible notes due February 1, 2010.

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

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

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

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

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

Our ability to pay interest and principal on our debt securities, to satisfy other debt obligations which may arise and to make planned expenditures will be dependent on our future operating performance, which could be affected by changes in economic conditions and other factors, some of which are beyond our control. A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of the debt under such instruments and in some cases acceleration of debt under other instruments that may contain cross-default or cross-acceleration provisions. We believe that cash flow from operations will be sufficient to cover our debt service and other requirements. If we are at any time unable to generate sufficient cash flow from operations to service our indebtedness, however, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

*Our financial results are materially dependent upon Intel, and if we cannot maintain this relationship into the future, our results of operations may decline significantly.*

Intel is our largest customer and is an important catalyst for the development of new memory and logic interfaces in the semiconductor industry. We have a patent cross-license agreement with Intel for which we will receive quarterly royalty payments through the second quarter of 2006. The patent cross-license agreement expires in September 2006, at which time; Intel will have a paid up license for the use of all of our patents claiming priority prior to September 2006. Intel has the right to cancel the agreement with us prior to the expiration of the contract. We have other licenses with Intel, in addition to the patent cross-license agreement, for the development of serial link interfaces. If we cannot maintain our relationship with Intel into the future, our results of operations may decline significantly.

*Our inexperience in managing rapid growth could strain our resources and cause our financial results to decline.*

We may not be equipped to successfully manage any future periods of rapid growth or expansion, which could be expected to place a significant strain on our limited managerial, financial, engineering and other resources. Our licensees and systems customers rely heavily on our technological expertise in designing, testing and manufacturing products incorporating our chip interface technologies. In addition, relationships with new licensees or system companies generally require significant engineering support. As a result, any increases in adoption of our interfaces will increase the strain on our resources, particularly our engineers. Any delays or difficulties in our research and development process caused by these factors or others could make it difficult for us to develop future generations of our interface technologies and to remain competitive. The rapid rate of hiring new employees or coordinating a third party sales relationship with a substantially larger sales force, could be disruptive and could adversely affect the efficiency of our business or cause conflicts in our distribution or sales channels.

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

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

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

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

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

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

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

In connection with future acquisitions or mergers, strategic transactions or other arrangements, we may incur substantial expenses regardless of whether the transaction occurs. We may also incur non-cash charges in connection with a merger, acquisition, strategic transaction or other arrangement. In addition, we may be required to assume the liabilities of the companies we acquire. By assuming the liabilities, we may incur liabilities such as those related to intellectual property infringement or indemnification of customers of acquired businesses for similar claims, which could materially and adversely affect our business. We may have to incur debt or issue equity securities to pay for any future acquisition, the issuance of which would involve restrictive covenants or be dilutive to our existing stockholders.

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

For the quarter ended March 31, 2005 and 2004, revenues from our international operations constituted approximately 72% and 66% of our total revenues, respectively. We currently have international operations in India (design), Japan (sales), Taiwan (sales) and Germany (sales). As a result of our continued focus on our international operations, we expect that future revenues derived from international sources will continue to represent a significant portion of our total revenues.

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

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

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

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

foreign government regulations and changes in these regulations;

social, political and economic instability;

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

changes in diplomatic and trade relationships;

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

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that our Bangalore facility is our first attempt to manage a design center that is outside of the United States;

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

natural disasters, acts of terrorism, widespread illness and war.

To date, all of our internationally based revenues have been denominated in U.S. dollars. However, to the extent that future international revenues are not denominated in U.S. dollars, such revenues would be subject to fluctuations in currency exchange rates. In addition, if the effective price of products sold by us, licensed by our foreign licensees, or sold by companies that incorporate our technology into their products (such as system companies) were to increase as a result of fluctuations in the exchange rate of the relevant currencies, overall demand for our products could fall, which in turn would reduce our royalties. Currently, we do not use derivative instruments to hedge foreign exchange rate risk.

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

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

Since many of our revenue components fluctuate and are difficult to predict, and our expenses are largely independent of revenues in any particular period, it is difficult for us to accurately forecast revenues and profitability. Factors that could cause our operating results to fluctuate include:

adverse litigation results such as an adverse outcome to us in the Infineon court proceedings;

semiconductor and system companies' acceptance of our interface products;

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

semiconductor or system companies discontinuing major products incorporating our interfaces;

announcements or introductions of new technologies or products by us or our competitors;

the unpredictability of the timing of any litigation expenses;

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

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

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

In the quarter ended March 31, 2005, royalties accounted for over 83% of our total revenues, and we believe that royalties will continue to represent a majority of total revenues for the foreseeable future. Royalties are recognized in the quarter in which we receive a report from a licensee regarding the sale of licensed chips in the prior quarter; however, royalties are only recognized if collectibility is probable. Royalties are also dependent upon fluctuating sales volumes and prices of licensed chips that include our technology, all of which are beyond our ability to control or assess in advance. In addition, royalty revenues are affected by the seasonal shipment patterns of systems incorporating our interface products, or by a system company change in its source of licensed chips, and the new source's different royalty rates.

As a result of these uncertainties and effects being outside of our control, royalty revenues are difficult to predict and make accurate financial forecasts difficult to achieve, which could cause our stock price to become volatile and decline.

*Our licensing cycle is lengthy and costly which makes it difficult to predict future revenues, which may cause us to miss analysts estimates and may result in our stock price declining.*

Because our licensing cycle is a lengthy process, the accurate prediction of future revenues from new licenses is difficult. In addition, engineering services are dependent upon the varying level of assistance desired by licensees and, therefore, revenue from these services is also difficult to predict. We employ two methods of contract revenue accounting based upon the state of the technology licensed, the dollar magnitude of the program and the ability to estimate work required over the contract period. We use ratable revenue recognition for mature technologies that require support after delivery of the technology. This method results in expenses associated with a particular contract to be recognized as incurred over the contract period, whereas contract fees associated with the contract are recognized ratably over the period during which the post contract customer support is expected to be provided. We also use percentage of completion accounting for contracts that may require significant development and support over the contract term. There can be no assurance that we can accurately estimate the amount of resources required to complete projects, or that we will have, or be able to expend, sufficient resources required to complete a project. Furthermore, there can be no assurance that the product development schedule for these projects will not be changed or delayed. All of these factors make it difficult to

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predict future licensing revenue that may result in us missing analysts' estimates and may cause our stock price to decline.

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

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

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

An important part of our strategy for our interfaces is to penetrate markets by working with leaders in those markets. This strategy is designed to encourage other participants in those markets to follow such leaders in adopting our interfaces. If a high profile industry participant adopts our interfaces but fails to achieve success with its products or adopts and achieves success with a competing interface, our reputation and sales could be adversely affected. In addition, some industry participants have adopted, and others may in the future adopt, a strategy of disparaging our memory solutions adopted by their competitors or a strategy of otherwise undermining the market adoption of our solutions. If any of these events occur and market leaders do not successfully adopt our technologies, our results of operations could decline.

*Our revenues could decline if sales made by system companies decline.*

Our success is partially dependent upon the adoption of our chip interface technologies by system companies, particularly those that develop and market high volume business and consumer products such as PCs and video game consoles. We are subject to many risks beyond our control that influence the success or failure of a particular system company, including, among others:

- competition faced by a system company in its particular industry;
- the timely introduction and market acceptance of a system company's products;
- the engineering, sales and marketing and management capabilities of a system company;
- technical challenges unrelated to our interfaces faced by a system company in developing its products; and
- the financial and other resources of the system company.

The process of persuading system companies to adopt our chip interface technologies can be lengthy and, even if adopted, there can be no assurance that our interfaces will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to us. We must dedicate substantial resources to market to, and support, system companies, in addition to supporting the sales, marketing and technical efforts of our licensees in promoting our interfaces to system companies. Even if a

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system company develops a product based on our interface, success in the market will depend in part on a supply of semiconductors from our licensees in sufficient quantities and at commercially attractive prices. Because we do not control the business practices of our licensees, we have no ability to establish the prices at which the chips containing our interfaces are made available to system companies or the degree to which our licensees promote our interfaces to system companies.

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

The semiconductor industry is intensely competitive and has been impacted by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. In addition, most DRAM manufacturers, including our RDRAM and XDR licensees, produce versions of DRAM such as SDRAM, DDRx and GDDRx (where the x is a number that represents a version) that compete with RDRAM and XDR chips. These companies are larger and may have better access to financial, certain technical and other resources than we do.

We believe that our principal competition for memory interfaces may come from our licensees and prospective licensees, some of whom are evaluating and developing products based on technologies that they

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contend or may contend will not require a license from us. Companies are also beginning to take a system approach similar to ours in solving the application needs of system companies. Most DRAM suppliers have been producing DDR chips, which use a technology that doubles the memory bandwidth without increasing the clock frequency.

JEDEC has standardized what they call an extension of DDR, known as DDR2. JEDEC is also thought to be standardizing what they describe as an extension of DDR that they refer to as DDR3. Other efforts are underway to create other products including those sometimes referred to as GDDR4 and GDDR5. To the extent that these alternatives might provide comparable system performance at lower or similar cost than RDRAM and XDR memory chips, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our licensees and prospective licensees may adopt and promote these alternative technologies. Even to the extent we determine that such alternative technologies infringe our patents, there can be no assurance that we would be able to negotiate agreements that would result in royalties being paid to us without litigation, which could be costly and the result of which would be uncertain.

In addition, certain semiconductor companies are now marketing semiconductors that combine logic and DRAM on the same chip. Such technology, called embedded DRAM, eliminates the need for an external chip interface to memory. The impact of embedded DRAM on our business is difficult to predict. If embedded DRAM were to gain widespread acceptance in the electronics industry, and if new royalty generating licenses were not entered into between us and the manufacturers and/or users of the embedded DRAM products, embedded DRAM would have a negative impact on the royalties that we receive for the use of our patents. We do not currently receive royalties for embedded DRAM. There can be no assurance that competition from embedded DRAM will not increase in the future.

In the serial link interface business, we face additional competition from semiconductor companies that sell discrete transceiver chips for use in various types of systems, from semiconductor companies that develop their own serial link interfaces, as well as from competitors, such as ARM and Synopsys, who license similar serial link interface cells. At the 10 Gb/s speed, competition will also come from optical technology sold by system and semiconductor companies. There are standardization efforts underway or completed for serial links from standard bodies such as PCI-SIG and OIF. Although these and other competing efforts may infringe our existing or future patents, we may face increased competition in the future that could negatively impact our serial link interface business.

In our FlexIO processor bus interface business, we face additional competition from semiconductor companies who develop their own parallel bus interfaces, as well as competitors who license similar parallel bus interface cells. We may also see competition from industry consortia. Although these and other competing efforts may infringe our existing or future patents, we may face increased competition in the future that could negatively impact our FlexIO processor bus interface business.

With respect to our recently announced DDR controller interface cell business, we face additional competition from semiconductor companies who develop their own DDR controller interfaces, as well as competitors who license similar DDR controller interface cells. We also see competition from companies who sell partial solutions. Although these and other competing efforts may infringe our existing or future patents, we may face increased competition in the future that could negatively impact our DDR controller interface cell business.

If we cannot effectively compete in these primary market areas, our results of operations could suffer.

*If we fail to gain and maintain acceptance of our technology in high volume consumer products, our business results could suffer.*

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

Our XDR and FlexIO interfaces and the manufacturing processes to incorporate them are new and complex, which may lead to technology and product development scheduling risks and there remains significant contract work to be completed, therefore percentage of completion accounting is used for these licenses. There can be no assurance that we have accurately estimated the amount of resources required to complete the projects,

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or that we will have, or be able to expend, sufficient resources required for these types of projects. In addition, there is market risk associated with these products, and there can be no assurance that unit volumes, and their associated royalties, will occur. If our technology fails to capture or maintain a portion of the high volume consumer market, our business result could suffer.

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

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

Our continued success depends on our ability to introduce and patent enhancements and new generations of our chip interface technologies that keep pace with other changes in the semiconductor industry and which achieve rapid market acceptance. We must continually devote significant engineering resources to addressing the ever increasing need for higher speed chip interfaces associated with increases in the speed of microprocessors and other controllers. The technical innovations that are required for us to be successful are inherently complex and require long development cycles, and there can be no assurance that our development efforts will ultimately be successful. In addition, these innovations must be:

completed before changes in the semiconductor industry render them obsolete;

available when system companies require these innovations; and

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

Finally, significant technological innovations generally require a substantial investment before their commercial viability can be determined.

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

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

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation. While we generally do not indemnify our licensees, some of our license agreements provide limited indemnities, some require us to provide technical support and information to a licensee that is involved in litigation involving use of our technology, and we may agree to indemnify others in the future. Our support and indemnification obligations could result in substantial expenses. In addition to the

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time and expense required for us to supply such support or indemnification to our licensees, a licensee's development, marketing and sales of licensed semiconductors could be severely disrupted or shut down as a result of litigation, which in turn could severely hamper our business operations and financial condition.

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

Our success is dependent upon our ability to identify, attract, motivate and retain qualified personnel who can enhance our existing technologies and introduce new technologies. Competition for qualified personnel, particularly those with significant industry experience, is intense. We are also dependent upon our senior management personnel, most of who have worked together for us for many years. The loss of the services of any of our senior management personnel, or key sales personnel in critical markets, or of a significant number of our engineers could be disruptive to our development efforts or business relationships and could cause our business and operations to suffer.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and the Nasdaq National Market rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

*Although we have complied with the certification and attestation requirements under Section 404 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2004, we may not be able to continue to meet such requirements annually and our failure to satisfy these requirements could adversely affect our financial results and the price of our common stock.*

While we have evaluated our internal controls system as of December 31, 2004 and complied with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in connection with our Annual Report on Form 10-K for the year ended December 31, 2004, we may not continue to meet such certification and attestation requirements annually. If we are not able to continue to meet the requirements of Section 404 in a timely manner or with adequate compliance, or if our independent registered public accounting firm does not timely attest to the evaluation, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC or the Nasdaq National Market, which could adversely affect our financial results and the market price of our common stock.

*FASB's adoption of Statement 123(R) will cause, and changes to existing accounting pronouncements or taxation rules or practices may cause, adverse revenue fluctuations, affect our reported results of operations or how we conduct our business.*

In December 2004, FASB issued Statement 123(R), Share Based Payment. On April 14, 2005, the SEC announced the adoption of a new rule that amended the compliance dates for SFAS No. 123(R). Under this new rule, companies are allowed to implement SFAS No. 123(R) which will require us, starting in the first quarter of fiscal year 2006, to measure compensation costs for all stock based compensation (including stock options and our employee stock purchase plan, as currently constructed) at fair value and take a compensation charge equal to that value. Also, a change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. Other new accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. This change to existing rules, future changes, if any, or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

*Our operations are primarily located in California and, as a result, are subject to natural disasters, which could result in a business stoppage and negatively affect our operating results.*

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

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

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Our common stock is quoted on the Nasdaq National Market under the symbol RMBS. The trading price of our common stock has been subject to wide fluctuations which may continue in the future in response to, among other things, the following:

- any progress, or lack of progress, real or perceived, in the development of products that incorporate our chip interfaces;
- our signing or not signing new licensees;
- new litigation or developments in current litigation including an unfavorable outcome to us from court proceedings relating to our litigation with Infineon;
- announcements of our technological innovations or new products by us, our licensees or our competitors;
- positive or negative reports by securities analysts as to our expected financial results; and
- developments with respect to patents or proprietary rights and other events or factors.

In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities of many high technology companies and that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock.

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

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

- our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as blank check preferred stock, with rights senior to those of common stock;
- our board of directors is staggered into two classes, only one of which is elected at each annual meeting;
- stockholder action by written consent is prohibited;
- nominations for election to our board of directors and the submission of matters to be acted upon by stockholders at a meeting are subject to advance notice requirements;
- certain provisions in our bylaws and certificate of incorporation such as notice to stockholders, the ability to call a stockholder meeting, advanced notice requirements and the stockholders acting by written consent may only be amended with the approval of stockholders holding 66 <sup>2</sup>/<sub>3</sub>% of our outstanding voting stock;

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

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

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

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including government and corporate obligations and money market funds. Short term and long term marketable securities are generally classified as available for sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated tax.

Investments in fixed-rate interest-earning instruments carry varying degrees of interest rate risk. The fair market value of our fixed-rate securities may be adversely impacted due to a rise in interest rates. In general, securities with longer maturities are subject to greater interest-rate risk than those with shorter maturities. Due in part to this factor, our investment income may fall short of expectations or we may suffer losses in principal if securities are sold that have declined in market value due to changes in interest rates.

The fair market value of the zero coupon senior convertible notes is subject to interest rate risk and market risk due to the convertible feature of these notes. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of these notes will also increase as the market price of our stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of these notes but do not impact our financial position, cash flow, or results of operations.

The table below summarizes the book value, fair value, unrealized losses and related weighted average interest rates for our marketable securities portfolio as of March 31, 2005 and December 31, 2004 (in thousands, except percentages).

	March 31, 2005			
	Fair Value	Book Value	Unrealized Loss	Weighted Rate of Return
<i>Marketable securities:</i>				
United States government debt securities	\$ 188,184	\$ 189,901	\$ (1,717)	2.73%
Corporate notes and bonds	62,639	63,705	(1,066)	2.38%
Municipal notes and bonds	1,339	1,345	(6)	2.28%
<b>Total marketable securities</b>	<b>\$ 252,162</b>	<b>\$ 254,951</b>	<b>\$ (2,789)</b>	
	December 31, 2004			
	Fair Value	Book Value	Unrealized Loss	Weighted Rate of Return
<i>Marketable securities:</i>				
United States government debt securities	\$ 109,506	\$ 110,472	\$ (966)	2.09%
Corporate notes and bonds	69,579	70,297	(718)	2.33%
Municipal notes and bonds	8,965	8,970	(5)	2.03%
<b>Total marketable securities</b>	<b>\$ 188,050</b>	<b>\$ 189,739</b>	<b>\$ (1,689)</b>	

**Item 4. Controls and Procedures**

Based on their evaluation as of March 31, 2005, our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and Form 10-Q.

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected.

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

The information required by this item regarding legal proceedings is incorporated by reference to the information set forth in Note 8 titled "Litigation and Asserted Claims" of the Notes to Unaudited Consolidated Condensed Financial Statements of this Form 10-Q.

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

In October 2001, our Board of Directors approved a stock repurchase program of our Common Stock principally to reduce the dilutive effect of future stock issuances, including from employee stock options. Since the beginning of the program, our Board has authorized the purchase of up to 14.1 million shares of our outstanding Common Stock over an undefined period of time. As of March 31, 2005, we had repurchased 11.6 million shares of our Common Stock at an average price per share of \$13.02, which includes 4.1 million shares repurchased in connection with our \$300 million zero coupon senior convertible subordinated note offering on February 1, 2005.

As of March 31, 2005, there remained an outstanding authorization to repurchase 2.5 million shares of its outstanding Common Stock as represented by the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares	
			Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
1/1/05 - 1/31/05	4,051,863	\$ 18.51	4,051,863	2,497,450
2/1/05 - 2/28/05		\$		2,497,450
3/1/05 - 3/31/05		\$		2,497,450
Total	4,051,863	\$ 18.51	4,051,863	2,497,450

*Convertible Debt*

On February 1, 2005, we issued \$300.0 million aggregate principal amount of zero coupon convertible subordinated notes to qualified institutional buyers pursuant to Rule 144A and Regulation S. The interest rate on the notes is zero. The cost of this transaction, including underwriting discounts and commissions, offering expenses, was approximately \$7.2 million. We elected to pay the principal amount of the notes in cash. The notes are convertible at any time prior to the close of business on the maturity date into, in respect of each \$1,000 principal of notes:

cash in an amount equal to the lesser of:

(1) the principal amount of each note to be converted and

(2) the conversion value, which is equal to (a) the applicable conversion rate, multiplied by (b) the applicable stock price, each as defined.

if the conversion value is greater than the principal amount of each note, an amount equal to the sum of the daily share amounts, calculated as defined; however, we, at our option, may deliver cash, or a combination of cash and shares of our common stock, with a value equal to this excess amount.

The initial conversion price is \$26.84 per share of common stock (which represents an initial conversion rate of 37.2585 shares of our common stock per \$1,000 principal amount of notes). The notes are subject to repurchase in cash in the event of a fundamental change involving us at a price equal to 100% of the principal amount. We may be obligated to pay an additional premium (payable in shares of common stock) in the event the notes are converted following a fundamental change; which premium could be up to 33% per \$1,000 principal amount of notes.

**Item 3. Defaults Upon Senior Securities** Not Applicable

**Item 4. Submission of Matters to a Vote of Security Holders** Not Applicable

**Item 5. Other Information** Not Applicable

**Item 6. Exhibits**

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

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**SIGNATURE**

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

**RAMBUS INC.**

Date: April 29, 2005

By:

/s/ Robert K. Eulau  
Robert K. Eulau,

Senior Vice President, Finance, and

Chief Financial Officer

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1(1)	Amended and Restated Certificate of Incorporation of Registrant filed May 29, 1997.
3.2(2)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Registrant filed June 14, 2000.
3.3	Amended and Restated Bylaws of Registrant dated April 13, 2005, filed herewith.
4.1(3)	Form of Registrant's Common Stock Certificate.
4.2(4)	Amended and Restated Information and Registration Rights Agreement, dated as of January 7, 1997, between Registrant and the parties indicated therein.
4.3(5)	Amended and Restated Preferred Stock Rights Agreement, dated as of July 31, 2000, between Registrant and Fleet National Bank, as rights agent.
4.3.2(6)	First Amendment to the Amended and Restated Preferred Stock Rights Agreement, dated as of April 23, 2003, between Registrant and EquiServe Trust Company, N.A., as successor to Fleet National Bank.
4.4(7)	Common Stock Purchase Warrant No. 1-REV dated January 7, 1997 issued to Intel Corporation to purchase shares of Registrant's common stock.
4.5(18)	Indenture, dated as of February 1, 2005, between Registrant and U.S. Bank National Association, a national banking association.
4.6(18)	Form of Note (included in Exhibit 4.5).
4.7(18)	Registration Rights Agreement, dated as of February 1, 2005, between Registrant and the initial purchasers named therein.
10.1(4)	Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers.
10.2(8)(9)	Semiconductor Technology License Agreement, dated as of November 15, 1996, between Registrant and Intel Corporation.
10.3(9)	Amendment No. 1 to Semiconductor Technology License Agreement, dated as of July 10, 1998, between Registrant and Intel Corporation.
10.4(11)	1997 Stock Plan (as amended and restated as of July 10, 2003).
10.5(10)	1997 Employee Stock Purchase Plan and related forms of agreements.
10.6(3)	Standard Office Lease, dated as of March 10, 1991, between Registrant and South Bay/Latham.
10.7(12)	Office Lease dated as of August 27, 1999, between Registrant and Los Altos - El Camino Associates, LLC.
10.8(12)	Common Stock Equivalent Agreement, dated as of October 20, 1999, between the Registrant and Geoff Tate.
10.9(12)	Common Stock Equivalent Agreement, dated as of October 20, 1999, between the Registrant and David Mooring.
10.10(13)	Office Sublease, dated as of May 8, 2000 between Registrant and Muse Prime Software, Inc.
10.11(14)	1999 Nonstatutory Stock Option Plan (as amended and restated as of April 10, 2002).
10.12(8)(15)	Patent License Agreement, dated as of September 14, 2001, by and between the Registrant Intel Corporation.
10.13(16)	Amendment to Sublease, dated as of March 25, 2002, between Registrant and Muse Prime Software, Inc.
10.14(8)(17)	Development Agreement, dated as of January 6, 2003, by and among Registrant, Sony Computer Entertainment Inc. and Toshiba Corporation.
10.15(8)(17)	Redwood and Yellowstone Semiconductor Technology License Agreement, dated as of January 6, 2003, between Registrant, Sony Corporation and Sony Computer Entertainment, Inc.
10.16(8)(17)	Redwood and Yellowstone Semiconductor Technology License Agreement, dated as of January 6, 2003, between Registrant and Toshiba Corporation.
10.17(19)	

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Settlement and License Agreement dated March 21, 2005, between Registrant and Infineon Technologies AG, filed herewith.

- 31.1 Certification of Principal Executive Officer, filed herewith.
- 31.2 Certification of Principal Financial Officer, filed herewith.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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

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- (2) Incorporated by reference to the Form 10-Q filed on May 4, 2001.
- (3) Incorporated by reference to the Form S-1/A filed on April 24, 1997.
- (4) Incorporated by reference to the Form S-1/ filed on March 6, 1997.
- (5) Incorporated by reference to the Form 8-A12G/A filed on August 3, 2000.
- (6) Incorporated by reference to the Form 8-A12G/A filed on August 5, 2003.
- (7) Incorporated by reference to the Form 8-K filed on July 7, 2000.
- (8) Confidential treatment was granted with respect to this exhibit. Omitted portions were filed separately with the Securities and Exchange Commission.
- (9) Incorporated by reference to the Form 10-K filed on December 9, 1998.
- (10) Incorporated by reference to the Registration Statement on Form S-8 filed June 6, 1997.
- (11) Incorporated by reference to the Form 10-Q filed on July 29, 2003.
- (12) Incorporated by reference to the Form 10-K filed on December 23, 1999.
- (13) Incorporated by reference to the Form 10-Q filed on August 9, 2000.
- (14) Incorporated by reference to the Registration Statement on Form S-8 filed April 12, 2002.
- (15) Incorporated by reference to the Form 10-K filed on December 4, 2001.
- (16) Incorporated by reference to the Form 10-Q filed on April 30, 2002.
- (17) Incorporated by reference to the Form 10-Q filed on April 30, 2003.
- (18) Incorporated by reference to the Form S-3 filed on April 29, 2005.
- (19) Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.