RAMBUS INC
Form 10-K
September 14, 2007
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 Or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 000-22339

RAMBUS INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3112828**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
4440 El Camino Real	
Los Altos, California	**94022**
(Address of principal executive offices)	**(Zip Code))**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.001 Par Value	**The NASDAQ Stock Market LLC**
Preferred Share Purchase Rights	**(The Nasdaq Global Select Market)**

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated Filer ¨

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

The aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant as of June 30, 2006 was approximately $1.64 billion based upon the closing price reported for such date on The Nasdaq Global Select Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the Registrant s Common Stock, $.001 par value, was 103,820,383 as of May 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

The actions of our Special Litigation Committee;

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

Sources, amounts and concentration of revenue, including royalties;

Product development;

Improvements in technology;

Engineering, marketing and general and administration expenses;

Litigation expenses;

Success in the markets of our or our licensees products;

Terms of our licenses;

Success in renewing license agreements;

Pricing policies of our licensees;

Sources of competition;

Protection of intellectual property;

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

Indemnification and technical support obligations;

Likelihood of paying dividends;

Cash and cash equivalents position;

Lease commitments;

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- Ability to attract and retain qualified personnel;
- Internal control environment;
- Adoption of new accounting pronouncements;
- Trading price of our Common Stock;
- Continued listing of our Common Stock on The Nasdaq Global Select Market;
- Operating results;
- Realization of deferred tax assets;
- Accounting estimates and procedures;
- The level and terms of our outstanding debt;
- Interest and other income, net;
- Effective tax rates; 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 include the assumptions underlying or relating to any of the foregoing statements.

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

EXPLANATORY NOTE REGARDING RESTATEMENTS

This Annual Report on Form 10-K for our fiscal year December 31, 2006 includes restatements of: (1) previously filed consolidated financial statements, financial data and related disclosures as of December 31, 2005 and for our fiscal years ended December 31, 2005 and 2004; (2) our selected consolidated financial data as of and for our fiscal years ended December 31, 2005, 2004, 2003, our quarter ended December 31, 2002 and our fiscal year ended September 30, 2002; (3) our management s discussion and analysis of financial condition and results of operations as of and for our fiscal years ended December 31, 2005 and 2004 contained in Item 7 of this Form 10-K; and (4) our unaudited quarterly financial data for the first quarter of fiscal year ended December 31, 2006 and for all quarters in our fiscal year ended December 31, 2005 located at the end of Item 15 of this Form 10-K. The restatements are the result of errors in the way we accounted for certain historical stock option grants that were discovered through our independent stock option investigation conducted by the Audit Committee of the Board of Directors. See Note 3, Restatement of Consolidated Financial Statements, of Notes to Consolidated Financial Statements and Exhibit 99.1 for a detailed discussion of the effect of the restatements.

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Our previously issued consolidated financial statements for the fiscal years 2005 and prior, which are included in our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon.

As a result of an investigation of our historical stock option practices by the Audit Committee of our Board of Directors, and a concurrent internal review by our management under the oversight of the Audit Committee, we determined that our previous accounting should be adjusted for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for Incentive Stock Option (ISO) tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services and adjustments for continued vesting after an individual converted from an employee to a consultant role. For further information on the details of the investigation and related findings, see Note 3 Restatement of Consolidated Financial Statements of the Notes to Consolidated Financial Statements.

We previously applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25), and its related interpretations and provided the required pro forma disclosures under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (SFAS 123), through the fiscal year ended December 31, 2005. Under the provisions of APB 25, a non-cash, stock-based compensation expense was required to be recognized for any option granted for which the exercise price was below the market price on the actual grant date. Because most of our remeasured options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the options. Starting in fiscal year 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, (SFAS 123(R)). As a result, beginning in fiscal year 2006, the stock-based compensation expense required to be recorded for each remeasured option is equal to the fair value of the option on the actual grant date, amortized over the remaining expected requisite service period of the option. We did not record these stock-based compensation expenses under APB 25 or SFAS 123(R) in our previously issued consolidated financial statements and that is why we are restating them in this filing.

As a result of the issues identified, we recorded additional pre-tax, non-cash, stock-based compensation expense of $169.4 million under APB 25 for the period between May 13, 1997 (the date of our initial public offering) and December 31, 2005, comprised of $146.9 million related to remeasured stock options and $22.5 million related to other stock compensation adjustments. The cumulative tax benefit from the recording of these adjustments was $67.0 million. The impact of these adjustments, net of taxes, decreased our previously reported cumulative net income by $102.4 million for the same period. The tax benefit amount differs from the statutory tax benefit principally as a result of limitations on our ability to deduct certain executive stock-based compensation and changes in geographical mix of expenses.

For the year ended December 31, 2006, in accordance with SFAS 123(R), we recorded additional pre-tax, non-cash, stock-based compensation expense of $6.8 million, comprised of $6.3 million related to remeasured stock options and $0.5 million related to other stock compensation adjustments. As of December 31, 2006, we had $6.6 million of unrecognized pre-tax stock-based compensation costs calculated under SFAS 123(R) related to remeasured stock option grants that will be recorded as compensation expense over the remaining expected requisite service period of the options.

Restated selected quarterly unaudited consolidated financial data for the three months ended March 31, 2006 and 2005, the related revised management s discussion and analysis of financial condition and results of operations for these periods and restated tables and disclosures related to APB 25, SFAS 123 and SFAS 123(R) are included in Exhibit 99.1 of this Annual Report on Form 10-K. The previously filed consolidated financial statements for the quarters ended June 30 and September 30, 2005, are restated in the Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 2006, respectively.

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PART I

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

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

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

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

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

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

Item 1. Business

Rambus Inc. (we or Rambus) was founded in 1990 and reincorporated in Delaware in March 1997. Our principal executive offices are located at 4440 El Camino Real, Los Altos, California. Our Internet address is www.rambus.com. You can obtain copies of our Forms 10-K, 10-Q, 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our website as soon as reasonably practicable following our filing of any of these reports with the SEC. In addition, you may read and copy any material we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy, and information statements, and other information regarding registrants that file electronically with the SEC at www.sec.gov.

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

As of May 31, 2007, our chip interface technologies are covered by more than 600 U.S. and international patents. Additionally, we have approximately 500 patent applications pending. These patents and patent applications cover important inventions in memory and logic chip interfaces, in addition to other technologies. We believe that our chip interface technologies provide a higher performance, lower risk, and more cost-effective alternative for our customers than can be achieved through their own internal research and development efforts.

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

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

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

Background

The performance of computers, consumer electronics and other electronic systems is often constrained by the speed of data transfer between the chips within the system. Ideally, the rate of the data transfer between chips should support the rate of data transfer on-chip. However, on-chip frequencies continue to exceed the frequency of communication between chips at a growing rate. The incorporation of multiple-cores in processor chips drives an even greater need for higher rates of data transfer. Further, the inability to scale packaging technology (number of signal pins on a package) at the rate at which transistor counts scale through improvements in semiconductor process technology only worsens the chip interface bottleneck. As a result, continued advances to increase on-chip frequencies, number of cores or transistor densities face potentially diminishing returns in increasing overall system performance. Our technologies help semiconductor and system designers speed the performance of chip interfaces, thus helping to boost the overall performance of electronic systems.

Our Offerings

Patent Licensing

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

Fully Synchronous DRAM which is designed to allow precise timing from a DRAM system, improving memory transfer efficiency.

Dual Edge Clocking which is designed to allow data to be sent on both the leading and trailing edge of the clock pulse, effectively doubling the transfer rate out of a memory core without the need for higher system clock speeds.

Variable Burst Length which is designed to improve data transfer efficiency by allowing varying amounts of data to be sent per a memory read or write request in DRAMs and Flash memory.

FlexPhase technology which synchronizes data output and compensates for circuit timing errors.

Channel Equalization which is designed to improve signal integrity and system margins by reducing inter-symbol interference in high speed parallel and serial link channels.

Product Licensing

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

Our leadership chip interface products include the XDR , XDR2 and RDRAM memory chip interface products and the FlexIO processor bus.

The XDR Memory Architecture enables what we believe to be the world s fastest production DRAM with operation up to 6.4 Gb/s. XDR DRAM is the main memory solution for Sony Computer Entertainment s PLAYSTATION®3 as well as for Texas Instrument s latest generation of DLP front projectors.

The XDR2 Memory Architecture incorporates our DRAM micro-threading innovation and delivers the world s highest performance for graphics intensive applications such as gaming and digital video.

RDRAM Memory has shipped in the Sony PlayStation®2, Intel-based PCs, Texas Instruments DLP TVs and in Juniper routers. Our customers have sold over 500 million RDRAM devices across all applications to date. This product is approaching end-of-life, and we anticipate revenues from RDRAM will continue to decline.

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The FlexIO Processor Bus is a high speed chip-to-chip interface. It is one of our two key chip interface products that enable the Cell BE processor co-developed by Sony, Toshiba and IBM. In the PLAYSTATION®3, FlexIO provides the interface between the Cell BE, the RSX graphics processor and the SouthBridge chip.

In addition to our leadership products, we offer industry-standard chip interface products for versions of DDRx (where the x is a number that represents a version), GDDRx (where the x is a number that represents a version), and PCI Express. We also offer digital logic controllers for PCI Express and DDRx memory.

Target Markets, Applications and Customers

We work with leading and emerging semiconductor and system customers to enable their next-generation products. We engage with our customers across the entire product life cycle, from system architecture development, to chip design, to system integration, to production ramp up through product maturation. Our chip interface technologies and patented inventions are incorporated into a broad range of high-volume applications in the computing, consumer electronics and communications markets. System level products that utilize our patented inventions and/or products include personal computers, servers, printers, video projectors, video game consoles, digital TVs, set-top boxes and mobile phones manufactured by such companies as Fujitsu, Hewlett-Packard, Matsushita, Toshiba and Sony.

Our Strategy

The key elements of our strategy are as follows:

Develop Core Technology: Develop and patent our core technology to provide us with a fundamental competitive advantage in memory and logic chip interfaces and architectures.

Develop Products: Develop products which incorporate our core technology and provide our customers with the benefits of superior performance, faster time-to-market, lower risk and greater cost effectiveness for a range of applications in computing, communications and consumer electronics.

Engage With Leading Companies: Engage with leading semiconductor and system customers to solve their critical chip interface design problems and incorporate our high performance, low-risk, silicon-proven chip interfaces into their solutions.

License our Chip Interface Patents and Technologies: License our patented inventions and specific chip interface products to customers for use in their semiconductor and system products.

Design and Manufacturing

Our chip interface technologies are developed with high-volume complementary metal-oxide semiconductor (CMOS) manufacturing processes in mind. Typically, our chip interface products are delivered as an implementation package or a custom development. We provide implementation packages to licensees who wish to port our chip interface designs to a manufacturing process being used to develop their semiconductor products. This package typically includes a specification, a generalized circuit layout database and test parameter software. We do custom development when licensees have contracted with us to produce a specific design implementation optimized for the licensee s manufacturing process. In such cases, the licensee provides specific design rules and transistor models for the licensee s process.

Research and Development

Our ability to compete in the future will be substantially dependent on our ability to advance our chip interfaces and patented inventions in order to meet changing market needs. To this end, we have assembled a team of highly skilled engineers whose activities are focused on further development of our chip interfaces and patented inventions as well as adaptation of current chip interfaces to specific customers processes. Our engineers are developing new chip interfaces and new versions of existing chip interfaces that we expect will allow chip data transfer at higher speeds, as well as

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provide other improvements and benefits. Our design and development process is a multi-disciplinary effort requiring expertise in system architecture, digital and analog circuit design and layout, semiconductor process characteristics, packaging, printed circuit board routing, signal integrity and high-speed testing techniques.

As of May 31, 2007, we had approximately 270 employees in our engineering departments, representing 65% of our total employees. A significant number of our engineers spend all or a portion of their time on research and development. For the years ended December 31, 2006, 2005, and 2004, research and development expenses were $69.0 million, $49.1 million and $38.3 million, respectively, including stock-compensation of $14.9 million, $8.1 million and $5.7 million, respectively. We expect to continue to invest substantial funds in research and development activities. In addition, because our license and customer service agreements often call for us to provide engineering support, a portion of our total engineering costs are allocated to the cost of contract revenues, even though some of these engineering efforts may have direct applicability to our technology development.

Competition

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

JEDEC has standardized what it calls extensions of DDR, known as DDR2 and DDR3. Additional efforts are underway to create other products including those sometimes referred to as GDDR4 and GDDR5, as well as new ways to integrate products such as system-in-package DRAM. To the extent that these alternatives might provide comparable system performance at lower than or similar cost to XDR memory chips, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our licensees and prospective licensees may adopt and promote alternative technologies. Even to the extent we determine that such alternative technologies infringe our patents, there can be no assurance that we would be able to negotiate agreements that would result in royalties being paid to us without litigation, which could be costly and the results of which would be uncertain.

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

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In the FlexIO processor bus chip interface market, we face additional competition from semiconductor companies who develop their own parallel bus chip interfaces, as well as competitors who license similar parallel bus chip interface products. As with our memory chip interface products, to the extent that competitive alternatives to our serial or parallel logic chip interface products might provide comparable system performance at lower or similar cost, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our licensees and prospective licensees may adopt and promote alternative technologies.

Employees

As of May 31, 2007, we had approximately 415 full-time employees. We believe that our future success is dependent on our continued ability to identify, attract, motivate and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees and that our relationship with our employees is excellent.

Patents and Intellectual Property Protection

We maintain and support an active program to protect our intellectual property, primarily through the filing of patent applications and the defense of issued patents against infringement. As of May 31, 2007, we have more than 600 U.S. and international patents on various aspects of our technology, with expiration dates ranging from 2010 to 2025, and we have approximately 500 pending patent applications. In addition, we attempt to protect our trade secrets and other proprietary information through agreements with current and prospective licensees, and confidentiality agreements with employees and consultants and other security measures. We also rely on trademarks and trade secret laws to protect our intellectual property.

Business Segment Data, Customers and Our Foreign Operations

We operate in a single industry segment, the design, development and licensing of chip interface technologies and architectures. Information concerning revenues, results of operations and revenues by geographic area is set forth in Item 6, Selected Financial Data, in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 13, Business Segments, Exports and Major Customers, of Notes to Consolidated Financial Statements, all of which are incorporated herein by reference. Information concerning identifiable assets is also set forth in Note 13 of Notes to Consolidated Financial Statements. Information on customers that comprise 10% or more of our consolidated revenues and risks attendant to our foreign operations is set forth below in Item 1A, Risk Factors.

Item 1A. Risk Factors

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

Further, in Fall 2006, Samsung filed three inter partes reexamination requests with respect to three of our patents: U.S. Patent Nos. 6,426,916; 6,182,184; and 6,324,120. These requests ask the United States Patent & Trademark Office (the PTO) to reconsider the patentability of the inventions claimed in the patents. An adverse decision by the PTO could invalidate some or all of these patent claims and could also result in additional adverse consequences affecting other related U.S. patents. If a sufficient number of such patents are impaired, our ability to enforce or license our intellectual property would be significantly weakened and this could cause our revenues to decline substantially. There can be no assurance that Samsung will not be successful or that additional inter partes reexamination requests will not be filed by Samsung or other third parties against us.

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

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

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

- any current or future U.S. or foreign patent applications will be approved and not be challenged by third parties;
- our issued patents will protect our intellectual property and not be challenged by third parties;
- the validity of our patents will be upheld;
- our patents will not be declared unenforceable;
- the patents of others will not have an adverse effect on our ability to do business;
- the Congress or the U.S. courts or foreign countries will not change the nature or scope of rights afforded patents or patent owners or alter in an adverse way the process for seeking patents;
- new legal theories and strategies utilized by our competitors will not be successful; or
- others will not independently develop similar or competing chip interfaces or design around any patents that may be issued to us.

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 30, 2006, we announced the commencement of our Audit Committee s internal investigation of the timing of stock option grant practices and related accounting issues. The Audit Committee has determined that a significant number of our historical stock option grants were not correctly dated and our previous accounting should be adjusted. As a result of the Audit Committee s investigation and our own review of our historical financial statements, we concluded that our previously filed financial statements should no longer be relied upon. We have restated the affected periods by filing this Annual Report on Form 10-K for the year ended December 31, 2006, which includes restatements of the various previously filed financial statements as detailed herein. For a discussion of the investigation, its findings and the effects of this restatement on our previously filed financial statements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Audit Committee, Special Litigation Committee and Company Findings, Remedial Measures and Related Proceedings, Note 3, Restatement of Consolidated Financial Statements, of Notes to Consolidated Financial Statements and Exhibit 99.1.

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On October 18, 2006, our Board of Directors established a Special Litigation Committee (the SLC) to evaluate potential claims or other actions arising from our stock option granting activities. The SLC has now concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors and filed a written report setting out its findings with the U.S. District Court for the Northern District of California. For additional information about the findings of the SLC, please see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Shareholder Litigation Related to Historical Stock Option Practices.

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

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

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

Additionally, several securities fraud class actions and individual lawsuits were filed in federal court against us and certain of our current and former officers and directors. The complaints generally allege that the defendants violated the federal securities laws by filing documents with the SEC containing false statements regarding our accounting treatment of the stock option granting actions under investigation. The complaints seek unspecified monetary relief from the defendants. The class actions have been consolidated into a single proceeding. The individual lawsuits allege not only federal and state securities law violations, but also state law claims for fraud and breach of fiduciary duty.

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

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

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

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

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

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

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

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

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

We have not been in compliance with SEC reporting requirements and The Nasdaq Global Select Market listing requirements and may continue to face compliance issues with both. If we are unable to return to or remain in compliance with SEC reporting requirements and The Nasdaq Global Select Market listing requirements, there may be a material adverse effect on the Company and our stockholders.

Due to the stock option investigation and resulting restatements, we have not been able to file all of our periodic reports with the SEC on a timely basis and face the possibility of delisting of our stock from The Nasdaq Global Select Market. We have not yet filed our required Quarterly Report on Form 10-Q for the quarters ended March 31 and June 30, 2007. The Nasdaq Board has determined to grant us until October 17, 2007 to file all delinquent periodic reports necessary for us to regain compliance with our Nasdaq filing requirements. Even after filing all required reports with the SEC and receiving concurrence from Nasdaq that we are in compliance with applicable listing requirements, we may still face comments from the SEC that may require us to file amended reports. As a result, we may not be able to maintain an effective listing of our Common Stock on The Nasdaq Global Select Market or any other national securities exchange. A delisting would likely reduce the liquidity in the market for our Common Stock. Any possible delisting may adversely affect the market price of our Common Stock, which may make it difficult for holders to resell their shares when desired or at attractive prices. In addition, we would be subject to a number of restrictions or delays regarding the registration of our Common Stock under federal securities laws, and we may not be able to issue certain equity awards to our employees or allow them to exercise their outstanding options, which could adversely affect our ability to hire and retain our employees and, thus, our business.

Risks Associated With Our Business, Industry and Market Conditions

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

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

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

- competition faced by a system company in its particular industry;

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- the timely introduction and market acceptance of a system company s products;
- the engineering, sales and marketing and management capabilities of a system company;
- technical challenges unrelated to our chip interfaces faced by a system company in developing its products;
- the financial and other resources of the system company;
- the supply of semiconductors from our licensees in sufficient quantities and at commercially attractive prices;
- the ability to establish the prices at which the chips containing our chip interfaces are made available to system companies; and
- the degree to which our licensees promote our chip interfaces to a system company.

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

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

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

For the years ended December 31, 2006, 2005 and 2004, revenues from our top five licensees accounted for approximately 63%, 73% and 74% of our revenues, respectively. For the year ended December 31, 2006, revenues from Fujitsu, Elpida, Qimonda and Intel each accounted for greater than 10% of our total revenues. For the year ended December 31, 2005, revenues from Intel, Elpida Toshiba and Matsushita each accounted for greater than 10% of our total revenues. For the year ending December 31, 2004, revenues from Intel, Toshiba and Elpida each accounted for greater than 10% of our total revenues. We may continue to experience significant revenue concentration for the foreseeable future.

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

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

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

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

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

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

- completed before changes in the semiconductor industry render them obsolete;
- available when system companies require these innovations; and
- sufficiently compelling to cause semiconductor manufacturers to enter into licensing arrangements with us for these new technologies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- any progress, or lack of progress, in the development of products that incorporate our chip interfaces;
- our signing or not signing new licensees;
- new litigation or developments in current litigation as discussed above;
- announcements of our technological innovations or new products by us, our licensees or our competitors;
- developments related to the stock option investigation;
- positive or negative reports by securities analysts as to our expected financial results;
- developments with respect to patents or proprietary rights and other events or factors; and
- any delisting of our Common Stock from The Nasdaq Global Select Market

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

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

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

- semiconductor and system companies acceptance of our chip interface products;
- the success of high volume consumer applications, such as the Sony PLAYSTATION®3;
- the dependence of our royalties upon fluctuating sales volumes and prices of licensed chips that include our technology;
- the seasonal shipment patterns of systems incorporating our chip interface products;

- the loss of any strategic relationships with system companies or licensees;
- semiconductor or system companies discontinuing major products incorporating our chip interfaces;
- the unpredictability of the timing and amount of any litigation expenses;
- changes in our chip and system company customers development schedules and levels of expenditure on research and development;
- our licensees terminating or failing to make payments under their current contracts or seeking to modify such contracts; and
- changes in our strategies, including changes in our licensing focus and/or possible acquisitions of companies with business models different from our own.

For the years ended December 31, 2006, 2005 and 2004, royalties accounted for 87%, 83% and 83% of our total revenues, respectively, and we believe that royalties will continue to represent a majority of total revenues for the foreseeable future. Royalties are recognized in the quarter in which we receive a report from a licensee regarding the sale of licensed chips in the prior quarter; however, royalties are only recognized if collectibility is reasonably assured. As a result of these uncertainties and effects being outside of our control, royalty revenues are difficult to predict and make accurate financial forecasts difficult to achieve, which could cause our stock price to become volatile and decline.

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

For the years ended December 31, 2006, 2005 and 2004, revenues from our sales to international customers constituted approximately 75%, 71% and 69% of our total revenues, respectively. We currently have international operations in India (design), Japan (business development), Taiwan (business development), Germany (business development) and Korea (business development). As a result of our continued focus on international markets, we expect that future revenues derived from international sources will continue to represent a significant portion of our total revenues.

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

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

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

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

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

foreign government regulations and changes in these regulations;

social, political and economic instability;

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

changes in diplomatic and trade relationships;

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

operating centers outside the United States;

hiring, maintaining and managing a workforce remotely and under various legal systems; and geo-political issues.

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

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

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on our results of operations, as described elsewhere in this report. Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change

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

Our results of operations could vary as a result of the implementation of changes in accounting rules.

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretation by various governing bodies, including the FASB and the SEC, who create and interpret appropriate accounting standards. A change from current accounting standards could have a significant effect on our results of operations.

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

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

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

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

- the key personnel of the acquired company may decide not to work for us;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, cash management and financial reporting;
- our ongoing business may be disrupted or receive insufficient management attention;
- we may not be able to recognize the cost savings or other financial benefits we anticipated; and
- our increasing international presence resulting from acquisitions may increase our exposure to international currency, tax and political risks.

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

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

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

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

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

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

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

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

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

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

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

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

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations will be dedicated to the payment of the principal of our indebtedness as we are required to pay the principal amount of the convertible notes in cash when due;
- if we elect to pay any premium on the convertible notes with shares of our Common Stock or we are required to pay a make-whole premium with our shares of Common Stock, our existing stockholders interest in us would be diluted; and
- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of the convertible notes under such instruments and in some cases acceleration of any future debt under instruments that may contain cross-default or cross-acceleration provisions. For instance, as a result of the stock option investigation, in July 2007, the trustee of the convertible notes accelerated the convertible notes due to an alleged event of default that had occurred under the convertible notes because of our non-compliance with the SEC reporting covenant. We continue to evaluate our options with respect to the convertible notes as a result of the receipt of the notice of acceleration. Although a repayment of the convertible notes pursuant to the acceleration notice would not change our net cash position, a repayment would lower our current cash on hand such that we would not have those funds available for the use in our business.

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

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

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

- our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as blank check preferred stock, with rights senior to those of Common Stock;
- our board of directors is staggered into two classes, only one of which is elected at each annual meeting;

stockholder action by written consent is prohibited;

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

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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 $66^2/_3$% of our outstanding voting stock;

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2006, we occupied offices in the leased facilities described below:

Number of Offices Under Lease	Location	Primary Use
4	United States	Executive and administrative offices, research and development, sales and marketing and service functions
	Los Altos, CA (Headquarters)	
	Chapel Hill, NC	
	Mountain View, CA	
	Austin, TX	
2	Bangalore, India	Administrative offices, research and development and service functions
1	Tokyo, Japan	Business development
1	Taipei, Taiwan	Business development
1	Seoul, Korea	Business development
1	Pforzheim, Germany	Business development

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

Item 3. Legal Proceedings

For the information required by this item regarding legal proceedings, see Notes 3, 17 and 18, Restatement of Consolidated Financial Statements, Litigation and Asserted Claims and Subsequent Events, respectively, of Notes to Consolidated Financial Statements of this Form

10-K.

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

None.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is listed on The Nasdaq Global Select Market under the symbol RMBS. Due to the investigation of our historical stock option practices (see Item 3, Legal Proceedings) and the resulting restatements (see Note 3, Restatement of Consolidated Financial Statements of Notes to Consolidated Financial Statements), we did not file our periodic reports with the SEC on time and therefore our Common Stock is subject to delisting from The Nasdaq Global Select Market. Although with the filing of this Report on Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 2006 we have fulfilled our filing requirements through fiscal 2006, we are still out of compliance on our filings for fiscal 2007. We will continue to be subject to potential delisting until we are current with the SEC on all of our filings and have been notified by Nasdaq that we are in compliance (See Item 1A, Risk Factors).

The following table sets forth for the periods indicated the high and low sales price per share of our Common Stock as reported on The Nasdaq Global Select Market.

	Twelve Months Ended December 31, 2006		Twelve Months Ended December 31, 2005	
	High	Low	High	Low
First Quarter	$ 40.22	$ 17.50	$ 23.79	$ 12.95
Second Quarter	$ 46.99	$ 19.79	$ 16.14	$ 13.16
Third Quarter	$ 25.38	$ 10.25	$ 14.65	$ 10.22
Fourth Quarter	$ 23.83	$ 15.87	$ 18.00	$ 10.75

Information regarding our securities authorized for issuance under equity compensation plans is included in Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this report on Form 10-K.

In the first quarter of fiscal year 2007, ended March 31, 2007, the high and low closing prices of our Common Stock on The Nasdaq Global Select Market were $23.95 and $17.31, respectively. In the second quarter of fiscal year 2007, ended June 30, 2007, the high and low closing prices of our Common Stock on The Nasdaq Global Select Market were $22.00 and $17.67, respectively.

As of May 31, 2007, there were 839 holders of record of our Common Stock. Because many of the shares of our Common Stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. We have never paid or declared any cash dividends on our Common Stock or other securities and have no current plans to do so.

Share Repurchase Program

In October 2001, our Board of Directors approved a share repurchase program of our Common Stock principally to reduce the dilutive effect of employee stock options. On January 23, 2006 our Board of Directors approved an authorization to repurchase up to an additional 5.0 million shares of our Common Stock, giving us a total authorization to purchase up to 19.0 million shares of our outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, we repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, we had repurchased a cumulative total of 13.2 million shares of our Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with our $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As

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of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of our outstanding Common Stock as represented in the table below. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. We will not repurchase additional shares until after we are current with our SEC filings.

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Paid	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance 1/01/06	12,531,098	$ 163,576,320	$ 13.05	1,520,765
Additional authorization				5,000,000
				6,520,765
1/01/06 - 1/30/06	500,000	$ 15,187,375	$ 30.37	6,020,765
2/01/06 - 2/28/06	200,000	$ 5,767,700	$ 28.84	5,820,765
Total shares repurchased	13,231,098	$ 184,531,395	$ 13.95	

Item 6. Selected Financial Data

The following selected consolidated financial data has been restated to correct for our past accounting for stock options and certain other adjustments. Such data is derived from our consolidated financial statements and should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data, and other financial data included elsewhere in this report. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

On April 10, 2003, the Board of Directors of Rambus voted to change the fiscal year end of Rambus from September 30 to December 31, effective January 1, 2003. As a result, selected financial data is presented for the twelve months ended December 31, 2006, 2005, 2004, 2003, the three months ended December 31, 2002 and the twelve months ended September 30, 2002.

See Note 3, Restatement of Consolidated Financial Statements, of Notes to Consolidated Financial Statements, for more detailed information regarding the restatement of our consolidated financial statements as of December 31, 2005 for the years ended December 31, 2005 and 2004 and our selected consolidated financial data as of and for our fiscal years ended December 31, 2005, 2004, 2003, our quarter ended December 31, 2002 and our fiscal year ended September 30, 2002.

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	Twelve Months Ended December 31,					
	2006	2005	2004	2003		
(in thousands, except per share amounts)		As restated	As restated	As previously reported	Adjustments	As restated
Total revenues	$ 195,324	$ 157,198	$ 144,874	$ 118,203	$ 100	$ 118,303
Net income (loss)	$ (13,816)	$ 28,940	$ 22,361	$ 23,221	$ (17,238)	$ 5,983
Net income (loss) per share:						
Basic	$ (0.13)	$ 0.29	$ 0.22	$ 0.24	$ (0.18)	$ 0.06
Diluted	$ (0.13)	$ 0.28	$ 0.21	$ 0.22	$ (0.16)	$ 0.06
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$ 436,341	$ 355,390	$ 236,360	$ 188,538	$	$ 188,538
Total assets	$ 604,617	$ 515,953	$ 396,052	$ 293,086	$ 28,023	$ 321,109
Deferred revenue	$ 7,557	$ 9,290	$ 23,823	$ 42,202	$	$ 42,202
Convertible notes	$ 160,000	$ 160,000	$	$	$	$
Stockholders equity	$ 382,288	$ 323,467	$ 353,576	$ 240,080	$ 22,277	$ 262,357

	Three Months Ended December 31, 2002			Twelve Months Ended September 30, 2002		
(in thousands, except per share amounts)	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Total revenues	$ 25,704	$ 74	$ 25,778	$ 96,565	$ 79	$ 96,644
Net income	$ 5,529	$ (5,328)	$ 201	$ 24,704	$ (24,145)	$ 559
Net income per share:						
Basic	$ 0.06	$ (0.06)	$ 0.00	$ 0.25	$ (0.24)	$ 0.01
Diluted	$ 0.06	$ (0.06)	$ 0.00	$ 0.24	$ (0.23)	$ 0.01
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$ 175,832	$	$ 175,832	$ 156,129	$ 1,194	$ 157,323
Total assets	$ 250,523	$ 30,085	$ 280,608	$ 232,959	$ 29,421	$ 262,380
Deferred revenue	$ 37,760	$ 100	$ 37,860	$ 26,987	$ 174	$ 27,161
Convertible notes	$	$	$	$	$	$
Stockholders equity	$ 202,377	$ 23,745	$ 226,122	$ 195,492	$ 21,938	$ 217,430

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

Restatement of Consolidated Financial Statements, Audit Committee, Special Litigation Committee and Company Findings, Remedial Measures and Related Proceedings

This Annual Report on Form 10-K for our fiscal year December 31, 2006 includes restatements of: (1) previously filed consolidated financial statements, financial data and related disclosures as of December 31, 2005 and for our fiscal years ended December 31, 2005 and 2004; (2) our selected consolidated financial data as of and for our

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fiscal years ended December 31, 2005, 2004, 2003, our quarter ended December 31, 2002, and our fiscal year ended September 30, 2002; (3) our management s discussion and analysis of financial condition and results of operations as of and for our fiscal years ended December 31, 2005 and 2004 contained in Item 7 of this Form 10-K; and (4) our unaudited quarterly financial data for the first quarter of fiscal year ended December 31, 2006 and for all quarters in our fiscal year ended December 31, 2005 located at the end of Item 15 of this Form 10-K. The restatements are the result of errors in the way we accounted for certain historical stock option grants that were discovered through our independent stock option investigation conducted by the Audit Committee of the Board of Directors. See Note 3, Restatement of Consolidated Financial Statements, of Notes to Consolidated Financial Statements and Exhibit 99.1 for a detailed discussion of the effect of the restatements.

Our previously issued consolidated financial statements for the fiscal years 2005 and prior, which are included in our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon.

Audit Committee Investigation of Historical Stock Option Practices

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, we conducted an initial review in which we discovered apparent irregularities in past stock option grants and reported our findings to the Audit Committee and the Board of Directors.

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined our Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the determination, we concluded that we should have recognized material amounts of stock-based compensation expense which were not accounted for in our previously issued consolidated financial statements. Therefore, the Audit Committee and management concluded that our previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005 which were included in our 2005 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

Findings and Remedial Actions

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of our historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of our initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

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The results of the investigation were consistent with the Audit Committee s earlier conclusion that our previously filed consolidated financial statements should no longer be relied upon. We are disclosing the restatement of the consolidated financial statements for the affected periods by filing this Annual Report on Form 10-K for the year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated supplementary financial data for the first quarter of 2006. In addition, the errors we identified impacted our consolidated financial statements for the periods prior to the year ended December 31, 2004. In the restated consolidated financial statements in this Annual Report on Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2004. The impact of these errors will continue to have an effect on our consolidated financial statements for periods through fiscal 2009.

The impact of these errors also extended to the quarter ended March 31, 2006. Restated unaudited consolidated financial statements for the periods ended March 31, 2006 and 2005, related restated management s discussion and analysis of financial condition and results of operations for these periods and certain restated tables and disclosures related to APB 25, SFAS 123 and SFAS 123(R) are included in Exhibit 99.1. We have filed interim consolidated financial statements on Form 10-Q for the period ended June 30, 2006 and the period ended September 30, 2006. In these quarterly consolidated financial statements, the cumulative impact of the errors as of December 31, 2004 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2005.

Other balance sheet items related to prior periods affected by the restatement are reflected in the opening balances of the consolidated balance sheet as of January 1, 2004.

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company s previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company s independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.

The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company s stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company s actual practices.

Concurrent with the review by the Audit Committee, our management, under the oversight of the Audit Committee, completed an internal review in order to prepare the restated consolidated financial statements which included evaluations of our previous accounting for stock options and led to adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for Incentive Stock Option (ISO) tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services and adjustments for continued vesting after an individual converted from an employee to a consultant role.

Summary of Accounting Adjustments by Category

These restated consolidated financial statements include adjustments that are primarily related to the stock option matters as well as adjustments that are related to other matters resulting from our internal review and the preparation of these restated consolidated financial statements.

The primary components of the restatement of our historical consolidated financial statements related to stock-based compensation are as follows:

New Hire Grants to Employees We determined that during the period from February 1999 through October 2003, the individuals responsible for stock option grants to newly hired non-executive employees had a regular practice of selecting an exercise price equal to the lowest price of the quarter between the employee s start date and the end of the quarter for such grants. On certain occasions, individual employees were given a formal employment start date which preceded the date on which they actually began working for us. The result of this practice was that certain employees received a new hire grant at a grant price that was lower than the price of the stock on the employee s actual start date.

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There were three new hire grants to non-executive employees between October 2003 and December 2004 for which there were administrative errors made by our human resources department.

There were no material measurement date differences relating to grants to non-executive new hires in fiscal years 2005 and 2006.

Annual and Other Grants to Employees We determined that between September 1998 and October 2003, the Stock Option Committee granted approximately 13.0 million stock options to non-executive employees for which the appropriate measurement dates differed from the recorded grant dates. The Stock Option Committee during this time period consisted of our CEO, Geoff Tate, as its sole member. The majority of the measurement date differences during this time period were caused by the creation of incorrect documentation concerning the date on which the stock options were approved. The human resources department usually created Stock Option Committee memoranda reflecting stock option grants which purported to issue the grants on certain dates which differed from the actual dates on which the approvals were obtained. In October 2003 the Stock Option Committee was dissolved and this practice ceased.

In late 2003 and 2004 there were grants to non-executive employees for which the price was set on the same date that the Compensation Committee had met and discussed a pool of stock options. However, the individual allocations of the stock option pool had not been completed by management until after the date of those meetings and, consequently, we recorded a retroactively selected measurement date for those grants.

There were no material measurement date differences related to new hires or annual grants to officers in the fiscal year 2005 and 2006.

Grants to Officers We determined that, during each of the years between 1997 and 2001, officers were granted stock options that were not approved by the Compensation Committee of the Board of Directors on the date listed on the approval documentation. Instead, on some occasions, the dates were selected to coincide with a low price for a period. The grants were typically documented using a Unanimous Written Consent (UWC) prepared in most instances by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. With the following exceptions, this practice appears to have ended after 2001.

Between December 1999 and January 2003 there were instances where officers received a new hire grant that was dated on a date different from the date on which the Compensation Committee approved the grant. Each of these grants was documented using a UWC prepared by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. This practice, with one exception in January 2003, appears to have ended in July 2002.

In late 2003, there was one granting action for which the exercise price of the options coincided with the date of a Compensation Committee meeting, but for which we were unable to establish that all of the specific allocations and approvals had been completed as of the date of that meeting. Consequently, we have concluded that the grants relating to some of the officers receiving that grant had incorrect measurement dates.

There were no material measurement date differences relating to annual or other grants to non-executive employees in the fiscal years 2005 and 2006.

Extension of Termination Dates We determined that from 1997 to March 2005 we had not maintained accurate documentation, and had not properly accounted for stock-based compensation, for stock options granted to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees. These types of modifications were not always communicated to our finance department, were not identified in our financial reporting processes and were therefore not properly reflected in our consolidated financial statements.

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Payroll Tax Withholding Liability We determined that certain of our stock grants which had incorrect measurement dates for accounting purposes had been originally issued as incentive stock options but no longer qualified for ISO tax treatment. The disqualification of the ISO classification and the resulting conversion to non-qualified stock option (NSO) status exposes us to additional withholding taxes and penalties for failure to properly withhold taxes on the exercise of those options. These expenses reverse in the period in which the related statute of limitations expires.

Other Stock-based Compensation Adjustments We determined that other miscellaneous modifications and errors had occurred related to employee options that were not identified in our financial reporting processes and therefore not properly reflected in our consolidated financial statements. These miscellaneous items included adjustments for grants to non-employees providing consulting services, adjustments for continued vesting after an individual converted from an employee to a consultant and adjustments in 2006 related to the accounting for our Employee Stock Purchase Plan (ESPP) under FAS 123(R).

In connection with the restatement, we and the Audit Committee conducted certain investigative procedures to determine whether we could continue to rely upon the work performed by the accounting, finance and legal personnel as it relates to fiscal 2006, 2005, 2004 and prior periods, and the extent to which our prior accounting and controls for non-stock option related matters could be relied upon for purposes of the preparation and certification of the restated consolidated financial statements. In this process, and our internal review of other accounting items relating to transactions occurring in fiscal years 1997 through 2006, we identified certain other errors in accounting determinations and judgments which, although immaterial, have been reflected in the restated consolidated financial statements. These primarily include timing differences for revenue and expense recognition and certain balance sheet reclassifications.

We previously applied APB 25 and its related interpretations and provided the required pro forma disclosures under SFAS 123 through our fiscal year ended December 31, 2005. Under the provisions of APB 25, a non-cash, stock-based compensation expense was required to be recognized for any option granted for which the exercise price was below the market price on the actual grant date. Because most of our remeasured options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the options. Starting in fiscal 2006, we adopted SFAS 123(R). As a result, beginning in fiscal year 2006, stock-based compensation expense required to be recorded for each remeasured option is equal to the fair value of the option on the actual grant date, amortized over the remaining expected requisite service period of the option. We did not record these stock-based compensation expenses under APB 25 or SFAS 123(R) in our previously issued consolidated financial statements, and that is why we are restating them in this filing.

Restatement and Impact on Consolidated Financial Statements

As a result of the issues identified, we recorded additional pre-tax, non-cash, stock-based compensation expense of $169.4 million under APB 25 for the period between May 13, 1997 (the date of our initial public offering) and December 31, 2005, comprised of $146.9 million related to remeasured stock options and $22.5 million related to other stock compensation adjustments. The cumulative tax benefit from the recording of these adjustments was $67.0 million. The impact of these adjustments, net of taxes, decreased our previously reported cumulative net income by $102.4 million for the same period. The tax benefit amount differs from the statutory tax benefit principally as a result of limitations on our ability to deduct certain executive stock-based compensation and changes in geographical mix of expenses.

For the year ended December 31, 2006, in accordance with SFAS 123(R), we recorded additional pre-tax, non-cash, stock-based compensation expense of $6.8 million comprised of $6.3 million related to these remeasured stock options and $0.5 million related to other stock compensation adjustments. As of December 31, 2006, we have $6.6 million of unrecognized pre-tax stock-based compensation costs calculated under SFAS 123(R) related to remeasured stock option grants that will be recorded as compensation expense over the remaining expected requisite service period of the options.

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Approximately $132.8 million of the total stock-based compensation expenses, representing adjustments from 1997 through 2003, have been reflected, net of income tax effects of $46.4 million, as an increase of $86.4 million to accumulated deficit in the opening balance sheet for fiscal 2004.

Because certain options formerly classified as ISO grants were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, they do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to NSO status exposes us to additional withholding taxes and penalties for failing to properly withhold taxes on exercise of those options. Through December 31, 2006, we recorded a tax liability of $1.5 million in connection with this disqualification of such ISO tax treatment for tax years ending December 31, 2003 through December 31, 2006. Of the total liability, $0.3 million was related to fiscal 2006 and was paid in fiscal 2007. These amounts are included in the other stock-based compensation adjustments discussed above. We are currently under IRS remote examination with regard to this issue.

We were unable to record additional deferred tax assets related to stock-based compensation in accordance with limits imposed by Section 162(m) of the Internal Revenue Code on certain executive compensation. Consequently, we were required to reduce our available tax net operating loss carry-forwards arising from certain exercised stock options by $15.6 million for periods through December 31, 2005 because of this Section 162(m) limitation.

For explanatory purposes, we have classified the stock option and other adjustments that were affected by the restatement into the aforementioned categories as presented below. The classified amounts involve certain subjective judgments by us to the extent particular stock option related accounting errors may fall within more than one category As such, the table below should be considered a reasonable representation of the magnitude of expenses in each category. For the fiscal years ended December 31, 2005 and September 30, 2000, we had previously recorded stock-based compensation expense of $2.7 million and $171.1 million, respectively, with a related tax benefit of $0.1 million and $29.8 million, respectively, in our reported consolidated financial statements. For fiscal 2005 and 2000, total stock-based compensation, as restated, was $20.5 million and $204.1 million, respectively, with a related tax benefit of $13.2 million and $40.0 million, respectively.

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The ten year impact of the restatement on stock-based compensation is as follows:

(in thousands)	Cumulative effect at December 31, 2005	Twelve Months ended December 31, 2005	2004	Cumulative effect at December 31, 2003	Twelve Months Ended December 31, 2003	Three Months Ended December 31, 2002
Net income, as previously reported (1)		$ 33,677	$ 33,559			
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (13,766)	(762)	(1,323)	$ (11,681)	$ (2,722)	$ (665)
Annual and other grants to employees	(83,893)	(12,655)	(12,230)	(59,008)	(14,413)	(3,891)
All grants to officers	(49,235)	(4,311)	(8,148)	(36,776)	(8,404)	(2,763)
Subtotal charges for changes to measurement date	(146,894)	(17,728)	(21,701)	(107,465)	(25,539)	(7,319)
Other stock-based compensation adjustments:						
Terminations	(21,180)	(277)	(1,576)	(19,327)	(1,613)	(21)
Payroll tax (expense) benefit	(960)	234	4,534	(5,728)	344	
Other matters related to stock-based compensation	(328)		(32)	(296)		
Subtotal other stock-based compensation adjustments	(22,468)	(43)	2,926	(25,351)	(1,269)	(21)
Total stock-based compensation adjustments	(169,362)	(17,771)	(18,775)	(132,816)	(26,808)	(7,340)
Tax related effects of stock-based compensation adjustments	66,989	13,070	7,558	46,361	9,421	2,057
Additional compensation expense, net of tax	(102,373)	(4,701)	(11,217)	(86,455)	(17,387)	(5,283)
Other miscellaneous adjustments	(60)	(60)	32	(32)		
Tax related effects for other miscellaneous adjustments	24	24	(13)	13		
Other adjustments, net of tax	(36)	(36)	19	(19)		
Total decrease	$ (102,409)	(4,737)	(11,198)	$ (86,474)		
Net income, as restated		$ 28,940	$ 22,361			

(1) The effects of the restatement adjustments on previously reported net income are reconciled only for the years being reported in the Statement of Operations in this Form 10-K. Net income for all other periods is not being reconciled for the effects of the restatement.

	Twelve Months Ended September 30, 2002	2001	2000	1999	1998	1997
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (2,767)	$ (3,194)	$ (1,902)	$ (431)	$	$
Annual and other grants to employees	(21,287)	(11,138)	(6,159)	(2,110)	(10)	
All grants to officers	(10,312)	(7,280)	(5,917)	(2,064)	(36)	

Subtotal charges for changes to measurement date	(34,366)	(21,612)	(13,978)	(4,605)	(46)
Other stock-based compensation adjustments:					
Terminations	(56)	(1,463)	(13,623)	(2,063)	(488)
Payroll tax (expense) benefit	106	(353)	(5,137)	(581)	(107)
Other matters related to stock-based compensation		63	(274)	216	(301)
Subtotal other stock-based compensation adjustments	50	(1,753)	(19,034)	(2,428)	(896)
Total stock-based compensation adjustments	(34,316)	(23,365)	(33,012)	(7,033)	(942)
Tax related effects of stock-based compensation adjustments	10,142	12,216	10,166	2,000	359
Additional compensation expense, net of tax	(24,174)	(11,149)	(22,846)	(5,033)	(583)

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Costs of Restatement and Related Legal Activities

We have incurred substantial expenses for legal, accounting, tax and other professional services in connection with the investigation, our internal review, restatement activities, preparation of the December 31, 2006 consolidated financial statements and restated consolidated financial statements and related legal matters. These expenses were approximately $31.4 million for the year ended December 31, 2006, including an accrual of $18.0 million related to the potential settlement of the class action lawsuit pertaining to the accounting for stock option grants and related disclosures. See Note 17 of Notes to Consolidated Financial Statements, Litigation and Asserted Claims.

Through the second quarter of fiscal year 2007, we have incurred additional expenses of approximately $14.4 million for the above noted activities. We expect to continue to incur significant expenses in connection with the derivative and private lawsuits and other stock option investigation related matters.

Regulatory Inquiries Related to Historical Stock Option Practices

We have periodically met and discussed the results of the stock option investigation with the staff of the SEC and the United States Attorney s Office for the Northern District of California. Such government agencies will likely review such findings and may pursue inquiries of their own, which could lead to further investigations and government action, such as fines or injunctions. At this time, we cannot predict what, if any, government actions may result from the completion of the investigation. There is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or foreign regulatory agencies. Any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. An unfavorable outcome or significant judgments, settlements and legal expenses related to resolution of any potential regulatory proceeding or action, or further restatement of our consolidated financial statements, could have a material adverse effect on us. We will continue to cooperate with the appropriate government authorities regarding the investigation.

Late SEC Filings and Nasdaq Delisting Proceedings

We failed to timely file with the SEC our Forms 10-Q for the periods ended June 30, 2006, September 30, 2006, March 31, 2007 and June 30, 2007 and our Form 10-K for the year ended December 31, 2006 as a result of the ongoing Audit Committee investigation. We announced in August and November 2006 and March, May and August 2007 that we had received Nasdaq Staff Determination notices stating that we were not in compliance with Nasdaq Marketplace Rule 4310(c)(14) as a result of failing to file our Forms 10-Q and Form 10-K with the SEC and, therefore, were subject to potential delisting from The Nasdaq Global Select Market. We requested, met with and/or submitted appropriate information to Nasdaq throughout 2006 and 2007 in order to request continued listing, and on August 17, 2007, we were granted a stay of delisting from the Board of Directors of Nasdaq in order to file our delayed SEC reports until October 17, 2007. We remain subject to potential delisting as a result of our failure to timely file our Forms 10-Q for the periods ended March 31, and June 30, 2007 that have yet to be filed with the SEC.

Special Litigation Committee

On October 18, 2006, the Audit Committee recommended, and the Board of Directors approved, the formation of a Special Litigation Committee (the SLC) to evaluate potential claims or other actions arising from the findings of the Audit Committee s investigation. The Board of Directors has appointed Mr. J. Thomas Bentley, Chairman of the Audit Committee, and Mr. Abraham Sofaer, a retired federal judge and Chairman of the Legal Affairs Committee, both of whom joined the Rambus Board of Directors in 2005, to comprise the SLC. We have confirmed that Messrs. Bentley and Sofaer are disinterested directors for the purpose of the SLC and they are not believed to have past or present business dealings with any potential subjects of the investigation that would impair their ability to act independently and in good faith.

The SLC has now concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors and filed a written report setting out its findings with the U.S. District Court for the Northern District of California. For additional information about the findings of the SLC, please see Shareholder Litigation Related to Historical Stock Option Practices below.

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Default and Potential Acceleration of Zero Coupon Convertible Senior Notes

For a complete discussion of the convertible notes and related alleged default and potential acceleration, see Note 16, Convertible Notes of Notes to Consolidated Financial Statements.

Shareholder Litigation Related to Historical Stock Option Practices

Derivative Lawsuits

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues.

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

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

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

The SLC has concluded its review of claims relating to stock option practices that are asserted in derivative actions against a number of our present and former officers and directors. The SLC has determined that all claims should be terminated and dismissed against the named defendants in the derivative actions with the exception of claims against Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC has entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in the derivative actions. The aggregate value of the settlements to the Company exceeds $6.5 million in cash and equivalent value, as well as substantial additional value to us relating to the relinquishment of claims to over 2.7 million stock options. On August 24, 2007, the written report setting out the findings of the SLC was filed with the U.S. District Court for the Northern District of California. The conclusions of the SLC are subject to review by the court. At a case management conference on September 7, 2007, Rambus informed the California court that it intended to file a motion to terminate in accordance with the SLC s recommendations. Rambus motion is due by October 5, 2007. Plaintiffs stated their intention to oppose Rambus motion and to file a motion for leave to amend their complaint. The California court scheduled a hearing on both motions for January 18, 2008.

Class Action Lawsuits

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

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Private Lawsuits

On March 1, 2007, a pro se lawsuit was filed in the Northern District of California by two alleged Rambus shareholders against us, certain current and former executives and board members and PricewaterhouseCoopers LLP (Kelley et al. v. Rambus, Inc. et al. C-07-01238-JF (N.D. Cal.)). On April 25, 2007, the plaintiffs filed an amended complaint adding Wilson Sonsini Goodrich & Rosati as a defendant. The plaintiffs filed second and third amended complaints without leave of court on May 8 and 14, 2007, respectively. On May 14, 2007 this case was related to the class action, *In re Rambus Inc. Securities Litigation,* C-06-4346-JF. We and the other named defendants filed or joined various motions to dismiss the third amended complaint on June 4 and 5, 2007. On May 8, 2007, a substantially identical pro se lawsuit was filed in the Northern District of California by another purported Rambus shareholder against the same parties. These two pro se lawsuits each allege violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. The two lawsuits were consolidated into a single action by court order dated June 25, 2007. Our pending motion to dismiss was taken off calendar, and the plaintiffs filed a consolidated amended complaint on July 25, 2007. We and the other defendants filed motions to dismiss on August 10, 2007. At a hearing on these motions held on September 7, 2007, the California court stated its intention to dismiss the complaint with leave to amend, but no written order has been issued to date.

Business Overview

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

As of May 31, 2007, our chip interface technologies are covered by more than 600 U.S. and international patents. Additionally, we have approximately 500 patent applications currently pending. These patents and patent applications cover important inventions in memory and logic chip interfaces, in addition to other technologies. We believe that our chip interface technologies provide a higher performance, lower risk, and more cost-effective alternative for our customers than can be achieved through their own internal research and development efforts.

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

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

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

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

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

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

We have a high degree of revenue concentration, with our top five licensees representing 63%, 73% and 74% of our revenues for the twelve months ended December 31, 2006, 2005 and 2004, respectively. For the twelve months ended December 31, 2006, revenues from Fujitsu, Elpida, Qimonda and Intel, each accounted for greater than 10% of total revenues. For the twelve months ended December 31, 2005, revenue from Intel, Elpida, Toshiba and Matsushita, each accounted for greater than 10% of our total revenues. For the twelve months ended December 31, 2004, revenue from Intel, Toshiba and Elpida, each accounted for greater than 10% of our total revenues. Our revenues from companies based outside of North America accounted for 75%, 71% and 69% of our revenues for the twelve months ended December 31, 2006, 2005 and 2004, respectively. We expect that we will have significant revenues from companies based outside the United States for the foreseeable future and our revenue concentration will decrease over time as we license new customers.

Historically, we have been involved in significant litigation stemming from the unlicensed use of our inventions. Our litigation expenses have been high and difficult to predict at 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.

Revenue Concentration

As indicated above, we have a high degree of revenue concentration. Many of our licensees have the right to cancel their licenses 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 expect that our revenue concentration will decrease over time as we license new customers.

The royalties we receive are partly a function of the adoption of our chip interfaces by system companies. Many system companies purchase semiconductors containing our chip interfaces from our licensees and do not have a direct contractual relationship with us. Our licensees generally do not provide us with details as to the identity or volume of licensed semiconductors purchased by particular system companies. As a result, we face difficulty in analyzing the extent to which our future revenues will be dependent upon particular system companies. System companies face intense competitive pressure in their markets, which are characterized by extreme volatility, frequent new product introductions and rapidly shifting consumer preferences. There can be no assurance as to the unit volumes of licensed semiconductors that will be purchased by these companies in the future or as to the level of royalty-bearing revenues that our licensees will receive from sales to these companies. Additionally, there can be no assurance that a significant number of other system companies will adopt our chip interfaces or that our dependence upon particular system companies will decrease in the future.

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International Revenues

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

For additional information concerning international revenues, see Note 13, Business Segments, Exports and Major Customers of Notes to Consolidated Financial Statements of this Form 10-K.

Expenses

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

Engineering. Engineering costs are allocated between cost of contract revenues and research and development expenses. Cost of contract revenues reflects the portion of the total engineering costs which are specifically devoted to individual licensee development and support services. The balance of engineering costs, incurred for the development of generally applicable chip interface technologies, is charged to research and development. In a given period, the allocation of engineering costs between these two components is a function of the timing of the development and implementation schedules of individual licensee contracts.

Marketing, general and administrative. Marketing, general and administrative expenses include expenses and costs associated with trade shows, public relations, advertising, legal, finance, insurance and other marketing and administrative efforts. Litigation expenses are a significant portion of our marketing, general and administrative expenses and they can vary significantly from quarter to quarter. Consistent with our business model, sales and marketing activities are focused on developing relationships with potential licensees and on participating with existing licensees in marketing, sales and technical efforts directed to system companies. In many cases, we must dedicate substantial resources to the marketing and support of system companies. Due to the long business development cycles we face and the semi-fixed nature of marketing, general and administrative expenses in a given period, these expenses generally do not correlate to the level of revenues in that period or in recent or future periods.

Taxes. We report certain items of income and expense for financial reporting purposes in different years than they are reported for tax purposes. We report contract fees and royalties when received for tax purposes, as required by tax law. We recognize revenue for financial reporting purposes as such amounts are earned and this could occur over several reporting periods. As a result of the above and other differences between tax and financial reporting for income and expense recognition, our net operating profit or loss for tax purposes may be more or less than the amount recorded for financial reporting purposes.

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 statements of operations:

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	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Revenues:			
Contract revenues	13.5%	17.1%	17.1%
Royalties	86.5%	82.9%	82.9%
Total revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of contract revenues *	15.6%	15.1%	16.2%
Research and development *	35.3%	31.2%	26.4%
Marketing, general and administrative *	53.5%	51.2%	43.0%
Costs of restatement and related legal activities	16.1%	0.0%	0.0%
Total costs and expenses	120.5%	97.5%	85.6%
Operating income (loss)	(20.5)%	2.5%	14.4%
Interest and other income, net	7.3%	22.2%	5.8%
Income (loss) before income taxes	(13.2)%	24.7%	20.2%
Provision for (benefit from) income taxes	(6.1)%	6.2%	4.7%
Net income (loss)	(7.1)%	18.5%	15.5%

* Includes stock-based compensation:			
Cost of contract revenues	4.2%	2.5%	2.3%
Research and development	7.6%	5.1%	3.9%
Marketing, general and administrative	8.9%	5.4%	6.8%
Total stock-based compensation	20.7%	13.0%	13.0%

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Total Revenues					
Contract revenues	$ 26.4	$ 26.9	$ 24.8	(1.9)%	8.5%
Royalties	168.9	130.3	120.1	29.6%	8.5%
Total revenues	$ 195.3	$ 157.2	$ 144.9	24.2%	8.5%

Contract Revenues

Percentage of Completion Contracts

For the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005, percentage-of-completion contract revenue decreased (approximately $8.2 million) due to completion of leadership chip interface contracts during 2005, including XDR and FlexIO.

For the twelve months ended December 31, 2005 as compared to the twelve months ended December 31, 2004, percentage of completion contract revenue increased (approximately $0.2 million) due to new XDR and FlexIO chip interface contracts offset in part by the decrease in recognition of revenue associated with XDR, FlexIO and serial link chip interface contracts originating prior to 2005.

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We believe that percentage-of-completion contract revenues recognized will continue to fluctuate over time, based on our ongoing contractual requirements, the amount of work performed, and by changes to work required, as well as new contracts booked in the future.

Other Contracts

For the twelve months ended December 31, 2006 as compared to the same period in 2005, revenue which is recognized over the estimated service periods or on a completed contract basis increased (approximately $7.7 million) due to increased revenue from industry standard and leadership chip interface contracts.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, revenue which is recognized over the estimated service periods increased (approximately $1.9 million) primarily due to the increase in recognition of revenue associated with DDR, serial link, XDR and FlexIO contracts.

Royalty Revenues

Patent Licenses

In the twelve months ended December 31, 2006, 2005 and 2004, our largest source of royalties was related to the license of our patents for SDR and DDR-compatible products. Royalties increased (approximately $56.0 million) for SDR and DDR-compatible products in the twelve months ended December 31, 2006 as compared to the same period in 2005. The increase is primarily due to revenue from licensees signed in 2005 and the first quarter of 2006, including Fujitsu, AMD and Qimonda; partially offset by decreased royalties from Samsung and Matsushita. Royalties increased (approximately $12.4 million) for SDR and DDR-compatible products in the twelve months ended December 31, 2005 as compared to the same period in 2004, primarily due to increased shipment volumes of SDR and DDR controllers and the first quarterly royalty payment from Qimonda.

As of December 31, 2006, we had both variable and fixed royalty agreements for our SDR and DDR-compatible licenses. On December 31, 2005, we entered into a five-year patent license agreement with AMD. We expect to recognize royalty revenues under the AMD agreement on a quarterly basis as amounts become due and payable because the contractual terms of the agreement provide for payments on an extended term basis. We recognized royalty revenues of $18.8 million in fiscal year 2006, and we expect to recognize $15.0 million in fiscal years 2007 through 2009 and $11.3 million in the fiscal year 2010 under the AMD agreement. The AMD agreement provides a license to our patents used in the design of DDR2, DDR3, FB-DIMM, PCI Express and XDR controllers as well as other current and future high-speed memory and logic controller interfaces.

On March 16, 2006, we entered into a five-year patent license agreement with Fujitsu. We expect to recognize royalty revenues under the Fujitsu agreement on a quarterly basis as amounts become due and payable as the contractual terms of the agreement provide for payments on an extended term basis. We recognized a total of $34.8 million of royalty revenues in fiscal year 2006. The Fujitsu agreement provides a license that covers semiconductors, components and systems, but does not include a license to Fujitsu for its own manufacturing of commodity SDRAM other than limited amounts of SDR SDRAM annually.

On March 21, 2005, we entered into a settlement and license agreement with Infineon (and its former parent Siemens), which was assigned to Qimonda in October 2006 in connection with Infineon s spin-off of Qimonda. The settlement and license agreement, among other things, requires Qimonda to pay to us aggregate royalties of $50.0 million in quarterly installments of $5.8 million, which started on November 15, 2005. The settlement and license agreement further provides that if we enter into licenses with certain other DRAM manufacturers, Qimonda will be required to make additional royalty payments to us which may aggregate up to $100.0 million. If we do not succeed in entering into these additional license agreements necessary to trigger Qimonda s obligations, Qimonda s quarterly payments will decrease to $3.2 million in the fourth quarter of 2007 and then cease in the first quarter of 2008. If that were to occur, the quarterly payments would not recommence until we enter into these additional license agreements.

We are in negotiations with new prospective licensees. We expect SDR and DDR-compatible royalties will continue to vary from period to period based on our success 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.

On February 2, 2007, the FTC issued its remedy order, which among other things, imposes maximum royalty rates that we can collect for SDR and DDR SDRAM products shipped after April 12, 2007; the FTC subsequently granted a partial stay of this order, which allows us to charge but not collect royalties above the FTC-imposed maximums, pending our anticipated appeal of the FTC s decision. The FTC has allowed that royalties above these maximums be placed into an escrow account or held by a contingent contractual agreement. We expect that there will be a decrease in SDR and DDR-compatible royalty revenues as a result of the FTC order beginning in the third quarter of 2007.

The Intel patent cross-license agreement represented the second largest source of royalties in the twelve months ended December 31, 2006, 2005 and 2004. Royalties under this agreement decreased from $40.0 million to $20.0 million for the twelve months ended December 31, 2006 compared to the same periods in 2005, and were unchanged in the twelve months ended December 31, 2005 as compared to the same period in 2004. The patent cross-license agreement expired in September 2006 and no further royalty payments are owed to us under it. Intel now has a paid up license for the use of all of our patents which claimed priority prior to September 2006.

Product Licenses

In the twelve months ended December 31, 2006, 2005 and 2004, royalties from RDRAM-compatible products represented the third largest source of royalties. Royalties from RDRAM memory chips and controllers decreased during the twelve months ended December 31, 2006 as compared to the same period in 2005 (approximately $1.4 million). Royalties from RDRAM memory chips and controllers decreased during the twelve months ended December 31, 2005 as compared to the same period in 2004 (approximately $3.4 million). RDRAM is approaching end-of-life and in the future, we expect RDRAM royalties will continue to decline.

Royalties from XDR, FlexIO, DDR and serial link-compatible products represent the fourth largest category of royalties. Royalties from XDR, FlexIO and serial link-compatible products increased during the twelve months ended December 31, 2006 as compared to the same period in 2005 (approximately $4.0 million). The increase of XDR, FlexIO and serial link-compatible products for 2006 over 2005 is primarily due to increased volumes of XDR DRAM associated with shipments of the Sony PLAYSTATION®3 product. Royalties from XDR, FlexIO and serial link-compatible products increased during the twelve months ended December 31, 2005 as compared to the same period in 2004 (approximately $1.2 million). This increase was primarily due to minimum guaranteed royalties from a contract for serial link-compatible products.

In the future, we expect XDR, FlexIO and serial link royalties will continue to vary from period to period based on our licensees shipment volumes, sales prices, and product mix. We expect that XDR and FlexIO royalties will increase associated with shipments of the Sony PLAYSTATION®3 product.

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Engineering costs:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Engineering costs					
Cost of contract revenues	$ 22.2	$ 19.8	$ 20.2	12.1%	(2.0)%
Stock-based compensation	8.2	3.9	3.3	110.3%	18.2%
Total cost of contract revenues	30.4	23.7	23.5	28.3%	0.9%
Research and development	54.1	41.0	32.6	32.0%	25.8%
Stock-based compensation	14.9	8.1	5.7	84.0%	42.1%
Total research and development	69.0	49.1	38.3	40.5%	28.2%
Total engineering costs:	$ 99.4	$ 72.8	$ 61.8	36.5%	17.8%
Stock-based compensation					
Cost of contract revenues	$ 8.2	$ 3.9	$ 3.3	110.3%	18.2%
Research and development expenses	14.9	8.1	5.7	84.0%	42.1%
Total stock-based compensation	$ 23.1	$ 12.0	$ 9.0	92.5%	33.3%

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the increase in total engineering costs was primarily a result of increased stock-based compensation (approximately $11.1 million) associated with the adoption of SFAS 123(R) in 2006, increased salary and benefit costs (approximately $6.7 million) associated with an average increase of approximately 52 employees (22 in the U.S. and 30 in India), increased bonus expense (approximately $3.3 million) due to higher achievement of bonus targets and an increased number of participants in the corporate bonus plan, increased information technology costs due to spending related to personnel, consulting and depreciation (approximately $2.2 million) increased depreciation and intangible amortization expense (approximately $2.0 million) higher payroll taxes (approximately $0.7 million) associated with higher stock option exercises in the first half of 2006 and increased salary costs.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in total engineering costs was primarily a result of increased stock-based compensation (approximately $3.0 million), increased salary and benefit costs (approximately $2.3 million) associated with an average increase of approximately 45 employees (10 in the U.S. and 35 in India), increased amortization of intangible asset costs (approximately $1.8 million) associated with the purchase of digital core design assets from GDA during the second quarter of 2005 and the purchase of serial link intellectual property from Cadence during the third quarter of 2004, increased consulting costs (approximately $1.2 million), and increased depreciation and amortization costs (approximately $1.0 million).

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

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

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Marketing, general and administrative costs:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Marketing, general and administrative costs					
Marketing, general and administrative costs	$ 48.2	$ 33.7	$ 29.4	43.0%	14.6%
Litigation expense	38.9	38.2	23.1	1.8%	65.4%
Stock-based compensation	17.5	8.5	9.8	105.9%	(13.3)%
Total marketing, general and administrative costs	$ 104.6	$ 80.4	$ 62.3	30.1%	29.1%

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the increase in total marketing, general and administrative costs including litigation expense was primarily a result of increased stock-based compensation costs (approximately $9.0 million) associated with the adoption of SFAS 123(R) in 2006, increased salary costs (approximately $5.6 million) associated with an average increase of approximately 37 employees (29 in the U.S. and 8 internationally), increased bonus expense (approximately $3.2 million) due to higher achievement of bonus targets and an increased number of participants in the corporate bonus plan, increased consulting costs (approximately $1.2 million), higher payroll taxes (approximately $1.1 million) associated with higher stock option exercises in the first half of 2006 and increased salary costs, increased depreciation and intangible amortization expense (approximately $1.0 million) increased litigation expense (approximately $0.7 million) and increased rent expense (approximately $0.7 million). Costs of restatement and related legal activities are discussed in the next section.

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in total marketing, general and administrative costs including litigation expense was primarily due to increased expenses associated with the defense of our intellectual property (approximately $15.1 million), increased salaries (approximately $1.7 million) primarily due to an average increase of approximately 26 employees (22 in the U.S. and 4 internationally), increased information technology costs (approximately $1.8 million) primarily due to increased investment in business applications, and increased professional services costs (approximately $0.6 million); partially offset by decreased stock-based compensation (approximately $1.3 million).

In the future, we expect that marketing, general and administrative expenses will vary from period to period based on the legal, trade shows, advertising, and other marketing and administrative activities undertaken, accounting for stock options and the change in sales, marketing and administrative headcount in any given period. Litigation expenses are expected to vary from period to period due to the variability of litigation activities. Please refer to Notes 17 and 18, Litigation and Asserted Claims and Subsequent Events, respectively, of Notes to Consolidated Financial Statements for a more detailed explanation of our continuing litigation activities.

Costs of restatement and related legal activities:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Costs of restatement and related legal activities	$ 31.4	$	$		

For the twelve months ended December 31, 2006 we incurred approximately $31.4 million in costs of restatement and related legal activities. There were no comparable costs incurred for the twelve months ended December 31, 2005 and December 31, 2004. The costs consist primarily of settlement accruals, including the accrual of $18.0 million in the third quarter of 2006 related to the potential settlement of the consolidated class action lawsuit pertaining to the accounting for stock option grants and related disclosures, plus investigation, audit, litigation and other professional fees. Through the second quarter of fiscal 2007 we have incurred additional costs of restatement and related legal activities of approximately $14.4 million. We anticipate that there will be additional costs relating to these matters in the future.

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Interest and other income, net:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005	2004	2005 to 2006 Change	2004 to 2005 Change
Interest and other income, net	$ 14.3	$ 34.8	$ 8.4	(58.9)%	314.3%

For the twelve months ended December 31, 2006 as compared to the same period in 2005, the decrease in interest and other income, net consists primarily of gains on the repurchases of the outstanding convertible notes in 2005, that were issued in the first quarter of 2005 (approximately $24.0 million), offset in part by higher interest income primarily due to higher cash and marketable securities balances and higher interest rates (approximately $ 5.7 million) in 2006. Fiscal year 2006 interest and other income, net also includes $3.2 million of amortization of note issuance costs, including $2.4 million that was accelerated into the fourth quarter of 2006, in connection with the calling of the $160.0 million in convertible notes (see Note 16 Convertible Notes of Notes to Consolidated Financial Statements for more information).

For the twelve months ended December 31, 2005 as compared to the same period in 2004, the increase in interest and other income, net consists primarily of gains on the repurchases of the outstanding convertible notes that were issued in the first quarter of 2005 (approximately $24.0 million) and higher interest income primarily due to higher cash and marketable securities balances and higher interest rates (approximately $8.0 million), offset in part by amortization of note issuance costs (approximately $1.1 million), the 2004 pre-tax gain on the sale of our investment in Tessera (approximately $3.6 million), and the 2004 pre-tax gain in 2004 from a default payment by a sub-lessee of our former headquarters (approximately $0.4 million).

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

Provision for (benefit from) income taxes:

(dollars in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)	2005 to 2006 Change	2004 to 2005 Change
Provision for (benefit from) income taxes	$ (11.9)	$ 9.8	$ 6.8	(221.4)%	44.1%

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

In the twelve months ended December 31, 2006, our effective tax rate was approximately 46.3%, as compared with an effective rate of approximately 25.3% for the comparable period in 2005. The change in effective tax rate is primarily due to tax benefits from stock related compensation expense related to officers, disqualifying disposition of ESPPs and R&D credit, offset by non-deductible stock related compensation expense. The 2006 tax rate is higher than the statutory rate, primarily due to the R&D credit, partially offset by the lack of deductibility of stock-based compensation expense.

While we do not expect any impact to the effective tax rate for U.S. non-qualified stock option or restricted stock expense due to the adoption of SFAS 123(R), the effective tax rate may be negatively impacted by foreign stock option expense and stock option expense related to executive officers that may not be deductible. Also, SFAS 123(R) requires that the tax benefit of stock option deductions relating to incentive stock options and ESPPs be recorded in the period of disqualifying disposition. This could result in significant fluctuations in our effective tax rate between reporting periods. The effective tax rate for 2005 is lower than the statutory rate primarily due to the tax benefit from stock related compensation expense. The effective tax rate for 2004 is lower than the statutory rate primarily due to the R&D credit and foreign tax credits.

In the twelve months ended December 31, 2005, our effective tax rate was approximately 25.3% as compared with a rate of approximately 23.3% for the twelve months ended December 31, 2004. The effective tax rate increased primarily due to a change in research and development and foreign tax credits, offset by the tax benefit from stock related compensation expense related to officers in 2005.

In the twelve months ended December 31, 2006, our net deferred tax assets increased by $7.7 million, primarily due to the increase in future tax benefits related to litigation expenses, additional tax credits and net operating losses unrelated to stock option windfall benefits, offset by a decrease in future tax benefits related to depreciation and amortization and employee stock related compensation. Pursuant to Footnote 82 of

SFAS No. 123(R), tax attributes related to stock option windfall deductions should not be recorded until they result in a reduction of cash taxes payable. On a prospective basis, we no longer include net operating losses attributable to stock option windfall deductions as components of our gross deferred tax assets. Therefore, our unrealized federal and state net operating losses excluded for the year ended December 31, 2006 are $62.9 million and $65.2 million, respectively. The benefit of these net operating losses will be recorded to equity when they reduce cash taxes payable.

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Liquidity and Capital Resources

(in millions)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Cash flows			
Net cash provided by operating activities	$ 63.4	$ 33.8	$ 43.7
Net cash used in investing activities	$ (68.3)	$ (139.3)	$ (60.9)
Net cash provided by financing activities	$ 35.8	$ 99.7	$ 23.4

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

As of December 31, 2006, we had cash and cash equivalents and marketable securities of $436.3 million, including a long-term component of $12.0 million. As of December 31, 2006, we had total working capital of $224.3 million, including a short-term component of deferred revenue of $6.0 million. Deferred revenue represents the excess of billings to licensees over revenue recognized on license contracts, and the short-term component represents the amount of this deferred revenue expected to be recognized over the next twelve months.

Operating Activities

Cash generated by operating activities in the twelve months ended December 31, 2006 was $63.4 million primarily the result of a net loss of $13.8 million, adjusted for certain non-cash items, including increases resulting from stock-based compensation expense of $40.5 million, depreciation of $11.2 million, amortization of intangible assets of $5.3 million, amortization of $3.2 million of note issuance costs, including an additional $2.4 million in connection with the notice of acceleration relating to the $160.0 million of our convertible notes, and others $0.4 million, offset by a net tax shortfall of $3.9 million driven principally by the forfeiture of stock options of our former CEO. In addition, cash generated by operating activities was positively impacted by an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $31.8 million, primarily from $18.0 million to settle litigation, $6.1 million obligation to a strategic partner under a fixed term license agreement, and $4.7 million in employee bonuses. Cash generated by operating activities was partially offset by an increase in accounts receivable and unbilled receivables of $1.6 million, an increase in prepaid expenses and other assets of $7.9 million, principally from deferred taxes, and a net decrease in deferred revenue of $1.7 million.

Cash generated by operating activities was $33.8 million in the twelve months ended December 31, 2005, and was primarily the result of net income of $28.9 million adjusted for certain non-cash items, including depreciation of $9.1 million, amortization of note issuance costs of $1.1 million, amortization of intangible assets of $4.3 million, stock-based compensation of $20.5 million, tax benefit of stock options of $0.7 million, and loss on disposal of assets of $0.2 million, offset by a $24.0 million gain on repurchase of convertible notes. Operating activities were also affected by a decrease in accounts receivable of $0.5 million, a decrease in prepaid expenses, deferred taxes and other assets of $5.7 million primarily due to our election to capitalize certain research and development expenses for tax purposes, and an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $1.4 million. This cash generated from operating activities was partially offset by a net decrease in deferred revenue of $14.5 million resulting from contract revenues recognized in excess of contract billings primarily related to increased revenues for XDR and FlexIO chip interface contracts in which billings were made in the prior year.

Cash generated by operating activities was $43.7 million in the twelve months ended December 31, 2004, and was primarily the result of net income of $22.4 million adjusted for certain non-cash items, including depreciation of $5.6 million, amortization of intangible assets of $2.5 million, tax benefit of stock options exercised of $23.2 million, and stock-based compensation of $18.8 million, offset by a gain on sale of investment of $3.6 million. Operating activities were also affected positively by a decrease in accounts receivable of $8.8 million primarily related to payments received under XDR and FlexIO chip interface contracts, and an increase in accounts and taxes payable, accrued salaries and benefits and other accrued liabilities of $6.6 million. This cash generated from operating activities was partially offset by an increase in prepaid expenses, deferred taxes and other assets of $22.2 million primarily due to our election to capitalize certain research and development expenses for tax purposes and a net decrease in deferred revenue of $18.4 million resulting from contract revenues recognized in excess of contract billings primarily related to increased revenues for XDR and FlexIO chip interface contracts in which billings were made in the prior year.

Investing Activities

Cash used in investing activities was $68.3 million in the twelve months ended December 31, 2006, and primarily consisted of purchases of marketable securities of $215.2 million, offset by maturities of $166.2 million. In addition, $1.0 million was used to acquire certain proprietary assets from GDA, $0.3 million was used to purchase intangible assets, $14.9 million was used to acquire property and equipment, primarily computer and software and $3.1 million was used to acquire leasehold improvements.

Cash used in investing activities was $139.3 million in the twelve months ended December 31, 2005, and primarily consisted of purchases of marketable securities of $347.7 million resulting from the investment of a portion of the net proceeds from the issuance of convertible notes, offset by maturities of $222.1 million. In addition, $5.4 million was used to acquire certain proprietary digital core designs from GDA, $2.5 million was used to acquire certain serial link intellectual property assets from Cadence and $8.6 million was used for the purchase of property and equipment, including computer and software purchases in the United States and computer equipment, software, leasehold improvements and office equipment and furniture for a new facility in India. The change is partially offset by a reduction in restricted cash of $2.8 million due to the settlement in the Infineon case, which removed the restrictions on these assets.

Cash used in investing activities was $60.9 million for the twelve months ended December 31, 2004, and primarily consisted of purchases of marketable securities of $119.4 million, offset by maturities of $76.8 million, and cash paid for the acquisition and related acquisition costs of certain serial link intellectual property assets from Cadence totaling $11.1 million, $12.3 million for purchases of property and equipment and leasehold improvements (including software tools purchased from Cadence), and a $0.5 million increase in restricted cash. These uses of cash were partially offset by proceeds of $5.6 million from the sale of our investment in Tessera for which we recorded a $3.6 million gain.

Financing Activities

Net cash provided by financing activities was $35.8 million in the twelve months ended December 31, 2006. We received net proceeds of $57.6 million from the issuance of Common Stock associated with exercises of employee stock options and Common Stock issued under our employee stock purchase plan, partially offset by repurchases of our Common Stock of $21.0 million. In addition, we made a $0.8 million installment payment on a $2.8 million agreement related to a fixed asset purchase in 2005.

Net cash provided by financing activities was $99.7 million in the twelve months ended December 31, 2005. We received net proceeds from the issuance of convertible notes of $292.8 million and net proceeds from the issuance of Common Stock associated with exercises of employee stock options and Common Stock issued under our employee stock purchase plan of $8.5 million. This cash provided from the issuance of convertible notes and Common Stock was partially offset by the repurchase of our Common Stock of $88.2 million and the repurchases of outstanding convertible notes of $113.0 million. In addition, we repaid approximately $0.4 million against an installment payment plan used to acquire capitalized software.

Cash generated by financing activities was $23.4 million in the twelve months ended December 31, 2004, and was the result of net proceeds of $45.1 million from the issuance of Common Stock associated with exercises of employee stock options and stock issued under the employee stock purchase plan. This cash provided from the issuance of Common Stock was partially offset by $21.7 million we used to repurchase Common Stock under our stock repurchase program.

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We currently anticipate that existing cash and cash equivalent balances and cash flows from our operating activities will be adequate to meet our cash needs for at least the next 12 months. As described elsewhere in this Management s Discussion and Analysis of Financial Condition and Results of Operations and this report, we are involved in ongoing litigation related to our intellectual property and our stock option investigation. Any adverse settlements or judgments in this litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur. In addition, as described elsewhere in this report, the Trustee for our convertible notes has alleged that an event of default with respect to the convertible notes has occurred and has called for the acceleration of payment of those convertible notes. We are evaluating our options with respect to the convertible notes as a result of the receipt of the notice of acceleration. We believe that we have adequate financial resources to pay any unpaid principal and any accrued or default interest due on the notes.

Contingent Warrants, Common Stock Equivalents, and Options

Warrants

In October 1998, our Board of Directors authorized an incentive program in the form of warrants for a total of up to 1,600,000 shares of our 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. Warrants exercisable for a total of 1,520,000 shares of our Common Stock had been issued under the program. As of December 31, 2006, no warrants were exercised as the defined milestones were not achieved, and all warrants have expired.

Contingent Common Stock Equivalents and Options

As of December 31, 2005, there were 1,000,000 contingent unvested Common Stock Equivalents, or CSEs, and 799,346 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM 850E chipsets. These CSEs were granted to our previous Chief Executive Officer and President in 1999 and the options were granted to certain of our 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. It was previously expected that there would be a non-cash charge to our statement of operations, based on fair value of the CSEs and options, when the achievement of certain Intel milestones became probable. Intel has since phased out the 850E chipset and as a result, the unvested CSEs and options will never vest.

During the year ended December 31, 2006, 77,500 contingent unvested options were forfeited and all of the contingent unvested CSEs were forfeited unvested when the officers terminated their services. As of December 31, 2006, there were no contingent unvested CSEs and 721,846 contingent unvested options. As noted above, none are expected to vest.

Share Repurchase Program

In October 2001, our Board of Directors approved a share repurchase program of our Common Stock principally to reduce the dilutive effect of employee stock options. On January 23, 2006 our Board of Directors approved an authorization to repurchase up to an additional 5.0 million shares of our Common Stock, giving us a total authorization to purchase up to 19.0 million shares of our outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, we repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, we had repurchased a cumulative total of 13.2 million shares of our Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with our $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of our outstanding Common Stock. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. We will not repurchase additional shares until after we are current with our SEC filings.

Contractual Obligations

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

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

On February 1, 2005, we issued $300.0 million aggregate principal amount of convertible notes due February 1, 2010 to Credit Suisse First Boston LLC and Deutsche Bank Securities, as initial purchasers who then sold the convertible notes to institutional investors. We elected to pay the principal amount of the convertible notes in cash when they are due and the initial conversion price of the convertible notes is $26.84 per share. Subsequently, we repurchased a total of $140.0 million face value of the outstanding convertible notes. As a result, the convertible notes outstanding and payable as of December 31, 2005 were reduced to $160.0 million.

On August 17, 2006, we received a notice of default from U.S. Bank National Association, as trustee (the Trustee) for the convertible notes. The notice asserted that our failure to file our Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the Indenture, dated as of February 1, 2005 between us and the Trustee (the Indenture). The notice stated that per Section 9.1 of the Indenture, if we did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, we received a notice from the Trustee stating that since we had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, we received an additional notice of default from the Trustee relating to our failure to file our Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, we received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable. Default interest on the notes accrues at a rate of 2% per annum from the date on which full payment of the notes is due to the date that full payment is made.

As of December 31, 2006, we have reclassified the aggregate principal amount of the convertible notes of $160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year in the following table. We are evaluating our options with respect to the notes as a result of the receipt of the notice of acceleration and believe that we have adequate financial resources to pay any unpaid principal and any accrued or default interest due on the convertible notes. See Note 16 Convertible Notes of Notes to Consolidated Financial Statements for a detailed discussion of this matter.

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

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As of December 31, 2006, our material contractual obligations are:

		Payment due by period			
(in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations					
Operating leases	$ 23,239	$ 6,446	$ 11,728	$ 5,065	$
Convertible notes	160,000	160,000			
Purchased software license agreements (1)	8,212	7,394	818		
Total	$ 191,451	$ 173,840	$ 12,546	$ 5,065	$

(1) We have commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of December 31, 2006, which are also listed on our balance sheet under current and other long-term liabilities.

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 ongoing basis, we evaluate our estimates, including those related to revenue recognition, investments, income taxes, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

Overview

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

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

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

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

Royalty Revenues

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

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

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

Contract Revenues

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

A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. If we determine 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.

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Conversely, if the newly estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees will be recognized over a longer period. If there is significant uncertainty about the time to complete or the deliverables by either party, we evaluate the appropriateness of applying the completed contract method of accounting under SOP 81-1. Such evaluation is completed by us on a contract-by-contract basis. For all contracts where revenue recognition must be delayed until the contract deliverables are substantially complete, we evaluate the realizability of the assets which the accumulated costs would represent and defer or expense as incurred based upon the conclusions of our realization analysis.

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

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

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

Litigation

We are involved in certain legal proceedings, as discussed in Note 17, Litigation and Asserted Claims of Notes to Consolidated Financial Statements of this Form 10-K. Based upon consultation with outside counsel handling our defense in these matters and an analysis of potential results, we accrue for losses related to litigation if we determine that a loss is probable and can be reasonably estimated. If a specific loss amount cannot be estimated, we review the range of possible outcomes and accrue the low end of the range of estimates. Any such accrual would be charged to expense in the appropriate period. We recognize litigation expenses in the period in which the litigation services were provided.

Income Taxes

As part of preparing our consolidated 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 December 31, 2006, our balance sheet included net deferred tax assets of approximately $109.6 million, relating primarily to the difference between tax and book treatment of depreciation and amortization, employee stock related compensation expenses, net operating loss and tax credit carryovers.

We periodically evaluate the realizability of the deferred tax assets based on all available evidence, both positive and negative. Future taxable income and other factors determine how much benefit we ultimately realize from deferred tax assets. If our estimate of future taxable income or the overall expected realizability of the deferred tax assets changes, a valuation allowance may have to be recorded, which could materially impact our financial position and results of operation.

Stock-Based Compensation

Prior to January 1, 2006, we accounted for stock-based awards and our Employee Stock Purchase Plan using the intrinsic method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees,* FASB Interpretation No. 44 (FIN 44), *Accounting for Certain Transactions Involving Stock-Based Compensation, an Interpretation of APB Opinion No. 25,* FASB Technical Bulletin No. 97-1 (FTB 97-1) *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option,* and related interpretations and provided the required pro forma disclosures of SFAS 123 *Accounting for Stock-Based Compensation*. In accordance with APB 25, a non-cash, stock-based compensation expense was recognized for any options for which the exercise price was below the market price on the actual grant date and for any grants that were modified from their original terms. The charge for the options with an exercise price below the market price on the actual grant date was equal to the number of options multiplied by the difference between the exercise price and the market price of the option shares on the actual grant date. That expense was amortized over the vesting period of the options. The charge for modifications of options in general was equal to the number of options modified multiplied by the difference between the market price of the options on the modification date and the grant price. The charge for modified options was taken over the remaining service period, if any. See Note 3, Restatement of Consolidated Financial Statements of Notes to Consolidated Financial Statements for more information on the restatement of our financial statements for periods prior to January 1, 2006.

Effective January 1, 2006, we adopted SFAS 123(R), which requires the measurement at fair value and recognition of compensation expense for all stock-based payment awards. We selected the modified prospective method of adoption which recognizes compensation expense for the fair value of all stock-based payments granted after January 1, 2006 and for the fair value of all awards granted to employees prior to January 1, 2006 that remain unvested on the date of adoption. We use the Black-Scholes-Merton (BSM) option pricing model to estimate the fair value of our stock option and Employee Stock Purchase Plan (ESPP) awards consistent with the provisions of SFAS 123(R). The BSM option-pricing model requires the estimation of highly complex and subjective variables. These variables include expected volatility, expected life of the award, expected dividend rate and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that most significantly affect the grant date fair value. The expected stock price volatility assumption was determined using the implied volatility of the Company s

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Common Stock. We use implied volatility for both our stock options and ESPP shares based on freely traded options in the open market, as we believe implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical or blended volatility. If there is not sufficient volume in our market traded options for any period, we will use an equally weighted blend of historical and implied volatility. The expected term assumption for our stock option grants was determined using a Monte Carlo simulation model which projects future option holder behavior patterns based upon actual historical option exercises. SFAS 123(R) also requires the application of a forfeiture rate to the calculated fair value of stock options on a prospective basis. Our assumption of forfeiture rate represents the historical rate at which our stock-based awards were surrendered prior to vesting over the trailing four years. If our assumption of forfeiture rate changes, we would have to make a cumulative adjustment in the current period. We monitor the assumptions used to compute the fair value of our stock options and ESPP awards on a regular basis and we will revise our assumptions as appropriate. In the event that assumptions used to compute the fair value of these awards are later determined to be inaccurate or if we change our assumptions significantly in future periods, stock-based compensation expense and our results of operations could be materially impacted. See Note 2 Summary of Significant Accounting Policies section Stock-based compensation of Notes to Consolidated Financial Statements for more information regarding the valuation of stock-based compensation.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

We invest our cash equivalents and short-term investments in a variety of U.S. dollar financial instruments such as *Treasuries, Government Agencies, Repurchase Agreements, Commercial Paper and Bankers Acceptance.* Our policy specifically prohibits trading securities for the sole purposes of realizing trading profits. However, we may liquidate a portion of our portfolio if we experience unforeseen liquidity requirements. In such a case if the environment has been one of rising interest rates we may experience a realized loss, similarly, if the environment has been one of declining interest rates we may experience a realized gain. As of December 31, 2006, we had an investment portfolio of fixed income marketable securities of $363.0 million excluding cash and cash equivalents. If market interest rates were to increase immediately and uniformly by 10% from the levels as of December 31, 2006, the fair value of the portfolio would decline by approximately $0.8 million. Actual results may differ materially from this sensitivity analysis.

We bill our customers in U.S. dollars. Although the fluctuation of currency exchange rates may impact our customers, and thus indirectly impact us, we do not attempt to hedge this indirect and speculative risk. Our overseas operations consist primarily of business development offices of from 3 to 11 people in any one country and one design center in India. We monitor our foreign currency exposure; however, as of December 31, 2006, our foreign currency exposure is not material enough to warrant foreign currency hedging.

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The table below summarizes the book value, fair value, unrealized losses and related weighted average interest rates for our marketable securities portfolio as of December 31, 2006 and 2005:

	Twelve months ended December 31, 2006			
(dollars in thousands)	Fair Value	Book Value	Unrealized Gain/ (Loss)	Average Rate of Return (annualized)
Marketable securities:				
United States government debt securities	$ 226,813	$ 227,576	$ (763)	4.2%
Corporate notes and bonds	136,224	136,417	(193)	5.2%
Total marketable securities	$ 363,037	$ 363,993	$ (956)	

	Twelve months ended December 31, 2005			
(dollars in thousands)	Fair Value	Book Value	Unrealized Gain/ (Loss)	Average Rate of Return (annualized)
Marketable securities:				
United States government debt securities	$ 280,659	$ 283,018	$ (2,359)	3.8%
Corporate notes and bonds	32,340	32,705	(365)	2.4%
Total marketable securities	$ 312,999	$ 315,723	(2,724)	

Item 8. Financial Statements and Supplementary Data

See Item 15 Exhibits and Financial Statement Schedules of this Form 10-K for required financial statements and supplementary data.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Background to the Restatement

Audit Committee Investigation of Historical Stock Option Practices

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, we conducted an initial review in which we discovered apparent irregularities in past stock option grants and reported our findings to the Audit Committee and the Board of Directors.

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On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined our Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of determination, we concluded that we should have recognized material amounts of stock-based compensation expense which were not accounted for in our previously issued consolidated financial statements. Therefore, the Audit Committee and management, concluded that our previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005, which were included in our 2005 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of the Company s historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of our initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

The results of the investigation were consistent with the Audit Committee s earlier conclusion that our previously filed consolidated financial statements should no longer be relied upon. We are disclosing the restatement of the consolidated financial statements for the affected periods by filing this Form 10-K for the fiscal year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated consolidated financial data for the first quarter of 2006. In addition, the errors we identified impacted our consolidated financial statements for the periods prior to the year ended December 31, 2004. In the 2006 Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred tax assets as of January 1, 2004. The impact of these errors will continue to have an effect on our consolidated financial statements through fiscal 2009.

The impact of these errors also extended to the quarter ended March 31, 2006. Our previously filed consolidated financial statements for the quarter ended March 31, 2006, related management s discussion and analysis of financial condition and results of operations and certain tables and disclosures related to APB 25, SFAS 123 and SFAS 123(R) are restated in Exhibit 99.1. We have filed interim consolidated financial statements on Form 10-Q for the period ended June 30, 2006 and the period ended September 30, 2006. In these quarterly consolidated financial statements, the cumulative impact of the errors as of December 31, 2004 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2005.

Other balance sheet items related to prior periods affected by the restatement are reflected in the opening balances of the consolidated balance sheet as of January 1, 2004.

Findings Concerning Stock Option Grant Controls and Procedures

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company s previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company s independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.

The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company s stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company s actual practices.

Concurrent with the review by the Audit Committee, our management, under the oversight of the Audit Committee, completed an internal review of our previously recorded accounting for stock option based compensation expenses and subsequently made adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period and were employees in name only; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for ISO tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services, and adjustments for continued vesting after an individual converted from an employee to a consultant role and tax effect for each of the adjustments noted above.

During the course of the review, we also identified certain other errors in accounting determinations and judgments related to transactions occurring in prior fiscal years that, although not significant, current management has included in the restated consolidated financial statements. Restatement adjustments are further described in Note 3 Restatement of Consolidated Financial Statements of Notes to the Consolidated Financial Statements.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our current CEO and current CFO, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such terms are defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange

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Act), as of December 31, 2006, the end of the period covered by this Annual Report on Form 10-K. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including our CEO and CFO. To the extent that components of our internal control over financial reporting are included within our disclosure controls and procedures, they are included in the scope of management s annual assessment of our internal control over financial reporting.

Based on this evaluation, our management, including our current CEO and current CFO, has concluded that our disclosure controls and procedures were not effective as of December 31, 2006 because of the material weakness in our internal control over financial reporting discussed below. Notwithstanding the material weakness described below, our current management has concluded that the Company s consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with generally accepted accounting principles in the U. S. for each of the periods presented herein.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, including the CEO and CFO conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected. Management has determined that we have the following material weakness in our internal control over financial reporting as of December 31, 2006.

Insufficient personnel with appropriate accounting knowledge and training: We lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. Specifically, this control deficiency resulted in audit adjustments that corrected an understatement of revenue and audit adjustments to deferred revenue, deferred rent, property and equipment, depreciation, consulting expenses and certain accrual accounts and disclosures in the consolidated financial statements for the year ended December 31, 2006, primarily arising from an insufficient review by us as to relevant information obtained through communications with personnel in operations and through review of certain key contracts and agreements of unique transactions for such accounts. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

Based on the above described material weakness, our CEO and CFO have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2006, based on the criteria in *Internal Control-Integrated Framework* issued by the COSO.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Remediation of Material weakness in Internal Control Over Financial Reporting

Management, with oversight from the Company s Audit Committee, is committed to remediating the material weakness identified above by implementing changes to our internal control over financial reporting. Management is in the process of implementing, the following changes to the Company s internal control over financial reporting:

- We are actively recruiting for the newly created position of Vice President of Accounting/Finance, who will have oversight over all of the accounting functions in the Company;

- We will be actively recruiting accountants with experience and expertise to fill key positions , specifically in the areas of general accounting, revenue and external reporting to replace the contractors who are currently fulfilling such roles;

- We will expand our training to our accounting and finance employees in the various areas of generally accepted accounting principles, particularly in the areas of revenue recognition and stock-based compensation. This will include initial and continuous training, specifically focused on new and developing topics;

- Secondary review controls executed by accounting personnel will be subject to targeted internal audit reviews, specifically with the focus of ensuring such monitoring controls include an in-depth review of the related transactions source documents and communications with personnel in operations responsible for such transactions;

- We will continue our efforts to review our internal controls over financial reporting with the intent to automate previously manual processes specifically in the areas of contract administration, revenue recognition and stock administration;

- We will continue to improve communications between Finance personnel responsible for completing reviews of the Company s revenue agreements and operations personnel responsible for the execution of work on those transactions;

- We will continue to improve documentation and review standards for SOP 97-2 and 81-1 transactions inclusive of matters raised by operations personnel during our quarterly revenue recognition review meetings.

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Additionally, management is investing in ongoing efforts to continuously improve the control environment and has committed considerable resources to the continuous improvement of the design, implementation, documentation, testing and monitoring of our internal controls.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Our Board of Directors is currently comprised of ten members who are divided into two classes with overlapping two-year terms. We currently have five Class I directors and five Class II directors. At each annual meeting of stockholders, a class of directors is elected for a term of two years to succeed those directors whose terms expire on the annual meeting date. A director serves in office until his or her respective successor is duly elected and qualified or until his or her death or resignation. Any additional directorships resulting from an increase in the number of directors will be distributed among the two classes so that, as nearly as possible, each class will consist of an equal number of directors. Any vacancy occurring mid-term will be filled by a person selected by a majority of the other current members of the Board of Directors. There is no family relationship between any of our directors.

Directors are elected by a plurality of the shares present in person or represented by proxy at our annual meeting and entitled to vote on the election of directors. There are no cumulative voting rights in the election of directors.

Pursuant to the Charter for the Chairperson of the Board of Rambus Inc. (which was adopted in October 2006 and is available on our website at http://investor.rambus.com/governance/chairperson.cfm), a Chairperson, who may not be our Chief Executive Officer, is elected annually by the Board of Directors after our annual meeting. The Chairperson acts as the presiding director at Board meetings and manages the agenda of such meetings, and manages the affairs of the Board, including ensuring that the Board is organized properly, functions effectively, and meets its obligations and responsibilities. The Chairperson also acts as the principal contact for the Chief Executive Officer and other members of the Board and management, as appropriate, for matters requiring the attention of the full Board.

The following table contains information regarding our directors as of May 31, 2007.

Class I Directors Whose Terms are Scheduled to Expire at the Annual Meeting in 2008

Name	Age	Principal Occupation and Business Experience
Sunlin Chou, Ph.D.	60	Dr. Chou was appointed to the Board of Directors in March 2006. Dr. Chou served for 34 years at Intel Corporation, a leader in the semiconductor industry, before retiring in 2005 as a senior vice president. He was co-general manager of the Technology and Manufacturing Group from 1998 to 2005. Dr. Chou holds a B.S., M.S and E.E. in Electrical Engineering from the Massachusetts Institute of Technology and received a Ph.D. in Electrical Engineering from Stanford University.
Bruce Dunlevie	50	Mr. Dunlevie has served as a director since our founding in March 1990. He has been a general partner of the venture capital firm Benchmark Capital since May 1995, and was a general partner of the venture capital firm Merrill, Pickard, Anderson & Eyre between 1989 and 2000. He holds a B.A. in History from Rice University and an M.B.A. from Stanford University. Mr. Dunlevie also serves on the board of Palm, Inc., and several private companies.

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Name	Age	Principal Occupation and Business Experience
Mark Horowitz, Ph.D.	50	Dr. Horowitz has served as a director since our co-founding in March 1990 and has served as chief scientist since May 2005. Dr. Horowitz also served as a vice president from March 1990 to May 1994. Dr. Horowitz has taught at Stanford University since 1984 where he is currently a professor of Electrical Engineering and Computer Science. He holds B.S. and M.S. degrees in Electrical Engineering from the Massachusetts Institute of Technology and received his Ph.D. in Electrical Engineering from Stanford University.
Harold Hughes	61	Mr. Hughes has served as our chief executive officer and president since January 2005 and as a director since June 2003. He served as a United States Army Officer from 1969 to 1972 before starting his private sector career with Intel Corporation. Mr. Hughes held a variety of positions within Intel Corporation from 1974 to 1997, including treasurer, vice president of Intel Capital, chief financial officer, and vice president of Planning and Logistics. Following his tenure at Intel, Mr. Hughes was the chairman and chief executive officer of Pandesic, LLC. He holds a B.A. from the University of Wisconsin and an M.B.A. from the University of Michigan. He also serves as a director of Berkeley Technology, Ltd.
Abraham D. Sofaer	69	Mr. Sofaer has served as a director since May 2005. He has been the George P. Shultz Distinguished Scholar and Senior Fellow at the Hoover Institution at Stanford University since 1994. Mr. Sofaer has a long and distinguished career in the legal profession. Prior to assuming his current roles, he served in private practice as a partner at Hughes, Hubbard & Reed in Washington, DC and as the chief legal adviser to the U.S. Department of State. From 1979 to 1985, Mr. Sofaer served as a U.S. District Judge for the Southern District of New York. He was a professor at the Columbia University School of Law from 1969 to 1979, and from 1967 to 1969 was an Assistant U.S. Attorney in the Southern District of New York. Mr. Sofaer graduated magna cum laude with a B.A. in History from Yeshiva College and received his law degree from the New York University School of Law where he was editor-in-chief of the NYU Law Review. He clerked for Hon. J. Skelly Wright on the U.S. Court of Appeals for the District of Columbia Circuit, and for Justice William J. Brennan, Jr. on the U.S. Supreme Court. Mr. Sofaer currently serves as a director of NTI, Inc. and Gen-Probe, Inc.

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Class II Directors Whose Terms are Scheduled to Expire at the Annual Meeting in 2007

Name	Age	Principal Occupation and Business Experience
J. Thomas Bentley	57	Mr. Bentley has served as a director since March 2005. He served as a managing director at SVB Alliant (formerly Alliant Partners), a mergers and acquisitions firm, since he co-founded the firm in 1990 until October 2005. Mr. Bentley holds a B.A. in Economics from Vanderbilt University and an M.S. in Management from the Massachusetts Institute of Technology. Mr. Bentley currently serves on the board of Nanometrics, Inc.
P. Michael Farmwald, Ph.D.	53	Dr. Farmwald has served as a director since our founding in March 1990 and has served as senior technical advisor since October 2006. In addition, he served as vice president and chief scientist from March 1990 to November 1993. Dr. Farmwald founded Skymoon Ventures, a venture capital firm, in 2000. In addition, Dr. Farmwald has co-founded other semiconductor companies, including Matrix Semiconductor, Inc. in 1997. Dr. Farmwald holds a B.S. in Mathematics from Purdue University and a Ph.D. in Computer Science from Stanford University.
Penelope A. Herscher	46	Ms. Herscher has served as a director since July 2006. She currently holds the position of president and chief executive officer of firstRain, Inc., a custom-configured, on-demand intelligence services firm. Prior to joining firstRain, Ms. Herscher held the position of executive vice president and chief marketing officer at Cadence Design Systems. From 1996 to 2002, Ms. Herscher was president and chief executive officer of Simplex Solutions, which was acquired by Cadence in 2002. Before Simplex, she was an executive at Synopsys for eight years and started her career as an R&D engineer with Texas Instruments. She holds a B.A. with honors in Mathematics from Cambridge University in England. Ms. Herscher serves on the boards of firstRain and several non-profit institutions.
Kevin Kennedy, Ph.D.	51	Dr. Kennedy has served as the non-employee chairman of the Board of Directors since August 2006 and has served as a director since April 2003. He is currently chief executive officer, president and director at JDS Uniphase Corporation, a communications equipment corporation. From August 2001 to September 2003, Dr. Kennedy was the chief operating officer of Openwave Systems, Inc., a software corporation. Prior to joining Openwave Systems Inc., Dr. Kennedy served seven years at Cisco Systems, Inc., a networking corporation, most recently as senior vice president of the Service Provider Line of Business and Software Technologies Division, and 17 years at Bell Laboratories. He holds a B.S. from Lehigh University and an M.S. and Ph.D. from Rutgers University, each in Engineering. Dr. Kennedy is also a director of KLA-Tencor Corp.

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Name	Age	Principal Occupation and Business Experience
David Shrigley	59	Mr. Shrigley has served as a director since October 2006. Mr. Shrigley joined the Board of Directors of Wolfson Microelectronics plc, a supplier of mixed-signal chips for the digital market in November 2006 and became its chief executive officer in March 2007. He served as a general partner at Sevin Rosen Funds, a venture capital firm, from 1999 to 2005. Prior to that, Mr. Shrigley held the position of executive vice president, Marketing, Sales and Service at Bay Networks. Mr. Shrigley served in various executive positions during the prior 18 years at Intel, including vice president and general manager of Asia Pacific Sales and Marketing Operations based in Hong Kong, and vice president and general manager, Corporate Marketing. Mr. Shrigley holds a B.A. from Franklin University.

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Executive Officers

Information regarding our executive officers and their ages and positions as of May 31, 2007, is contained in the table below. Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. There is no family relationship between any of our executive officers.

Name	Age	Position and Business Experience
Kevin S. Donnelly	45	Senior Vice President, Engineering. Mr. Donnelly joined us in 1993. Mr. Donnelly has served in his current position since March 2006. From February 2005 to March 2006, Mr. Donnelly served as co-vice president of Engineering. From October 2002 to February 2005 he served as vice president, Logic Interface Division. Mr. Donnelly held various engineering and management positions before becoming vice president, Logic Interface Division in October 2002. Before joining us, Mr. Donnelly held engineering positions at National Semiconductor, Sipex, and Memorex, over an eight year period. He holds a B.S. in Electrical Engineering and Computer Sciences from the University of California, Berkeley, and an M.S. in Electrical Engineering from San Jose State University.
Sharon E. Holt	42	Senior Vice President, Worldwide Sales, Licensing and Marketing. Ms. Holt has served as our senior vice president, Worldwide Sales, Licensing and Marketing (formerly titled Worldwide Sales and Marketing) since joining us in August 2004. From November 1999 to July 2004, Ms. Holt held various positions at Agilent Technologies, Inc., an electronics instruments and controls company, most recently as vice president and general manager, Americas Field Operations, Semiconductor Products Group. Prior to Agilent Technologies, Inc., Ms. Holt held various engineering, marketing, and sales management positions at Hewlett-Packard Company, a hardware manufacturer. Ms. Holt holds a B.S. in Electrical Engineering, with a minor in Mathematics, from the Virginia Polytechnic Institute and State University.
Harold Hughes	61	Chief Executive Officer and President. Mr. Hughes has served as our chief executive officer and president since January 2005 and as a director since June 2003. He served as a United States Army Officer from 1969 to 1972 before starting his private sector career with Intel Corporation. Mr. Hughes held a variety of positions within Intel Corporation from 1974 to 1997, including treasurer, vice president of Intel Capital, chief financial officer, and vice president of Planning and Logistics. Following his tenure at Intel, Mr. Hughes was the chairman and chief executive officer of Pandesic, LLC. He holds a B.A. from the University of Wisconsin and an M.B.A. from the University of Michigan. He also serves as a director of Berkeley Technology, Ltd.
Thomas Lavelle	57	Senior Vice President and General Counsel. Mr. Lavelle has served in his current position since December 2006. Previous to that, Mr. Lavelle served as vice president and general counsel at Xilinx, one of the world s leading suppliers of programmable chips. Mr. Lavelle joined Xilinx in 1999 after spending more than 15 years at Intel Corporation where he held various positions in the legal department. Mr. Lavelle earned a J.D. from Santa Clara University School of Law and a B.A. from the University of California at Los Angeles.

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Name	Age	Position and Business Experience
Satish Rishi	47	Senior Vice President, Finance and Chief Financial Officer. Mr. Rishi joined us in his current position in April 2006. Prior to joining us, Mr. Rishi held the position of executive vice president of Finance and chief financial officer of Toppan Photomasks, Inc., (formerly DuPont Photomasks, Inc.) one of the world s leading photomask providers, from November 2001 to April 2006. During his 20-year career, Mr. Rishi has held senior financial management positions at semiconductor and electronic manufacturing companies. He served as vice president and assistant treasurer at Dell Inc. Prior to Dell, Mr. Rishi spent 13 years at Intel Corporation, where he held financial management positions both in the United States and overseas, including assistant treasurer. Mr. Rishi holds a B.S. with honors in Mechanical Engineering from Delhi University in Delhi, India and an M.B.A. from the University of California at Berkeley s Haas School of Business. He also serves as a director of Measurement Specialties, Inc.
Michael Schroeder	47	Vice President, Human Resources. Mr. Schroeder has served as our vice president, Human Resources since joining us in June 2004. From April 2003 to May 2004, Mr. Schroeder was vice president, Human Resources at DigitalThink, Inc., an online service company. From August 2000 to August 2002, Mr. Schroeder served as vice president, Human Resources at Alphablox Corporation, a software company. From August 1992 to August 2000, Mr. Schroeder held various positions at Synopsys, Inc., a software and programming company, including vice president, California Site Human Resources, group director Human Resources, director Human Resources and employment manager. Mr. Schroeder attended the University of Wisconsin, Milwaukee and studied Russian.
Martin Scott, Ph.D.	52	Senior Vice President, Engineering. Dr. Scott has served in his current position since December 2006. Dr. Scott joined us from PMC-Sierra, Inc., a provider of broadband communications and storage integrated circuits, where he was most recently vice president and general manager of its Microprocessor Products Division from March 2006. Dr. Scott was the vice president and general manager for the I/O Solutions Division (which was purchased by PMC-Sierra) of Avago Technologies Limited, an analog and mixed signal semiconductor components and subsystem company, from October 2005 to March 2006. Dr. Scott held various positions at Agilent Technologies, including as vice president and general manager for the I/O Solutions division from October 2004 to October 2005, when the division was purchased by Avago Technologies, vice president and general manager of the ASSP Division from March 2002 until October 2004, and, before that, Network Products operation manager. Dr. Scott started his career in 1981 as a member of the technical staff at Hewlett Packard Laboratories and held various management positions at Hewlett Packard and was appointed ASIC business unit manager in 1998. He earned a B.S. from Rice University and holds both an M.S. and Ph.D. from Stanford University.

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Name	Age	Position and Business Experience
Laura S. Stark	38	Senior Vice President, Platform Solutions. Ms. Stark joined us in 1996 as strategic accounts manager, and held the positions of strategic accounts director and vice president, Alliances and Infrastructure, before assuming the position of vice president, Memory Interface Division in October 2002. She held this position until February 2005 when she was appointed to her current position. Prior to that, Ms. Stark held various positions in the semiconductor products division of Motorola, a communications equipment company, during a six year tenure, including technical sales engineer for the Apple sales team and field application engineer for the Sun and SGI sales teams. Ms. Stark holds a B.S. in Electrical Engineering from the Massachusetts Institute of Technology.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires our executive officers, directors and ten percent stockholders to file reports of ownership and changes in ownership with the SEC. The same persons are required to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of these forms, we believe that during fiscal 2006 all of our executive officers, directors and ten percent stockholders complied with the applicable filing requirements except for late Forms 4 filed on behalf of Mr. Bentley, Mr. Chou, Mr. Dunlevie, Dr. Farmwald, Mr. Kennedy and Mr. Sofaer. The late filings for Mr. Bentley, Mr. Chou, Mr. Dunlevie, Dr. Farmwald, Dr. Kennedy and Mr. Sofaer were related to automatic grants of stock options to these directors made on October 2, 2006 that was inadvertently reported late by us on their behalf on October 11, 2006.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics for all of our directors, officers and employees. Our Code of Business Conduct and Ethics is available on our website at http://investor.rambus.com/governance/ethics.cfm /. In addition, stockholders may request a free copy of our Code of Business Conduct and Ethics from:

Rambus Inc.

Attention: Investor Relations

4440 El Camino Real

Los Altos, CA 94022

Tel: 650-947-5050

To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any waivers, if and when granted, of our Code of Business Conduct and Ethics on our website at http://investor.rambus.com/governance/ethics.cfm.

Audit Committee

Currently, the Audit Committee is comprised of Mr. Bentley, Mr. Sofaer and Mr. Chou, with Mr. Bentley serving as Chairman. The Audit Committee oversees our corporate accounting and financial reporting processes and controls, as well as our internal and external audits. Its duties include:

- Reviewing our accounting and financial reporting processes and internal controls,

- Providing oversight and review at least annually of our risk management policies, including our investment policies, Retaining the independent auditors, approving their fees, and providing oversight and communication with them,

Reviewing the plans, findings and performance of our internal auditors,

Reviewing our annual, quarterly and other financial statements and related disclosure documents, and

Overseeing special investigations into financial and other matters, as necessary, such as the independent investigation into historical stock option grants.

Our Board of Directors has determined that Mr. Bentley is the Audit Committee financial expert and that Mr. Bentley, together with each of Mr. Sofaer and Mr. Chou, has no material relationship with us (either directly as a partner, stockholder or officer of an organization that has a relationship with us) and is independent as defined under NASD Rule 4200 and the applicable rules promulgated by the SEC.

The Audit Committee s role is detailed in the Audit Committee Charter, which was amended and restated by our Board of Directors on April 4, 2007, and is available on our website at http://investor.rambus.com/governance/governance.cfm

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview of Compensation Program

We develop leading-edge chip interface technology years ahead of the market s needs. We provide this technology to our customers through both patent licenses and through licenses for our leadership (Rambus-proprietary) architectures and designs. As our innovations are often adopted into industry-standard solutions, we license industry-standard designs as a further service for our customers.

Our business model requires that we attract and retain the best scientific and engineering personnel in our field of focus in order to realize our fundamental competitive advantage and deliver the greatest value for our stockholders. Because our technology is foundational in the large and growing market for digital electronics, competition for qualified individuals is fierce. Thus, our compensation program is designed to attract and retain the best talent, especially leading scientists and engineers, in the industry.

Our guiding philosophy for all of our employees is that total compensation (i.e., base salary, annual incentive bonus, long-term equity grants and other employee benefits and arrangements) should correlate highly to achievement of our financial and non-financial objectives. We also grant long-term, equity-based and cash incentive compensation in order to more closely align the long-term interests of management with those of our stockholders. Total compensation is tied both to company and individual performance. We strive to reward our employees, regardless of level, commensurate with their contributions, sustained performance and value created. This philosophy reflects our key strategic compensation design priorities: pay for performance, employee retention, cost management, and continued focus on corporate governance. Our total compensation philosophy is posted on our website at http://investor.rambus.com/governance/total_comp.cfm

This Compensation Discussion and Analysis presents our compensation policies, programs, and practices for the named executive officers presented on the Summary Compensation Table appearing later in this report.

Role and Responsibilities of the Compensation Committee

The Compensation Committee s roles and responsibilities include the following activities which are among the duties reflected in our Compensation Committee Charter, which is posted on our website at http://investor.rambus.com/governance/compensation.cfm:

Annually review and approve the CEO and other executive officers compensation in the context of their performance, which includes reviewing and approving their annual base salary, annual incentive bonus, including the specific goals, targets, and amounts, equity compensation, employment agreements, severance arrangements, and change in control agreements/provisions, and any other benefits, compensation or arrangements.

Administer our stock option and equity incentive plans pursuant to the terms of such plans and the authority delegated by the Board. In its administration of the plans, the Compensation Committee may grant stock options, stock appreciation rights, restricted stock, restricted stock units or other equity compensation to individuals eligible for such grants and amend such awards following their grant.

Adopt, amend and oversee the administration of our significant employee benefits programs.

Review external surveys to establish appropriate ranges of compensation.

Retain and terminate any compensation consultant to assist in the evaluation of CEO or executive officer or director compensation, and approve the consultant s fees and other terms of service, as well as obtain advice and assistance from internal or external legal, accounting or other advisors.

Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured annual and long-term incentive-based cash and non-cash executive compensation to attract and retain the named executive officers, and align their focus and actions to achieve our Company s business goals.

To determine the appropriate levels of compensation for our executive officers, the Compensation Committee reviews in-depth analysis conducted by management and external consultants. The analysis is based, in part, on information reported in proxy statements and independent, third-party published survey data. Each year the Vice President of Human Resources works to provide analysis and recommendations in support of executive compensation. This analysis includes specific market pricing for each named executive officer position within the Company. To support the detailed analysis and recommendations, the Vice President of Human Resources works with both the Director of Compensation and independent consultants. The Vice President of Human Resources and the CEO then provide recommendations for executive officers other than the CEO to the Compensation Committee for their consideration and approval. The Vice President of Human Resources then presents analysis for determination of the CEO s compensation to the Compensation Committee, and the Compensation Committee then deliberates in closed session.

In 2006, Compensia, a third party, independent consultant, assisted the Compensation Committee in evaluating the compensation program for our executive officers and directors. Compensia, working with management, has assisted the Compensation Committee each year since 2004. Compensia utilized peer group comparison and benchmarking surveys to assess the competitiveness and appropriateness of our compensation programs against our Compensation Peer Group described below and other industry comparisons. Compensia s analysis included last fiscal year data and three-year average data evaluated against a variety of compensation utilization metrics including total equity compensation expense, equity expense as a percent of net income, and equity expense as a percent of revenue. Base and total cash compensation were also compared against the Compensation Peer Group and industry financial performance metrics, including revenue growth, net income growth, and total shareholder return.

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In making compensation decisions, the Compensation Committee compares analysis of each element as well as the aggregation of all elements of total compensation against our peer group of publicly-traded companies, which we refer to as the Compensation Peer Group. The Compensation Peer Group consists of companies against which the Compensation Committee believes we compete for talent and represents similar benchmark attributes including revenue size, complexity, like industry, market capitalization, and number of employees. For fiscal year 2006, the Compensation Peer Group included: Actel Corp., Magma Design Auto Inc., Ceva Inc., MIPS Technologies Inc., Cymer Inc., Omnivision Tech Inc., DSP Group Inc., Pixelworks Inc., Formfactor Inc., Virage Logic Corp., Interdigital Communication Corp., Altera Corp., LSI Logic Corp., Atmel Corp., Nvidia Corp., Benchmark Electronics Inc., PMC Sierra Inc., Cypress Semiconductor Corp., Semtech Corp., Fairchild Semiconductor Intl Inc., Sigmatel Inc., Silicon Lab Inc., Integrated Circuit Systems Inc., Integrated Device Tech Inc., and Vishay Intertechnology Inc. The Compensation Committee reviews the Compensation Peer Group annually to ensure the appropriateness of the group for compensation comparisons.

Consistent with our Pay for Performance philosophy, the Compensation Committee targets our executive officers total cash compensation at or near the 75th percentile of the Compensation Peer Group. Base salary targets for executive officers are designed so that salary opportunities for a given office are positioned at approximately the 50th percentile of the Compensation Peer Group. The Compensation Committee believes that this percentile will allow us to maintain control over fixed compensation expense while affording competitive upside to the executives as a result of our financial performance. Variable or incentive cash compensation is realized based on the achievement of our annual operating plan as approved by the Board and achievement of individual objectives as described in more detail below.

In 2006, the Compensation Committee collaborated with management in the continuing effort to enhance corporate governance and align our compensation and benefit practices with the long term interests of our stockholders. In 2006, we implemented and obtained the approval of our stockholders of a new equity incentive plan that replaced our expiring 1997 Stock Option Plan, referred to as the 1997 Plan. Our new 2006 Equity Incentive Plan, referred to as the 2006 Plan, eliminated a historic evergreen replenishment provision and requires shareholder approval for share replenishment which we will propose as needed based on market comparisons and our performance. We have worked to reduce the issuance of equity as a percentage of overall compensation in-line with peer market trends. We have also worked to reduce the burn rate, or number of equity awards issued annually as a percentage of our total outstanding shares, to less than 3% of total outstanding shares in 2006, and we are projecting a burn rate of between 2.5% and 3% for 2007. When compared to our Compensation Peer Group, we fell below the 50th percentile for the last fiscal year and the three-year average overall gross burn rate and net burn rate (which factors in cancellations of equity awards under our plans). Our stock option issuance per employee has declined over 70 percent from 2003 to 2006. Also, in October 2006, the Compensation Committee considered and adopted stock ownership guidelines effective 2007 for our executive officers and directors as described below.

The Compensation Committee s policy with respect to the adjustment or recovery of compensation as a result of material changes in our financial statements requiring an accounting restatement is to retain discretion over all pay elements and reserve the right to reduce or forego future compensation based on any required restatement or adjustment. The Compensation Committee intends to review these matters in light of the restatements that occurred as a result of the stock option investigation and consider the evolution of the policy as part of its annual policy review this year.

The Compensation Committee considers the potential future effects of Section 162(m) of the Internal Revenue Code of 1986, as amended. Section 162(m) limits the deductibility by public companies of certain executive compensation in excess of $1,000,000 per executive per year, but excludes from the calculation of such $1,000,000 limit certain elements of compensation, including performance-based compensation, provided that certain requirements are met. Both our 1997 Plan and 2006 Plan permit the Compensation Committee grant equity awards that are performance-based and thus fully tax-deductible by us. The Compensation Committee currently intends to continue evaluating all of our executive compensation and will qualify such compensation as performance based compensation under Section 162(m) to the extent it determines doing so is in our best interests. All of the stock options granted to our executive officers are intended to qualify under Section 162(m) as performance-based compensation. However, during our stock option investigation we discovered that certain stock options granted to Mr. Donnelly, Mr. Patel and Ms. Stark were granted with an exercise price below the fair market value of the underlying shares on the date of grant and will not qualify as performance based compensation under Section 162(m). In addition, the restricted stock unit and restricted stock awards granted to our executive officers do not qualify as performance-based compensation.

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The Compensation Committee also considers the effects of Section 409A of the Internal Revenue Code when granting or providing compensation. Section 409A imposes additional significant taxes in the event that an executive officer, director or service provider receives deferred compensation that does not meet the requirements of Section 409A. To assist in the avoidance of additional tax under Section 409A, we generally structure equity awards in a manner intended to comply with the applicable Section 409A requirements. However, in connection with the stock option investigation, certain stock options that were determined to have been granted at a discount to fair market value do not meet the requirements of Section 409A. Rambus has not paid or otherwise grossed up current or former executives for any additional taxes imposed by Section 409A with respect to these stock options. The Compensation Committee will continue to consider the appropriateness of any such action in the future based on applicable company and industry-wide developments.

As discussed elsewhere in this report, we have concluded an investigation into historical stock option grants. The Compensation Committee has taken into consideration the results of the investigation with respect to the internal control and other compensation policies of Rambus. A summary of the investigation and our findings are set forth under Note 3 of the Notes to Consolidated Financial Statements, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 9A, Controls and Procedures.

Both in response to the findings of the stock option investigation and as a result of our continuing efforts to enhance corporate governance, we have made many improvements to our policies and procedures for equity award grants. In November 2006, we changed the new hire grant procedures for named executive officers and other executives to be made on the first trading day of the month following their date of hire. The Compensation Committee also approved moving the annual performance equity grant date for all employees to the first trading day in February of each year. This date in February was chosen in order to allow these granting actions to take place as soon after our annual financial earnings release as was practical. We feel that this schedule coupled with prospective grant policies will afford more transparency and improve the governance of our equity program. In addition, we added improved internal controls to verify key elements of our policy and process compliance. These improvements included additional review and back-up audit requirements for both pre- and post-grant administration.

In designing our compensation programs, we take into consideration the accounting effect that each element will or may have on us. For example, in evaluating the 2006 Employee Stock Purchase Plan, referred to as the 2006 Stock Purchase Plan, the Compensation Committee considered both the appropriateness and competitiveness of our compensation strategy and the effect of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), referred to as SFAS 123(R), with respect to the compensation expense recorded in the financial statements. As a result, the Compensation Committee adopted modifications in early 2007 to the 2006 Stock Purchase Plan. These changes eliminated a 24 month look-back and substituted it with a standard 6 month look-back while retaining a purchase price equal to 85% of the fair market value on the first day of the offering period or the last day of the offering period, whichever is lower.

2006 Executive Compensation Components

For the fiscal year ended December 31, 2006, the principal components of compensation for named executive officers were:

- Annual Base Salary
- Annual Variable Compensation
- Equity Based Compensation
- All Other Compensation which includes 401(k) match, health/welfare and other standard benefits

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Base Salary

We provide our named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. The annual base salary for executive officers is determined relative to job scope, past and present contributions for performance and compensation for similar positions within our Compensation Peer Group. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility by using the Compensation Peer Group and other industry market data.

We emphasize pay for performance in all components of compensation, and make salary adjustments based on individual employee performance relative to published compensation levels for incumbents of similar positions in the Compensation Peer Group. In 2006, annual salary represented 50% of our CEO s annual total target cash and between 55% and 60% of the annual total target for the other named executive officers with the remainder of other total target in the form of bonus.

In 2007, the Compensation Committee approved a 15.4% increase in the CEO s base salary and total cash compensation. As a result, his total target cash compensation level for fiscal year 2007 remains slightly below our target of 75th percentile of the Compensation Peer Group. Historically, we have paid the CEO below-market total cash compensation but we have issued more equity awards as compensation in comparison to the Compensation Peer Group and other industry companies. Starting in 2005 and continuing in 2006 and 2007, we have aligned the CEO s total compensation package to be consistent with our other named executive officers and in-line with our compensation philosophy as applied against our Compensation Peer Group.

Performance-based Incentive Plan

The Compensation Committee rewards achievement at specified levels of financial and individual performance. Each officer has a target bonus level that is competitive with target bonuses for similar positions reported in our independent, third-party surveys and information from proxy statements. The Compensation Committee also reviews and ensures that the target bonus levels are competitive in comparison to the Compensation Peer Group. We have historically and continue to target the 75th percentile for total target cash within these defined talent markets. The Compensation Committee believes that financial performance is a key measurement in determining variable compensation.

The 2006 incentive plan included our named executive officers as well as employees through senior individual contributor levels, and all employees will be eligible to participate in 2007. The incentive plan is funded based on achievement of an adjusted pre-tax income target, which excludes stock-based compensation expense and other one time charges deemed by the Compensation Committee to be extraordinary and outside of management control. Pre-tax income was chosen as our financial performance metric because it is a function of both the top-line revenue performance and expense management efficiency. The Compensation Committee retains the discretion to exclude the one-time charges from the pre-tax income calculation. For fiscal year 2006, the pre-tax achievement excluded stock-based compensation expenses, a one-time bonus paid to outside litigation counsel, and expenses incurred as a result of the stock option investigation. The incentive plan is designed to be funded linearly beginning at a threshold of 70% of the pre-approved plan and rises to a potential 200% of target funding based on the achievement exceeding the pre-tax income target. Named executive officers participating in the plan are also measured against objectives that tie directly to our overall operating plan objectives. For fiscal year 2006, these objectives included specific customer goals, licensing objectives, specific technology development milestones, internal control and process improvements, and productivity initiatives. Final payout of these cash incentive awards, if any, is determined by the funding level achieved and each individual s performance against their key objectives or management by objectives.

For fiscal year 2006, our adjusted pretax results generated a funding level of 1.75 times the total target bonus. All of our named executive officers received between 125% and 180% of their incentive targets. Our CEO earned a bonus of 175% of his incentive target based on the adjusted pretax results.

Long-term Equity Incentive Compensation Stock Awards and Option Grants

Ownership of our Common Stock is a key element of executive compensation. Our named executive officers are eligible to participate in the 2006 Plan and our 2006 Stock Purchase Plan. The 2006 Plan permits the Board or the Compensation

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Committee to grant restricted stock, stock options, stock appreciation rights, restricted stock units and other stock-based equity awards to employees, including named executive officers, on such terms as the Board or the Compensation Committee may determine. On several occasions in 2006, we opted to grant restricted stock or restricted stock units, referred to as RSUs, instead of stock options generally because we wished to reduce overall equity issuances and compensation expenses, while also focusing on the effectiveness of the use of a restricted stock or RSU element for specific purposes. We determined that granting such awards in lieu of stock options provided us with an additional recruitment incentive in the hiring of Mr. Rishi and part of a special litigation incentive for Mr. Danforth. The Compensation Committee continues to evaluate the proper mix for the issuance of stock options, restricted stock or RSUs, and other equity awards.

Currently, equity grants are the only element of our long-term compensation. We are using long-term compensation as a retention tool and as a primary compensation element to align our named executive officers with the long-term interest of our stockholders. The Compensation Committee compared the number of shares and the value of the equity grants with the Compensation Peer Group and third party industry survey data. Our targeted value for these awards is at or above the 75th percentile for each named executive officer. As a further retention tool, we generally apply a 5-year vesting schedule on these equity grants in comparison to the more standard 3-year or 4-year vesting period used by most of the Compensation Peer Group.

In determining the size of a stock option grant to a named executive officer, the Compensation Committee takes into account equity participation by comparable employees, external competitive circumstances and other relevant factors. Because these options typically vest ratably over 60 months, they require the named executive officer s continued service. In addition, the Compensation Committee considers each named executive officer s performance and contribution during the fiscal year, analyses reflecting the value delivered by the executive and competitive practices.

Our stock purchase plans permit employees to acquire our Common Stock through payroll deductions and promote broad-based equity participation throughout our company.

The Compensation Committee believes that these stock plans align the interests of the named executive officers as well as our other employees with the long-term interests of the stockholders.

Stock Ownership Guidelines.

In October 2006, our Board approved stock ownership and retention guidelines for executives and directors. Under these guidelines, our executive officers will be expected to accumulate and hold an equivalent value of our Common Stock that is equal or greater than 2 times to 5 times of their annual base salary, and to maintain this minimum amount throughout their tenure as an executive officer. The CEO will be expected to accumulate and hold an equivalent value of 5 times his/her annual base salary, all other Section 16 executive officers will be expected to accumulate and hold an equivalent value of 3 times their annual base salaries, and all other executives will be expected to accumulate and hold an equivalent value of 2 times their annual base salaries. All executive officers have five years to achieve this accumulated value requirement from January 1, 2007, or the date that the executive officer assumes his or her position, whichever is later. These targets were determined and set as the result of benchmark surveys conducted against industry survey data. Elements that will qualify towards ownership goals will include: vested and unvested restricted stock and restricted stock units, vested and unexercised stock options, stock purchase plan holdings and any other shares of Common Stock owned outright.

401(k) Plan and Other Health and Life Insurance Premium

Our named executive officers, like other employees, are eligible to participate in our 401(k) plan. In any plan year, we will contribute to each participant a matching contribution equal to 50% of the first 6% of the participant s eligible compensation that has been contributed to the plan. In addition, all named executive officers and other employees are eligible to participate in all health and welfare benefits offered by us in accordance with the terms and conditions of such plans or arrangements.

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We do not provide pension arrangements or post-retirement health coverage for our named executive officers or other employees.

Other Compensation

At the end of fiscal 2006, we gave to each employee a Sony PLAYSTATION®3 (PS3) computer entertainment system which features our XDR memory and FlexIO processor bus interface technologies. We also paid a tax gross-up to each employee with respect to the value of the PS3 received.

From time to time, primarily as a recruitment tool, the Compensation Committee has approved certain other compensation in the form of reimbursement or payment of relocation costs. For instance, in 2006, Rambus paid such expenses for Mr. Rishi in connection with his initial employment. We also have a policy of paying for or reimbursing various living expenses in connection with our executive officers whose job duties require them to work for us abroad, such as with Mr. Patel in 2006. Rambus will also make tax gross-up payments on these relocation, expatriate and related other compensation.

Rambus does not provide any other perquisites or other compensation to its named executive officers.

Employment and Retention Agreements

All of our employees, including our named executive officers, are employees-at-will and as such typically do not have employment contracts with us, except in the case of some employees of our foreign subsidiaries and as discussed below. We also do not provide post-employment health coverage or other benefits, except in connection with the retention agreements, details of which are included below.

The Compensation Committee periodically evaluates the need for such agreements with respect to market practices in order to remain competitive and attract and retain executive officers. For instance, individual circumstances may arise which lead to entering into such agreements to attract executive officers to join our company.

In addition, in 2006, as part of the arrangement for Mr. Danforth to assume a role focused on certain litigation matters, the Compensation Committee approved the entry into an employment agreement with Mr. Danforth. Mr. Danforth, who was our Senior Vice President and General Counsel, entered into the amended and restated employment agreement with us effective February 1, 2006. Pursuant to the terms of the agreement, Mr. Danforth is employed as a full-time employee during a period in which we and Mr. Danforth mutually agree and afterwards as a part-time employee through a subsequent twelve-month period. The agreement will terminate once all payments due and all other obligations of the parties have been made or satisfied. Mr. Danforth s base salary and annual target bonus will be set by us in our sole discretion and he will also be paid certain additional bonuses if and when certain triggering events relating to outcomes in certain litigation matters occur during the term of the agreement. For fiscal year 2006, Mr. Danforth was issued 63,383 RSUs as a result of the achievement of certain of these triggering events. If Mr. Danforth s employment is involuntarily terminated prior to October 22, 2007 by us other than for Cause (as defined in the agreement) or other than due to Mr. Danforth s death or Disability (as defined in the agreement), then subject to Mr. Danforth entering into a release of claims in favor of us, Mr. Danforth shall receive severance from us which shall include certain salary and bonus payments and immediate accelerated vesting of stock options to acquire shares of our Common Stock to the same extent as if Mr. Danforth had remained employed by us through October 22, 2007. Had this provision in Mr. Danforth s agreement been triggered on December 31, 2006, the value of the accelerated equity grants would have amounted to approximately $1.5 million. Effective July 27, 2006, Mr. Danforth left the position of Senior Vice President, General Counsel and assumed the role of senior legal advisor in which he focuses on the management of certain of our litigation matters.

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Compensation Committee Report

Our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this report.

THE COMPENSATION COMMITTEE

Penelope A. Herscher (Chair)
Kevin Kennedy
David Shrigley

Summary Compensation Table

The following table shows compensation information for 2006 for the named executive officers.

Summary Compensation

For Fiscal Year 2006

Name and Title	Year	Salary ($)	Bonus ($)	Stock Awards(1) ($)	Option Awards(2) ($)	Non-Equity Incentive Plan Compensation(3) ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation(4) ($)	Total ($)
Harold E. Hughes(5) Chief Executive Officer	2006	375,000			1,857,443	662,282		9,388	2,904,113
Satish Rishi(6) Senior Vice President, Finance and Chief Financial Officer	2006	208,077		305,995	868,169	256,445		451,886(7)	2,090,572
Robert K. Eulau(8) Former Chief Financial Officer	2006	50,305			248,260(9)			2,554	301,119
John D. Danforth(10) Senior Legal Advisor	2006	255,000		968,171	2,141,852(11)	296,201		11,274	3,672,498
Laura Sue Stark Senior Vice President, Platform Solutions	2006	255,000			2,312,180	343,217		11,455	2,921,852
Kevin S. Donnelly Senior Vice President, Technology Development	2006	246,000			2,273,933	317,895		11,625	2,849,453
Samir A. Patel(12) Former Senior Vice President, Product Development & Production	2006	240,000			1,609,941	307,095		37,205(13)	2,194,241

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(1) Stock awards consist of restricted stock granted in connection with the hiring of Mr. Rishi and RSUs as part of a special litigation incentive for Mr. Danforth. Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the dollar amounts recognized for financial statement reporting purposes by Rambus in fiscal year 2006 for stock awards in accordance with the provisions of SFAS 123(R). The assumptions used to calculate the value of stock awards are set forth under Note 9 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

(2) Amounts shown do not reflect compensation actually received by the named executive officers. Instead, the amounts shown are the dollar amounts, disregarding the estimate of forfeitures related to service-based vesting conditions, recognized for financial statement reporting purposes by Rambus in fiscal year 2006 for stock option awards in accordance with the provisions of SFAS 123(R). Stock compensation expense calculations for financial statement purposes spread the grant date cost of those awards over the service period. Therefore, amounts in this column include the expense for awards granted in fiscal year 2006 and previous years. The assumptions used to calculate the value of stock option awards are set forth under Note 9 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

(3) Amounts consist of bonuses earned for services rendered in fiscal year 2006 under our 2006 incentive plan.

(4) In addition to any amounts disclosed with respect to individual named executive officers, amounts reported in the All Other Compensation column consist of (1) matching contributions to the named executive officers 401(k) accounts, (2) premiums paid for health and welfare insurance policies, and (3) tax gross-ups of $312 per employee for PS3 entertainment systems provided to all of our employees.

(5) Mr. Hughes assumed the additional responsibility as our Chief Financial Officer from March 2, 2006 to April 10, 2006.

(6) Mr. Rishi joined Rambus as Senior Vice President, Finance and Chief Financial Officer on April 11, 2006.

(7) We provided Mr. Rishi with taxable and non-taxable relocation benefits valued at $165,740 and $31,835, respectively, and paid Mr. Rishi an additional $127,839 to cover tax expenses related to these relocation benefits. Mr. Rishi also received a $120,000 sign-on bonus.

(8) Mr. Eulau served as our Senior Vice President, Finance and Chief Financial Officer until March 1, 2006.

(9) As a result of his separation and pursuant to their terms, Mr. Eulau forfeited options representing 309,154 shares of Common Stock that were unvested at the time he ended his employment with us.

(10) Mr. Danforth served as our Senior Vice President, General Counsel and Secretary until July 27, 2006, at which time he assumed the non-executive position of senior legal advisor.

(11) On December 31, 2006, we amended two stock option agreements, each dated October 8, 2001, with Mr. Danforth to increase the exercise price per share from $8.00 to $11.72 for outstanding, unexercised stock options to purchase 59,445 shares of our Common Stock held by Mr. Danforth. The value of Mr. Danforth s stock option awards includes the deemed exchanged value of these options.

(12) Mr. Patel served as Senior Vice President, Product Development & Production until January 2, 2007.

(13) In connection with Mr. Patel s service in India through July 2006, we provided Mr. Patel with housing, education, and estimated tax related payments of $25,331.

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Grants of Plan Based Awards

The following table shows all plan-based awards granted to the named executive officers during fiscal year 2006. The option awards and the unvested portion of the stock awards identified in the table below are also reported in the Outstanding Equity Awards at Fiscal 2006 Year-End Table that follows.

Grants of Plan-Based Awards

For Fiscal Year 2006

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards Number of Shares or Stock Units (2)	All Other Option Awards: Number of Securities Underlying Options (3)	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock & Options Awards (4)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($/Sh)**	**(($)**
Harold E. Hughes	1/6/2006								270,000	22.94	3,866,643
		213,750	375,000	795,000							
Satish Rishi	4/11/2006							40,000		0.001	1,632,000
	4/11/2006								220,000	40.80	6,004,834
		114,000	200,000	424,000							
Robert K. Eulau	1/6/2006								75,000	22.94	1,074,068
		105,450	185,000	392,200							
John D. Danforth(5)	12/31/06								59,445	11.72	
	5/2/2006							26,780			999,965
	2/1/2006							36,603			999,994
	1/6/2006								100,000	22.94	1,432,090
		105,450	185,000	392,200							
Laura Sue Stark	1/6/2006								70,000	22.94	1,002,463
		111,150	195,000	413,400							
Kevin S. Donnelly	1/6/2006								70,000	22.94	1,002,463
		102,600	180,000	381,600							
Samir A. Patel	1/6/2006								70,000	22.94	1,002,463
		102,600	180,000	381,600							

(1) Amounts shown are estimated payouts for fiscal year 2006 to the named executive officers based on the 2006 bonus targets under the plan discussed under Compensation Discussion and Analysis 2006 Executive Compensation Components Performance-based Incentive Plan. Actual bonuses received by these named executive officers for fiscal 2006 are reported in the Summary Compensation for Fiscal Year 2006 table under the column entitled Non-Equity Incentive Plan Compensation.

(2) Stock awards consist of restricted stock granted in connection with the hiring of Mr. Rishi and RSUs granted as part of a special litigation incentive for Mr. Danforth.

(3) All options granted to the named executive officers in fiscal 2006 vest 10% after six months and the remaining options vest monthly in 1/60 increments.

(4) The value of a stock award or option award is based on the fair market value as of the grant date of such award determined pursuant to SFAS 123(R). Stock awards consist of restricted stock and RSU awards. The exercise price for all options granted to the named executive officers is 100% of the fair market value of the shares on the grant

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date. The option exercise price has not been deducted from the amounts indicated above. Regardless of the value placed on a stock option on the grant date, the actual value of the option will depend on the market value of our Common Stock at such date in the future when the option is exercised. The proceeds to be paid to the individual following this exercise do not include the option exercise price.

(5) In addition, as described under Compensation Discussion and Analysis 2006 Executive Compensation Components Employment and Retention Agreements, Mr. Danforth was entitled to certain additional bonuses if and when certain triggering events relating to outcomes in certain litigation matters occur during the term of his agreement. On December 31, 2006, we amended two Stock Option Agreements, each dated October 8, 2001, with Mr. Danforth to increase the exercise price per share from $8.00 to $11.72 for outstanding, unexercised stock options to purchase 59,445 shares of our Common Stock held by Mr. Danforth. The value of Mr. Danforth s stock option awards includes the deemed exchanged value of these options.

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Outstanding Equity Awards at Fiscal Year-End

The following table shows all outstanding equity awards held by the named executive officers as of December 31, 2006. Unvested stock awards reported in the Grants of Plan-Based Awards Table on the previous page are also included in the table below.

Outstanding Equity Awards

at Fiscal 2006 Year-End

	Option Awards					Stock Awards			
Name	**# of Securities Underlying Unexercised Option (#) Exercisable**	**# of Securities Underlying Unexercised Option (#) Unexercisable**	**Equity Incentive Plan Awards: # of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise ($)**	**Option Expiration Date**	**# of Shares or Units of Stock That Have Not Vested (#)**	**Mkt Value of Shares or Units of Stock That Have Not Vested ($)(6)**	**Equity Incentive Plan Awards: # of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Mkt or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Harold E. Hughes	119,791	130,209(1)		$ 21.5100	1/10/2015				
	35,000	5,000(2)		$ 17.5100	6/2/2013				
	5,376	9,167(3)		$ 16.0700	10/1/2014				
	49,500	220,500(4)		$ 22.9400	1/6/2016				
Satish Rishi	29,333	190,667(5)		$ 40.8000	4/11/2016	35,000(23)	$ 662,550		
Robert K. Eulau									
John D. Danforth	30,555(21)	0		$ 8.0000	10/8/2011	20,916(24)	$ 395,940		
	34,445(22)	0		$ 11.7200	10/8/2011	17,854(25)	$ 337,976		
	25,000(22)	0		$ 11.7200	10/8/2011				
	75,000	75,000(7)		$ 7.5000	4/10/2012				
	68,000	12,000(8)		$ 8.6370	11/21/2012				
	0	70,000(9)		$ 25.1600	11/25/2013				
	100,000	0(10)		$ 31.1600	1/30/2014				
	0	20,000(11)		$ 31.1600	1/30/2014				
	0	40,000(12)		$ 31.1600	1/30/2014				
	0	70,000(13)		$ 24.0400	12/3/2014				
	18,333	81,667(4)		$ 22.9400	1/6/2016				
Laura Sue Stark	140,000	0(14)		$ 15.6719	10/20/2009				
	60,000	0(19)		$ 54.6250	12/12/2010				
	20,000	0(16)		$ 4.8600	8/23/2011				
	15,000	15,000(8)		$ 8.6370	11/21/2012				
	50,000	0(18)		$ 25.1600	11/25/2013				
	0	65,000(20)		$ 25.1600	11/25/2013				
	0	85,000(9)		$ 25.1600	11/25/2013				
	0	85,000(13)		$ 24.0400	12/3/2014				
	12,833	57,167(4)		$ 22.9400	1/6/2016				
	0	80,000(15)		$ 2.5000	12/1/2009				

Kevin S. Donnelly	9,628	0(17)	$ 15.3125	2/18/2009
	50,000	0(18)	$ 25.1600	11/25/2013
	60,000	0(19)	$ 54.6250	12/12/2010
	60,000	0(16)	$ 4.8600	8/23/2011
	0	65,000(20)	$ 25.1600	11/25/2013
	68,372	0(17)	$ 15.3125	2/18/2009
	12,833	57,167(4)	$ 22.9400	1/6/2016
	60,000	15,000(8)	$ 8.6370	11/21/2012
	0	75,000(13)	$ 24.0400	12/3/2014
	0	80,000(15)	$ 2.5000	12/1/2009
	0	85,000(9)	$ 25.1600	11/25/2013
	160,000	0(14)	$ 15.6719	10/20/2009
Samir A. Patel	40,000	0(19)	$ 54.6250	12/12/2010
	60,000	0(14)	$ 15.6719	10/20/2009
	0	60,000(15)	$ 2.5000	12/1/2009
	47,223	0(16)	$ 4.8600	8/23/2011
	51,000	9,000(8)	$ 8.6370	11/21/2012
	30,000	0(18)	$ 25.1600	11/25/2013
	0	40,000(20)	$ 25.1600	11/25/2013
	0	50,000(9)	$ 25.1600	11/25/2013
	0	80,000(13)	$ 24.0400	12/3/2014
	12,833	57,167(4)	$ 22.9400	1/6/2016

(1) The option was granted on January 10, 2005. Options representing 1/48th of the shares vest monthly during the four year period following the grant date.
(2) The option was granted on June 2, 2003. Options representing 5,000 shares vested on December 2, 2003 and the remaining options vested in equal monthly installments until it was fully vested on June 2, 2007.
(3) The option was granted on October 1, 2004. Options representing 1/48th of the shares vest per month over the four year period following the grant date.
(4) The option was granted on January 6, 2006. Options representing 10% of the shares vested six months from the grant date and the remaining shares vest in equal monthly installments until it is fully vested on January 6, 2011.
(5) The option was granted on April 11, 2006. Options representing 10% of the shares vested six months from the grant date and the remaining shares vest in equal monthly installments until it is fully vested on April 11, 2011.
(6) The market value is calculated using the closing price of our Common Stock of $18.93 on December 29, 2006 (the last trading day of 2006), as reported on the Nasdaq Global Select Market, multiplied by the unvested stock amount.
(7) The option was granted on April 10, 2002. Options representing 1/24 th of the total grant began vesting in monthly installments on January 1, 2006.
(8) The option was granted on November 21, 2002. Options representing 1/60 th of the total grant began vesting in monthly installments on September 30, 2002.
(9) The option was granted on November 25, 2003. Options representing 1/12 th of the total grant will begin vesting in monthly installments on January 1, 2008.
(10) The option was granted on January 30, 2004. Options representing 1/24 th of the total grant vested in monthly installments over 24 months beginning on January 1, 2004. The option is now fully vested.
(11) The option was granted on January 30, 2004. Options representing 1/12 th of the total grant began vesting in monthly installments on January 1, 2007.
(12) The option was granted on January 30, 2004. Options representing 1/12 th of the total grant will begin vesting in monthly installments on January 1, 2008.
(13) The option was granted on December 3, 2004. Options representing 1/12 th of the total grant will begin vesting in monthly installments on January 1, 2009.
(14) The option was granted on October 20, 1999. Options representing 1/24th of the total grant vested in monthly installments beginning January 1, 2003. The option is now fully vested.
(15) The option was granted on December 1, 1999. The option is no longer eligible to vest due to vesting milestones that were never achieved.
(16) The option was granted on August 23, 2001. Options representing 50% of the total grant vested monthly over two years beginning September 30, 2001. The remaining 50% of the total grant vested monthly over three years beginning September 30, 2003. The option is now fully vested.
(17) The option was granted on February 18, 1999. Options representing 1/48th of the total grant vested in monthly installments beginning February 18, 1999. The option is now fully vested.
(18) The option was granted on November 25, 2003. Options representing 1/24th of the total grant vested in monthly installments beginning on January 1, 2005. The option is now fully vested.
(19) The option was granted on December 12, 2000. Options representing 1/12th of the total grant vested in monthly installments beginning on January 1, 2005. The option is now fully vested.
(20) The option was granted on November 25, 2003. Options representing 1/12th of the total grant began vesting on January 1, 2007 in monthly installments.

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(21) The option was granted on October 8, 2001. Due to the mispricing of this option grant, this grant was split into two grants. One of the two grants has already been fully exercised. Options representing 10% of the total grant vested six months from the grant date and the remaining shares vested in monthly installments. The options are now fully vested.

(22) The option was granted on October 8, 2001. Due to the mispricing of this option grant, this grant was split into two grants. Options representing 10% of the total grant vested six months from the grant date and the remaining shares vested in monthly installments. The options are now fully vested.

(23) The restricted stock award was granted on April 11, 2006. A portion of the restricted stock award representing 5,000 shares vested on April 24, 2007 and restricted stock representing 10,000 shares will vest on the first available trading day under our insider trading policy in April 2008, 2009 and 2010.

(24) The RSUs were granted on February 1, 2006. A portion of the RSUs representing 5,229 shares vested on January 22, 2007 and April 23, 2007. The remaining RSUs representing 5,229 shares will vest on July 23, 2007 and October 22, 2007.

(25) The restricted stock units were granted on May 2, 2006. A portion of the restricted stock units representing 4,463 shares vested on January 22, 2007 and April 23, 2007. The remaining restricted stock units representing 4,464 shares will vest on July 23, 2007 and October 22, 2007.

Each of the options and other equity awards reflected on the table above were issued under the 1997 Plan, the 1999 Plan or the 2006 Plan, which are plans that were or are available to all of our employees.

In the case of the 1997 Plan and the 1999 Plan, if a merger of the Company occurs, as defined in the relevant plan, each outstanding option or equity award will be assumed or an equivalent option or right substituted by the successor company. Following such assumption or substitution, if the participant s status as a service provider is terminated by the successor corporation as a result of an involuntary termination other than for cause, each as defined in the relevant plan, within twelve months following the merger, then the participant will fully vest and have the right to exercise all of his or her options and will convert any other equity awards into shares of Common Stock. In the event that the successor company refuses to assume or substitute for the equity award the participant will fully vest in and have the right to exercise all of his or her options or stock appreciation rights, including shares as to which such awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met immediately prior to the merger. In addition, if an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger, the administrator of the relevant plan will notify the participant that the option or stock appreciation right will be fully vested and exercisable for 15 days from such notice, and the option or stock appreciation right will terminate upon the expiration of such 15-day period.

In the case of the 2006 Plan, in the event of a change of control of the Company, as defined in the plan, each outstanding option or equity award will be assumed or an equivalent option or right substituted by the successor company. In the event that the successor company refuses to assume or substitute for the option or equity award, the participant will fully vest in and have the right to exercise all of his or her options or stock appreciation rights, including shares as to which such awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a change of control, the administrator of the 2006 Plan will notify the participant that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the administrator, and the option or stock appreciation right will terminate upon the expiration of such period.

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Option Exercises and Stock Vested

The following table shows all stock options exercised and value realized upon exercise, and all stock awards vested and value realized upon vesting, by the named executive officers during fiscal year 2006.

Option Exercises and Stock Vested Table

For Fiscal Year 2006

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise(1) ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting(2) ($)**
Harold E. Hughes	5,457	60,627		
Satish Rishi			5,000	83,795
Robert K. Eulau	463,846	10,343,583		
John D. Danforth	170,000	4,736,610	9,692(3)	144,120
			9,692(4)	162,438
			5,229	232,691
Laura Sue Stark	210,265	5,233,735		
Kevin S. Donnelly	154,000	3,982,973		
Samir A. Patel	148,431	3,235,394		

(1) The value realized equals the difference between the option exercise price and the sale price on the date of exercise, multiplied by the number of shares of Common Stock for which the option was exercised.
(2) The value realized equals the market value of our Common Stock on the vesting date, multiplied by the number of shares that vested.
(3) Of this amount, 140 shares of Common Stock were withheld by us to cover tax withholding obligations.
(4) Of this amount, 140 shares of Common Stock were withheld by us to cover tax withholding obligations.

Potential Payments Upon Termination or Change-in-Control

Mr. Danforth has entered into an employment agreement with the Company which provides for payment upon certain termination events and is described in detail under Compensation Discussion and Analysis 2006 Executive Compensation Components Employment and Retention Agreements above.

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Compensation of Directors

The following table shows compensation information for our current and former non-employee directors for 2006.

Director Compensation

For Fiscal Year 2006

Name	Fees Earned or Paid in Cash ($)	Stock Awards(1) ($)	Option Awards(2) ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
J. Thomas Bentley	30,000		142,519(3)			648	173,167
Sunlin Chou	19,097		199,190(4)			648	218,935
Bruce Dunlevie	25,000		190,043(5)			648	215,691
P. Michael Farmwald	25,000		177,123(6)			648	202,771
Penelope A. Herscher	11,753		73,127(7)			648	85,528
Kevin Kennedy	25,000		268,749(8)			648	294,397
David J. Mooring (9)			680,638(10)				680,638
Mark Pinto			(11)				
David Shrigley	5,571		30,333(12)			648	36,552
Abraham Sofaer	22,500		103,621(13)			8,123(14)	134,244
Geoff Tate (15)	15,208		159,997(16)			2,998	178,203

(1) None of the directors held any restricted stock units or restricted stock awards at the end of 2006.

(2) Amounts shown do not reflect compensation actually received by the non-employee directors. Instead, the amounts shown are the dollar amounts, disregarding the estimate of forfeitures related to service-based vesting conditions, recognized for financial statement reporting purposes by Rambus in fiscal year 2006 for stock option awards in accordance with the provisions of SFAS 123(R). Stock compensation expense calculations for financial statement purposes spread the grant date cost of those awards over the vesting period. Therefore, amounts in this column include the expense for awards granted in fiscal year 2006 and previous years. The assumptions used to calculate the value of stock option awards are set forth under Note 9 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

(3) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on March 11, 2005 at an exercise price of $14.00 per share, with a fair value as of the grant date of $9.20 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 3, 2005 at an exercise price of $12.11 per share, with a fair value as of the grant date of $7.09 disregarding forfeiture assumptions and (c) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Bentley had options to purchase an aggregate of 72,917 shares outstanding as of December 31, 2006.

(4) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on March 27, 2006 at an exercise price of $38.59 per share, with a fair value as of the grant date of $24.09 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Chou had options to purchase an aggregate of 60,000 shares outstanding as of December 31, 2006.

(5) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 20,000 shares of Common Stock made on October 1, 2002 at an exercise price of $4.72 per share, with a fair value as of the grant date of $3.44 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 1, 2003 at an exercise price of $17.04 per share, with a fair value as of the grant date of $13.04 disregarding forfeiture assumptions and (c) an option award of 20,000 shares of Common Stock made on October 1, 2004 at an exercise price of $16.07 per share, with a fair value as of the grant date of $12.28 disregarding forfeiture assumptions and (d) an option award of 20,000 shares of Common Stock made on October 3, 2005 at an exercise price of $12.11 per share, with a fair value as of the grant date of $7.09 disregarding forfeiture assumptions and (e) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Dunlevie had options to purchase an aggregate of 340,000 shares outstanding as of December 31, 2006.

(6) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 20,000 shares of Common Stock made on October 1, 2003 at an exercise price of $17.04 per share, with a fair value as of the grant date of $13.04 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 1, 2004 at an exercise price of $16.07 per share, with a fair value as of the grant date of $12.28 disregarding forfeiture assumptions and (c) an option award of 20,000 shares of Common Stock made on October 3, 2005 at an exercise price of $12.11 per share, with a fair value as of the grant date of $7.09 disregarding forfeiture assumptions and (d) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Farmwald had options to purchase an aggregate of 80,000 shares outstanding as of December 31, 2006.

(7) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on July 12, 2006 at an exercise price of $22.36 per share, with a fair value as of the grant date of $15.53 disregarding forfeiture assumptions. Ms. Herscher had options to purchase an aggregate of 40,000 shares outstanding as of December 31, 2006.

(8) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on March 31, 2003 at an exercise price of $13.21 per share, with a fair value as of the grant date of $9.17 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 1, 2003 at an exercise price of $17.04 per share, with a fair value as of the grant date of $13.04 disregarding forfeiture assumptions and (c) an option award of 20,000 shares of Common Stock made on October 1, 2004 at an exercise price of $16.07 per share, with a fair value as of the grant date of $12.28 disregarding forfeiture assumptions and (d) an option award of 20,000 shares of Common Stock made on October 3, 2005 at an exercise price of $12.11 per share, with a fair value as of the grant date of $7.09 disregarding forfeiture assumptions and (e) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Kennedy had options to purchase an aggregate of 120,000 shares outstanding as of December 31, 2006.

(9) Mr. Mooring s employment with us ended in February 2006, but he remained as a director until May 10, 2006. Mr. Mooring did not receive any compensation as a director in fiscal year 2006. Except as specifically disclosed, the amount reflected above do not include any amounts that Mr. Mooring received as an employee.

(10) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 600,000 shares of Common Stock made on August 23, 2001 at an exercise price of $4.86 per share, with a fair value as of the grant date of $10.52 disregarding forfeiture assumptions and (b) an option award of 400,000 shares of Common Stock made on November 21, 2002 at an exercise price of $8.64 per share, with a fair value as of the grant date of $6.38 disregarding forfeiture assumptions and (c) an option award of 200,000 shares of Common Stock made on November 25, 2003 at an exercise price of $25.16 per share, with a fair value as of the grant date of $24.76 disregarding forfeiture assumptions and (d) an option award of 85,000 shares of Common Stock made on December 3, 2004 at an exercise price of $24.04 per share, with a fair value as of the grant date of $19.43 disregarding forfeiture assumptions. The amount reflected as stock compensation expense recognized by us in 2006 is related to stock options granted to Mr. Mooring between 2001 and 2004 while he was an executive officer. When Mr. Mooring resigned from the board he forfeited all of his 680,001 unvested options to purchase Common Stock.

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(11) Due to corporate conflicts, Mr. Pinto resigned from Rambus Board on March 17, 2006. Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on March 10, 2006 at an exercise price of $31.36 per share, with a fair value as of the grant date of $19.58. Upon resignation, all of Mr. Pinto s stock options terminated. Mr. Pinto had no outstanding shares as of December 31, 2006.

(12) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on October 11, 2006 at an exercise price of $19.13 per share, with a fair value as of the grant date of $13.68 disregarding forfeiture assumptions. Mr. Shrigley had options to purchase an aggregate of 40,000 shares outstanding as of December 31, 2006.

(13) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 40,000 shares of Common Stock made on May 4, 2005 at an exercise price of $14.24 per share, with a fair value as of the grant date of $8.85 disregarding forfeiture assumptions and (b) an option award of 20,000 shares of Common Stock made on October 2, 2006 at an exercise price of $17.14 per share, with a fair value as of the grant date of $12.31 disregarding forfeiture assumptions. Mr. Sofaer had options to purchase an aggregate of 60,000 shares outstanding as of December 31, 2006.

(14) All other compensation for Mr. Sofaer includes quarterly retainer paid in Common Stock with a value of $7,475.

(15) Mr. Tate was an employee of Rambus until January 13, 2006, and he remained as a director and Chairman of the Board until August 13, 2006. Except as specifically disclosed, the amounts reflected above do not include any amounts that Mr. Tate received as an employee.

(16) Reflects the compensation costs recognized by Rambus in 2006 associated with (a) an option award of 600,000 shares of Common Stock made on August 23, 2001 at an exercise price of $4.86 per share, with a fair value as of the grant date of $10.52 disregarding forfeiture assumptions and (b) an option award of 400,000 shares of Common Stock made on November 21, 2002 at an exercise price of $8.64 per share, with a fair value as of the grant date of $6.38 disregarding forfeiture assumptions and (c) an option award of 200,000 shares of Common Stock made on November 25, 2003 at an exercise price of $25.16 per share, with a fair value as of the grant date of $20.34 disregarding forfeiture assumptions and (d) an option award of 150,000 shares of Common Stock made on November 25, 2003 and an exercise price of $25.16 per share, with a fair value as of the grant date of $19.27 disregarding forfeiture assumptions and (e) an option award of 100,000 shares of Common Stock made on December 3, 2004 at an exercise price of $24.04 per share, with a fair value as of the grant date of $19.43 disregarding forfeiture assumptions. The amount reflected as stock compensation expense recognized by us in 2006 is related to stock options granted to Mr. Tate between 2001 and 2004 while he was an executive officer. Effective January 13, 2006, at his request, Mr. Tate entered into an agreement with us pursuant to which Mr. Tate agreed to cancel an aggregate of 665,000 unvested options to purchase Common Stock and 500,000 unvested Common Stock equivalents held by him. This action was taken by Mr. Tate unilaterally in connection with his wishing to conform his compensation going forward as a non-employee Board member to our then current policies with respect to Board and executive compensation. Mr. Tate resigned from the Board of Directors on August 13, 2006, and thus his remaining 2,736,800 options expired by their terms on November 13, 2006.

Overview of Compensation and Procedures

We review the level of compensation of our independent directors on an annual basis. To determine the appropriate level of compensation for independent directors we have historically obtained data from a number of different sources including:

- publicly available data describing director compensation in Compensation Peer Group companies and
- survey data collected by our human resources department.

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As part of the ongoing strategy to modify the composition of our Board through the addition of independent directors, in 2006 we evaluated and recommended several changes to director cash compensation. Since 2005, we have added the following independent Directors; Thomas Bentley, Abraham Sofaer, Sunlin Chou, Penelope Herscher, and David Shrigley. We compensate non-employee members of the board through a mixture of cash and equity-based compensation. In 2006, each independent director received an annual retainer of $25,000 paid in quarterly installments for their services as a director. The Chairpersons of the Audit Committee and Legal Affairs Committee each received an annual retainer of $30,000 paid in quarterly installments. After reviewing market data against our Compensation Peer Group, multiple surveys and public sources, and considering the time commitment that frequent meetings required of our directors, the Compensation Committee recommended and the Board considered and approved a proposal to raise our cash compensation for non-employee independent directors. In 2007, we will pay each of our independent directors an annual retainer of $40,000, our Chairperson and the Audit Committee Chairperson will each receive an annual retainer of $65,000, our Compensation Committee and all other committee chairs will receive an annual retainer of $50,000. In addition, as a result of the effort and time expended by our independent directors on the investigation of historical stock option grants and related matters, in 2007, once we are current with our SEC filing obligations, we will pay each member of the Special Litigation Committee a one-time payment of $75,000 and each of our other independent directors serving on the Audit Committee and the Compensation Committee a one-time payment of $35,000.

Each independent director is granted an initial option to purchase 40,000 shares of Common Stock when he or she is first appointed a member of our Board of Directors. On the first trading day of October each year, each independent director receives an annual stock option grant to purchase 20,000 shares of our Common Stock at a price equal to the fair market value of our Common Stock on the date of grant, so long as that director have been serving on the Board for at least six months on such date. The expiration date of such options may not exceed ten years. The automatic option grants generally vest over a four-year period, with one-eighth of shares subject to the option vesting six months after the date of grant and the remaining shares vesting ratably each month thereafter, subject to the independent director continuing to provide services to us through each applicable vesting date. The automatic grants do not limit the ability of the administrator of the 2006 Plan to grant other discretionary awards to independent directors under the plan, and the administrator has the discretion to change the terms of the automatic grants prospectively.

Awards granted to the independent directors under the 2006 Plan are generally not transferable, and all rights with respect to an award granted to a participant generally will be available during a participant s lifetime only to the participant.

Each of the options granted to our independent directors was issued under the 1997 Plan or the 2006 Plan, which are plans that are available to all of our employees. As described under Item 11, Executive Compensation, Outstanding Equity Awards at Fiscal Year-End, the 1997 Plan provides for certain acceleration upon a merger of the Company, as defined under the 1997 Plan, and the 2006 Plan provides for certain acceleration upon a change of control of the Company, as defined under the 2006 Plan. In addition, with respect to options and any other equity awards granted to non-employee directors that are assumed or substituted for upon a change of control under the 2006 Plan, if the non-employee director is terminated other than upon a voluntary resignation, the options and other equity awards granted to such non-employee director will fully vest and be exercisable with respect to 100% of the shares subject to such options and other equity awards.

Pursuant to stock ownership guidelines adopted by the Board, each independent director will be expected to accumulate and hold an equivalent value of our Common Stock of 2 times their annual total cash compensation and to achieve this within five years from January 1, 2007 or the date that the director joined the Board, whichever is later. Directors are expected to maintain this minimum amount of stock ownership throughout their tenure on the Board.

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Compensation Committee Interlocks and Insider Participation

During fiscal year 2006, no interlocking relationship existed between any member of our Compensation Committee and any member of any other company s board of directors or compensation committee, nor has any such interlocking relationship existed in the past. With the exception of Dr. Farmwald while he was on the Compensation Committee, during fiscal year 2006, no member of the Compensation Committee was, or was formerly, an officer or an employee of us. As of October 2006, Dr. Farmwald was no longer a member of the Compensation Committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Equity Compensation Plan Information

The following table provides information as of December 31, 2006 with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

Plan Category	A Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	B Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Security Holders (1)	13,236,039	$ 18.10	10,772,138
Equity Compensation Plans Not Approved by Security Holders (2)	5,585,463	$ 18.53	
Total	18,821,502		10,772,138

(1) Data reflects our 1990 Stock Plan (the 1990 Plan), 1997 Stock Plan (the 1997 Plan), 2006 Equity Incentive Plan (the 2006 Plan), 1997 Employee Stock Purchase Plan (the 1997 Purchase Plan) and 2006 Employee Stock Purchase Plan (the 2006 Purchase Plan).

Our 2006 Plan was approved by our stockholders at our 2006 annual meeting. Under the 2006 Plan as approved, a total of 8,400,000 shares of our Common Stock were reserved for issuance. The 2006 Purchase Plan was approved by our stockholders at our 2006 annual meeting. Under the 2006 Purchase Plan as approved, a total of 1,600,000 shares of our Common Stock were reserved for purchase. No offerings have been made under this plan.

Our 1990 Stock Plan was terminated in May 1997 with the adoption of the 1997 Stock Plan. Although no further awards may be made thereunder, the plan continues to govern outstanding awards granted under that plan.

As a result of the stockholder approval of our 2006 Plan, we terminated the 1997 Plan so that, as of the date of termination, no further awards have been or will be made thereunder, but the plan will continue to govern outstanding awards granted under that plan.

The 1997 Purchase Plan will expire at the conclusion of the last offering period on October 31, 2007, with no further offerings to purchase shares of our Common Stock under this plan occurring after expiration. The shares of

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Common Stock reflected in Column A include shares that would be issued in exchange for cash received from employees as of December 31, 2006. The majority of the shares of Common Stock remaining under the 1997 Purchase Plan are not expected to be issued as any remaining shares that are not sold in the October 31, 2007 purchase will not be available for sale pursuant to the expiration of the plan.

(2) Data reflects our 1999 Nonstatutory Stock Option Plan described below.

1999 Nonstatutory Stock Option Plan

The 1999 Nonstatutory Stock Option Plan is our only equity compensation plan that was not approved by our stockholders. As a result of the stockholder approval of our 2006 Equity Incentive Plan, we terminated the 1999 Nonstatutory Stock Option Plan so that, as of the date of termination, no further awards have been or will be made thereunder, but the plan will continue to govern outstanding awards granted under that plan.

Security Ownership of Certain Beneficial Owners and Management

Under the proxy rules of the SEC, a person who directly or indirectly has or shares voting power or investment power with respect to a security is considered a beneficial owner of the security. Voting power is the power to vote or direct the voting of shares, and investment power is the power to dispose of or direct the disposition of shares. Shares as to which voting power or investment power may be acquired within 60 days are also considered as beneficially owned under the proxy rules.

The following table sets forth certain information as of May 31, 2007, regarding beneficial ownership of our Common Stock by: (i) each person who is known to us to own beneficially more than five percent (5%) of our Common Stock; (ii) each of our current directors; (iii) each of the named executive officers in the Summary Compensation Table of this annual report; and (iv) the total for our current directors and current executive officers as a group. The information on beneficial ownership in the table and the footnotes is based upon our records and the most recent Schedule 13D or 13G filed by each such person or entity and information supplied to us by such person or entity. For our named executive officers who are no longer employed by us, the information on beneficial ownership reflects the most recent records we have for such person as of their separation date. Unless otherwise indicated, each person has sole voting power and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares subject to options which are exercisable within 60 days of May 31, 2007 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person.

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Name or Group of Beneficial Owners	Number of Shares Beneficially Owned	Options Exercisable in 60 Days	Percentage of Shares Beneficially Owned (1)
PRIMECAP Management Company (2) 225 South Lake Ave. #400 Pasadena, CA 91101	11,016,227		10.61%
Vanguard Horizon Funds Vanguard Capital (3) Opportunity Fund 100 Vanguard Blvd. Malvern, PA 19355	5,205,000		5.01%
FMR Corp. and affiliates (4) 82 Devonshire Street Boston, MA 02109	5,140,000		4.95%
Harold Hughes, Director, Chief Executive Officer and President	365,543	285,543	*
Satish Rishi, Senior Vice President, Finance and (5) Chief Financial Officer	95,000	55,000	*
Robert K. Eulau, Senior Vice President and (6) Chief Financial Officer	71,906		*
John Danforth, Senior Legal Advisor (7)	525,708	418,500	*
Laura Sue Stark, Senior Vice President, Platform Solutions	408,916	348,500	*
Kevin S. Donnelly, Senior Vice President, Technology Development	559,542	531,500	*
Samir A. Patel, Former Senior Vice President, (8) Product Development and Production	92,006		*
J. Thomas Bentley, Director	35,833	28,750	*
Sunlin Chou, Director (9)	17,083	17,083	*
Bruce Dunlevie, Director (10)	670,492	305,000	*
P. Michael Farmwald, Director	2,823,236	45,000	2.72%
Penelope A. Herscher, Director (11)	10,000	10,000	*
Mark Horowitz, Director	1,433,476	58,500	1.38%
Kevin Kennedy, Chairman of the Board	85,000	85,000	*
David Shrigley, Director (12)	7,500	7,500	*
Abraham D. Sofaer, Director	27,047	25,416	*
All current directors and executive officers as a group (17 persons)	6,808,230	2,071,958	6.56%

* (Less than 1%)

(1) Percentage of shares beneficially owned is based on 103,820,383 shares outstanding as of May 31, 2007.

(2) As reported on Schedule 13G/A filed on March 8, 2007.

(3) As reported on Schedule 13G/A filed on February 14, 2007.

(4) As reported on Schedule 13G filed on February 14, 2007. The Schedule 13G was filed jointly by FMR Corp. and Edward C. Johnson 3d with respect to a subsidiary and fund of FMR Corp. that own the shares.

(5) Mr. Rishi was appointed to his position effective April 11, 2006.

(6) Mr. Eulau resigned from his position effective March 2, 2006.

(7) Effective July 27, 2006, Mr. Danforth left the position of Senior Vice President, General Counsel and assumed the non-executive officer position of senior legal advisor. Mr. Danforth s Number of Shares Beneficially Owned includes 29,076 shares of Common Stock that will be issued to Mr. Danforth upon conversion of outstanding RSUs once we are current with our SEC filings.

(8) Mr. Patel resigned from his position effective January 2, 2007.

(9) Dr. Chou was appointed to our Board of Directors on March 27, 2006.
(10) Includes 16,000 shares held by Mr. Dunlevie as a trustee for his children and 129,332 shares held jointly with his spouse, Elizabeth W. Dunlevie.
(11) Ms. Herscher was appointed to our Board of Directors on July 14, 2006.
(12) Mr. Shrigley was appointed to our Board of Directors on October 13, 2006.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons

In October 2002, we licensed our serial link technology to NetXen, Inc. (formerly known as Universal Network Machines, Inc.) in exchange for a license fee and royalties based on NetXen s sales of products incorporating the licensed technology. This agreement was approved by a majority of the independent and disinterested members of the Board. Bruce Dunlevie, a member of our Board, is a director of NetXen.

In February 2003, we licensed our serial link technology to Raza Microelectronics, Inc. in exchange for a license fee, engineering fees and royalties based on Raza Microelectronics, Inc. s sales of products incorporating the licensed technology. In November 2003, we signed an amendment to its serial link technology agreement with Raza Microelectronics, Inc. in exchange for an additional license fee, engineering fees, and royalties based on Raza Microelectronics Inc. s sales of products incorporating the licensed technology. This amendment was approved by a majority of the independent and disinterested members of our Board. Bruce Dunlevie, a member of our Board, is a director of Raza Microelectronics, Inc.

Review, Approval or Ratification of Transactions with Related Persons

Our directors and executive officers are subject to our Code of Business Conduct and Ethics and our directors are guided in their duties by our Corporate Governance Guidelines. Our Code of Business Conduct and Ethics demands that our directors and executive officers avoid situations where a conflict of interest might occur or appear to occur. In general, our directors and executive officers should not have a pecuniary interest in transactions involving us or a customer, licensee, or supplier of us, unless such interest is solely a result of routine investments made by the individual in publicly traded companies.

In the event that a director or executive officer is going to enter into a related party transaction with a relative or significant other, or with a business in which a relative or significant other is associated in any significant role, the director or executive officer must fully disclose the nature of the related party transaction to the Chief Financial Officer. For directors and executive officers, such related party transaction then must be reviewed and approved in writing in advance by the Audit Committee. For other conflicts of interest that may arise, the Code of Business Conduct and Ethics advises our directors and executive officers to consult with the General Counsel.

In addition, on an annual basis and upon any new appointment, each director and executive officer is required to complete a Director and Officer Questionnaire which requires disclosure of any related party transactions pertaining to the director or executive officer. Our Board of Directors will consider such information in its determinations of independence with respect to our directors under NASD Rule 4200 and the applicable rules promulgated by the SEC.

Board Independence

Our Board of Directors has determined that each of the following directors, constituting a majority of our Board of Directors, has no material relationship with us (either directly as a partner, stockholder or officer of an organization that has a relationship with us) and is independent as defined under NASD Rule 4200 and the applicable rules promulgated by the SEC:

J. Thomas Bentley	Kevin Kennedy
Sunlin Chou	David Shrigley
Bruce Dunlevie	Abraham D. Sofaer
Penelope A. Herscher	

Each of the committees of our Board of Directors is composed of independent directors as follows:

Audit Committee:	J. Thomas Bentley (Chair)
	Sunlin Chou
	Abraham D. Sofaer
Compensation Committee:	Penelope A. Herscher (Chair)
	Kevin Kennedy
	David Shrigley
Corporate Governance/Nominating Committee:	Kevin Kennedy (Chair)
	Sunlin Chou
	Penelope A. Herscher
Legal Affairs Committee:	Abraham D. Sofaer (Chair)
	J. Thomas Bentley
Special Litigation Committee:	J. Thomas Bentley
	Abraham D. Sofaer

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Item 14. Principal Accountant Fees and Services

PricewaterhouseCoopers LLP (or its predecessor, Coopers & Lybrand L.L.P.) has audited our financial statements since 1991. The aggregate fees billed for professional accounting services by PricewaterhouseCoopers LLP for the fiscal years ended December 31, 2006, and December 31, 2005 are as follows:

	Fiscal Year Ended December 31, 2006	Fiscal Year Ended December 31, 2005
Audit Fees (1)	$ 2,163,546	$ 993,644
Audit-Related Fees		
Tax Fees (2)	40,851	14,696
All other Fees (3)	2,437	2,474
Total Fees	$ 2,206,834	$ 1,010,814

(1) Audit Fees consist of fees for PricewaterhouseCoopers LLP s professional services rendered for the audit of the Company s consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports. Fees relating to professional services rendered for the audits of management s assessment of the effectiveness of internal controls over financial reporting and the effectiveness of internal control over financial reporting are included under Audit Fees .

(2) Tax Fees primarily relate to statutory tax compliance and technical tax advice in both years presented.

(3) All Other Fees consist of fees for products and services other than the services described above. During fiscal 2006 and fiscal 2005, these fees related to a license to PricewaterhouseCoopers LLP s online accounting and auditing research tool and disclosure checklist.

Policy on Audit Committee Pre-Approval of Audit and the Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee s policy is to pre-approve 100% of all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

Independence of PricewaterhouseCoopers LLP

The Audit Committee has determined that the accounting advice and tax services provided by PricewaterhouseCoopers LLP are compatible with maintaining PricewaterhouseCoopers LLP s independence.

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PART IV

Item 15. Exhibits and Financial Statement Schedules
(a)(1) Financial Statements

The following consolidated financial statements of the Registrant and Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included herewith:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Rambus Inc.:

We have completed integrated audits of Rambus Inc. s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15 (a)(1) present fairly, in all material respects, the financial position of Rambus Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company has restated its 2005 and 2004 consolidated financial statements.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements, effective January 1, 2006, the Company changed the manner in which it accounts for stock-based compensation.

Internal control over financial reporting

Also, we have audited management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that Rambus Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the Company s insufficient personnel with appropriate accounting knowledge and training, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The

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Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment:

Insufficient personnel with appropriate accounting knowledge and training. The Company lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with their financial reporting requirements.

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Specifically, this control deficiency resulted in audit adjustments that corrected an understatement of revenue and adjustments to deferred revenue, deferred rent, property and equipment, depreciation, consulting expenses and certain accrual accounts and disclosures in the consolidated financial statements for the year ended December 31, 2006, primarily arising from an insufficient review by the Company as to relevant information obtained through communications with personnel in operations and through review of certain key contracts and agreements of unique transactions for such accounts. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management s assessment that Rambus Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Rambus Inc. has not maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

/s/ PricewaterhouseCoopers LLP

San Jose, California

September 14, 2007

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RAMBUS INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except shares and per share amounts)	December 31, 2006	December 31, 2005 As restated (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,304	$ 42,391
Marketable securities	351,055	118,416
Accounts receivable	846	954
Unbilled receivables	1,748	
Deferred and prepaid taxes	11,388	3,827
Prepaids and other current assets	4,403	4,419
Total current assets	442,744	170,007
Marketable securities, long term	11,982	194,583
Restricted cash	2,287	2,279
Deferred taxes, long term	98,193	98,544
Intangible assets, net	18,697	23,650
Property and equipment, net	26,019	19,622
Goodwill	3,315	3,315
Other assets	1,380	3,953
Total assets	$ 604,617	$ 515,953
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,429	$ 4,374
Accrued salaries and benefits	12,788	5,894
Accrued litigation expenses	23,143	4,633
Other accrued liabilities	6,075	4,538
Convertible notes	160,000	
Deferred revenue	6,003	973
Total current liabilities	218,438	20,412
Convertible notes		160,000
Deferred revenue, less current portion	1,554	8,317
Other long-term liabilities	2,337	3,757
Total liabilities	222,329	192,486
Commitments and contingencies (Note 7 and 17)		
STOCKHOLDERS EQUITY		
Convertible preferred stock, $.001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: no shares at December 31, 2006 and December 31, 2005		
Common Stock, $.001 par value:		
Authorized: 500,000,000 shares;		
Issued and outstanding: 103,820,383 shares at December 31, 2006 and 99,397,257 shares at December 31, 2005	104	99
Additional paid in capital	550,210	478,519

Deferred stock-based compensation		(20,122)
Accumulated deficit	(167,396)	(133,382)
Accumulated other comprehensive loss	(630)	(1,647)
Total stockholders equity	382,288	323,467
Total liabilities and stockholders equity	$ 604,617	$ 515,953

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

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RAMBUS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Twelve Months Ended		
(in thousands, except per share amounts)	2006	December 31, 2005 As restated (1)	2004 As restated (1)
Revenues:			
Contract revenues	$ 26,408	$ 26,876	$ 24,742
Royalties	168,916	130,322	120,132
Total revenues	195,324	157,198	144,874
Costs and expenses:			
Cost of contract revenues *	30,392	23,733	23,527
Research and development *	68,977	49,116	38,303
Marketing, general and administrative *	104,561	80,418	62,270
Costs of restatement and related legal activities	31,436		
Total costs and expenses	235,366	153,267	124,100
Operating income (loss)	(40,042)	3,931	20,774
Interest and other income, net	14,337	34,830	8,368
Income (loss) before income taxes	(25,705)	38,761	29,142
Provision for (benefit from) income taxes	(11,889)	9,821	6,781
Net income (loss)	$ (13,816)	$ 28,940	$ 22,361
Net income (loss) per share:			
Basic	$ (0.13)	$ 0.29	$ 0.22
Diluted	$ (0.13)	$ 0.28	$ 0.21
Weighted average shares used in per share calculations:			
Basic	103,048	99,876	101,931
Diluted	103,048	103,530	108,547

* Includes stock-based compensation:

Cost of contract revenues	$ 8,155	$ 3,897	$ 3,293
Research and development	$ 14,902	$ 8,056	$ 5,664
Marketing, general and administrative	$ 17,466	$ 8,507	$ 9,818

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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RAMBUS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at December 31, 2003, as previously reported	99,154	$ 99	$ 278,187	$	$ (38,407)	$ 201	$ 240,080
Cumulative effect of restatement			159,526	(50,775)	(86,474)		22,277
Balances at December 31, 2003, as restated (1)	99,154	99	437,713	(50,775)	(124,881)	201	262,357
Components of comprehensive income:							
Net income					22,361		22,361
Foreign currency translation adjustments						48	48
Unrealized loss on marketable securities, net of tax						(1,127)	(1,127)
Total comprehensive income							21,282
Issuance of Common Stock upon exercise of options and employee stock purchase plan	5,162	5	45,082				45,087
Repurchase and retirement of Common Stock under repurchase plan	(1,345)	(1)	(21,652)				(21,653)
Deferred stock-based compensation			17,403	(17,403)			
Adjustment of deferred stock-based compensation for unvested cancellations			(4,987)	4,987			
Amortization of deferred stock-based compensation				23,309			23,309
Tax benefit of equity incentive plans			23,194				23,194
Balances at December 31, 2004, as restated (1)	102,971	103	496,753	(39,882)	(102,520)	(878)	353,576
Components of comprehensive income:							
Net income					28,940		28,940
Foreign currency translation adjustments						(160)	(160)
Unrealized loss on marketable securities, net of tax						(609)	(609)
Total comprehensive income							28,171
Issuance of Common Stock upon exercise of options, restricted stock, and employee stock purchase plan	1,455	1	8,522				8,523
Repurchase and Retirement of Common Stock under repurchase plan	(5,029)	(5)	(28,359)		(59,802)		(88,166)

Deferred stock-based compensation			2,967	(2,967)			
Reversal of deferred stock-based compensation			(2,033)	2,033			
Adjustment of deferred stock-based compensation for unvested cancellations				20,694			20,694
Tax benefit of equity incentive plans			669				669
Balances at December 31, 2005, as restated (1)	99,397	99	478,519	(20,122)	(133,382)	(1,647)	323,467
Components of comprehensive income:							
Net loss					(13,816)		(13,816)
Foreign currency translation adjustments						(24)	(24)
Unrealized gain on marketable securities, net of tax						1,041	1,041
Total comprehensive loss							(12,799)
Issuance of Common Stock upon exercise of options, restricted stock, and employee stock purchase plan	5,123	6	57,553				57,559
Repurchase and retirement of Common Stock under repurchase plan	(700)	(1)	(756)		(20,198)		(20,955)
Stock-based compensation			38,908				38,908
Reversal of deferred stock-based compensation			(20,122)	20,122			
Tax shortfall, net from equity incentive plans			(3,892)				(3,892)
Balances at December 31, 2006	103,820	$ 104	$ 550,210	$	$ (167,396)	$ (630)	$ 382,288

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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RAMBUS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Cash flows from operating activities:			
Net income (loss)	$ (13,816)	$ 28,940	$ 22,361
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation	40,523	20,460	18,775
Depreciation	11,248	9,102	5,646
Amortization of intangible assets and note issuance costs	8,409	5,410	2,501
Tax benefit (shortfall) from equity incentive plans	(3,892)	669	23,194
Write-off of cost-based investment	163		
Gain on repurchase of convertible notes		(24,014)	
Gain on sale of investment			(3,598)
Loss on disposal of property and equipment	342	221	
Change in operating assets and liabilities:			
Accounts receivable and unbilled receivables	(1,640)	481	8,828
Prepaids, deferred taxes and other assets	(7,940)	5,680	(22,262)
Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities	31,761	1,377	6,637
Increases in deferred revenue	22,226	17,384	14,116
Decreases in deferred revenue	(23,959)	(31,917)	(32,495)
Net cash provided by operating activities	63,425	33,793	43,703
Cash flows from investing activities:			
Purchases of property and equipment	(14,904)	(8,036)	(11,934)
Purchases of leasehold improvements	(3,083)	(531)	(325)
Acquisition of intangible assets	(300)	(2,500)	(11,084)
Acquisition of business	(1,000)	(5,434)	
Purchases of marketable securities	(215,188)	(347,700)	(119,456)
Maturities of marketable securities	166,191	222,142	76,812
Decrease (increase) in restricted cash	(8)	2,788	(491)
Proceeds from sale of investment			5,598
Net cash used in investing activities	(68,292)	(139,271)	(60,880)
Cash flows from financing activities:			
Payments under installment payment arrangement	(800)	(400)	
Net proceeds from issuance of Common Stock under stock options and employee stock purchase plan	57,559	8,523	45,087
Repurchase and retirement of Common Stock	(20,955)	(88,166)	(21,653)
Net proceeds from issuance of convertible notes		292,750	
Repurchase of convertible notes		(112,988)	
Net cash provided by financing activities	35,804	99,719	23,434
Effect of exchange rates on cash and cash equivalents	(24)	(160)	48
Net increase (decrease) in cash and cash equivalents	30,913	(5,919)	6,305
Cash and cash equivalents at beginning of period	42,391	48,310	42,005

Cash and cash equivalents at end of period	$	73,304	$	42,391	$	48,310
Non-cash investing and financing activities:						
Property and equipment acquired under installment payment arrangement	$		$	2,800	$	
Supplemental disclosure of cash flow information:						
Taxes paid	$	234	$	2,624	$	7,737
Taxes refunded	$	519	$		$	499

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(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

RAMBUS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Formation and Business of the Company

Rambus Inc. (the Company or Rambus) designs, develops and licenses chip interface technologies that are foundational to nearly all digital electronics products. Rambus chip interface technologies are designed to improve the time-to-market, performance, and cost-effectiveness of its customers semiconductor and system products for computing, communications and consumer electronics applications. Rambus was incorporated in California in March 1990 and reincorporated in Delaware in March 1997.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Overview

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

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

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

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

Royalty Revenues

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

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

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

Contract Revenues

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

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

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

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

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

Allowance for Doubtful Accounts

Rambus allowance for doubtful accounts is determined using a combination of factors to ensure that Rambus trade and unbilled receivables balances are not overstated due to uncollectibility. The Company performs ongoing customer credit evaluation within the context of the industry in which it operates, does not require collateral, and maintains allowances for potential credit losses on customer accounts when deemed necessary. A specific allowance for a doubtful account up to 100% of the invoice or unbilled value will be provided for any problematic customer balances. Delinquent account balances are written-off after management has determined that the likelihood of collection is not possible. For all periods presented, Rambus had no allowance for doubtful accounts.

Research and Development

Costs incurred in research and development, which include engineering expenses, such as salaries and related benefits, depreciation, professional services and overhead expenses related to the general development of Rambus products, are expensed as incurred. Software development costs are capitalized beginning when a product s technological feasibility has been established and ending when a product is available for general release to customers. Rambus has not capitalized any software development costs since the period between establishing technological feasibility and general customer release is relatively short and as such, these costs have not been significant.

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Income Taxes

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for expected future tax events that have been recognized differently in Rambus consolidated financial statements and tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of the enacted tax law and the effects of future changes in tax laws and rates. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

Stock-Based Compensation

For the years ended December 31, 2006, 2005 and 2004, the Company maintained stock plans covering a broad range of potential equity grants including stock options, restricted stock, performance stock and stock units. In addition, the Company sponsors an Employee Stock Purchase Plan (ESPP), whereby eligible employees were entitled to purchase Common Stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the Common Stock as of specific dates. See Note 8, Employee Stock Option Plans, of Notes to Consolidated Financial Statements for a detailed description of the Company s plans.

Effective January 1, 2006, Rambus adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), which is a revision of Statement of Financial Accounting Standards No. 123 *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123(R) supersedes Rambus previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and disclosure under SFAS 123. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). Rambus has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Under SFAS 123(R), compensation cost for all stock-based awards, including grants of employee stock options, restricted stock and other equity awards, is measured at fair value at grant date and recognized as compensation expense on a straight line basis over the employees expected requisite service period. In addition, SFAS 123(R) requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. The Company selected the modified prospective method of adoption, which recognizes compensation expense for the fair value of all share-based payments granted after January 1, 2006 and for the fair value of all awards granted to employees prior to January 1, 2006 that remain unvested on the date of adoption. This method does not require a restatement of prior periods. However, awards granted and still unvested on the date of adoption will be attributed to expense under SFAS 123(R), including the application of forfeiture rate on a prospective basis. Rambus forfeiture rate represents the historical rate at which Rambus stock-based awards were surrendered prior to vesting over the trailing four years. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, the Company accounted for forfeitures as they occurred, for the purposes of pro forma information under SFAS 123.

Periods prior to the adoption of SFAS 123(R)

Prior to January 1, 2006, the Company accounted for employee stock-based awards and its ESPP using the intrinsic value method in accordance with APB 25, FASB Interpretation No. 44 (FIN 44), *Accounting for Certain Transactions Involving Stock-Based Compensation, an Interpretation of APB Opinion No. 25,* FASB Technical Bulletin No. 97-1 (FTB 97-1) *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*, and related interpretations. The Company accounted for non-employee stock-based awards under the fair value method in accordance with EITF No. 96-18 *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Under the intrinsic value method, no stock-based compensation expense for options had been recognized in the Company s Consolidated Statement of Operations if the exercise price of the Company s stock options granted to employees and directors equaled the fair

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market value of the underlying stock at the date of grant and shares granted under the ESPP were not issued at greater than a 15% discount. As a result of the Company s stock option investigation, it was determined that there were a significant number of grants that were issued below fair market value and the accounting disclosures and related charges are reflected in Note 3, Restatement of Consolidated Financial Statements of Notes to Consolidated Financial Statements.

Had stock-based compensation for 2005 and 2004 been determined based on the estimated fair value at the grant date for all equity awards consistent with the provisions of SFAS 123, the Company s net income and earnings per share for the years ended December 31, 2005 and 2004, as restated, would have been adjusted to the following pro forma amounts:

(in thousands, except per share amounts)	**2005 As restated (2)**	**2004 As restated (2)**
Net income, as reported	$ 28,940	$ 22,361
Add: Stock-based employee compensation expense included in reported net earnings, net of tax	7,228	11,217
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(45,171)	(44,988)
Pro forma net loss	$ (9,003)	$ (11,410)
Basic earnings (loss) per share		
As reported	$ 0.29	$ 0.22
Pro forma	$ (0.09)	$ (0.11)
Diluted earnings (loss) per share		
As reported	$ 0.28	$ 0.21
Pro forma (1)	$ (0.09)	$ (0.11)
Weighted average shares used in per share calculations:		
Basic	99,876	101,931
Diluted (1)	103,530	108,547

(1) Because 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 is the same as the basic shares. Using the actual diluted shares would be anti-dilutive.

(2) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

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Adoption of SFAS 123(R)

Effective January 1, 2006, Rambus adopted SFAS 123(R), which requires the measurement and recognition of compensation expense in the Company s statement of operations for all share-based payment awards made to Rambus employees and directors, including employee stock options and employee stock purchases related to all Rambus stock-based compensation plans based on estimated fair values.

SFAS 123(R) requires companies to estimate the fair value of stock-based compensation on the date of grant using an option-pricing model. The fair value of the award is recognized as expense over the requisite service periods in Rambus consolidated statement of operations using the straight-line method consistent with the methodology used under SFAS 123. Under SFAS 123(R) the attributed stock-based compensation expense must be reduced by an estimate of the annualized rate of stock option forfeitures. The unrecognized expense of awards not yet vested at the date of adoption is recognized in net income (loss) in the periods after the date of adoption, using the same valuation method and assumptions determined under the original provisions of SFAS 123, Additionally, Rambus deferred stock compensation balance of $20.1 million as of December 31, 2005 (as restated), which was accounted for under APB 25, was reclassified into its additional paid in capital upon the adoption of SFAS 123(R) on January 1, 2006.

The incremental effect of adopting SFAS 123(R) for the year ended December 31, 2006, including the effect of the restatements, was as follows:

(in thousands except per share data)	**Year ended December 31, 2006**
Additional pre-tax stock-based compensation	$ 29,260
Additional stock-based compensation, net of tax	$ 18,182
Effect on earnings per share	
Basic	$ 0.18
Diluted	$ 0.18

The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchase grants under SFAS 123(R) for the year ended December 31, 2006:

(in thousands, except for per share amounts)	**December 31, 2006**
Stock-based compensation expense by type of award:	
Employee stock options	$ 38,101
Employee stock purchase plan	1,148
Nonvested equity stock and equity stock units	1,274
Total stock-based compensation	40,523
Tax effect on stock-based compensation	15,559
Net effect of stock-based compensation on net income	$ 24,964
Effect on net income per share:	
Basic	$ 0.24
Diluted	$ 0.24

Stock Options: During the year ended December 31, 2006, Rambus granted 2,397,850 stock options with an estimated total grant-date fair value of $42.0 million. During the year ended December 31, 2006, Rambus recorded stock-based compensation related to stock options of $38.1 million for all unvested options granted prior and after the adoption of SFAS 123(R). This amount includes the ongoing impact of the restatement of $6.8 million. (See Note 3, Restatement of Consolidated Financial Statements.)

The effect of recording stock-based compensation for the year ended December 31, 2006 in accordance with SFAS 123(R) includes a charge resulting from the Company s modifying the terms of 59 grants by offering an extension of time to exercise. Because the Company suspended all stock option exercises as of July 19, 2006 in connection with the

stock options investigation, substantially all of the Company s employees and directors whose options were expiring and terminated employees whose remaining time to exercise vested options would have expired were given extensions of time to exercise those options during the year as their options approached expiration. This modification charge of $1.1 million is included in the above table under the caption Employee Stock Options .

The total intrinsic value of options exercised was $110.2 million, $10.2 million and $88.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. Intrinsic value is the total value of exercised shares on the date of exercise less the cash received from the employees to exercise the options.

The total cash received from employees as a result of employee stock option exercises was $55.3 million, $5.5 million and $41.4 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases and vesting of equity stock and stock units were approximately $0.0 million for the year ended December 31, 2006, calculated in accordance with SFAS 123(R) and approximately $0.7 million and $23.2 million for the years ended December 31, 2005 and 2004, respectively, calculated in accordance with APB 25. The Company had a net tax shortfall from stock option exercises, stock plan purchases and vesting of equity stock and stock units for the year ended December 31, 2006 primarily due to the forfeiture of stock options by a former officer.

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

Valuation Assumptions

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

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

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	Stock Option Plans		
	Twelve Months Ended December 31,		
	2006	2005 As restated (1)	2004 As restated (1)
Expected stock price volatility	61% - 78%	54% - 81%	101% - 103%
Risk-free interest rate	4.4% - 5.0%	3.6% - 4.4%	1.8% - 3.8%
Expected term (in years)	6.3 - 6.6	4.0 - 6.0	2.0 - 6.0
Weighted-average fair value of stock options granted	$17.51	$10.11	$18.56

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

	Employee Stock Purchase Plan		
	Twelve Months Ended December 31,		
	2006 (2)	2005 As restated (1)	2004 As restated (1)
Expected stock price volatility		51% - 67%	55% - 88%
Risk-free interest rate		3.2% - 4.4%	1.2% - 2.6%
Expected term (in years)		0.5 - 2.0	0.5 - 2.0
Weighted-average fair value of purchase rights granted under the purchase plan		$6.14	$ 7.86

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.
(2) No grants were made under the employee stock purchase plan in 2006. See Note 8, Employee Stock Option Plans.

Expected Stock Price Volatility: Effective January 1, 2006, Rambus evaluated the assumptions used to estimate volatility and determined that under SAB 107, given the volume of market activity in its market traded options greater than one year, it would use the implied volatility of its nearest-to-the-money traded options. The Company believes that the use of implied volatility is more reflective of market conditions and a better indicator of expected volatility. If there is not sufficient volume in its market traded options, for any period, the Company will use an equally weighted blend of historical and implied volatility. For the year ended December 31, 2005, the Company used an equally weighted historical and market-based implied volatility for the computation of stock-based compensation. For the year ended December 31, 2004, the Company used historical volatility for the computation of stock-based compensation.

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

Expected Term: The expected term of options granted represents the period of time that options granted are expected to be outstanding. Prior to the adoption of SFAS 123(R), the Company used only historical data to estimate option exercise and employee termination within the model. For the year ended December 31, 2006, the average expected life was determined using a Monte Carlo simulation model. The expected term of ESPP grants was based upon the length of each respective purchase period or tranche for each offering (0.5 to 2.0 years).

Tax Effects of Stock-Based Compensation

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

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On January 1, 2006 Rambus adopted the long method in accordance with SFAS 123(R) to calculate the excess tax credit pool. The long method requires a detailed calculation of the January 1, 2006 balance of the portion of the excess/shortfall tax benefit credits recorded in the additional paid-in capital account. The tax effect on stock-based compensation is calculated as the stock-based compensation that the Company believes is deductible multiplied by the applicable statutory tax rate.

See Note 11 Income Taxes for additional information.

Computation of Earnings (Loss) Per Share

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

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with original or remaining maturities of three months or less at the date of purchase. The Company maintains its cash balances with high quality financial institutions and has not experienced any material losses.

Marketable Securities

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses reported, net of tax, in stockholders equity as part of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income. Realized gains and losses are recorded on the specific identification method and are included in interest and other income, net. The Company reviews its investments in marketable securities for possible permanent impairments on a regular basis. If any loss on investment is believed to be other than temporary, a charge will be taken to interest and other, net. Due to the high credit quality and short term nature of the Company s investments, there have been no permanent impairments noted to date.

Fair Value of Financial Instruments

The amounts reported for cash equivalents, marketable securities, account receivables, accounts payable and other accrued liabilities are considered to approximate fair values based upon comparable market information available at the respective balance sheet dates.

Property and Equipment

Computer equipment, computer software and furniture and fixtures are stated at cost and depreciated on a straight-line basis over an estimated useful life of three years. Certain software licenses are depreciated over three to five years, depending on the term of the license. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the initial terms of the leases. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the related gain or loss is included in results from operations.

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Goodwill

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS 142), Rambus assesses the impairment of goodwill on an annual basis, and potentially more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors Rambus considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of Rambus use of the acquired assets or the strategy for its overall business;
- significant negative industry or economic trends;
- significant decline in Rambus stock price for a sustained period; and
- Rambus market capitalization relative to net book value.

SFAS 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures the impairment. Rambus completed its first phase impairment analysis as of December 31, 2006 and found no instance of impairment of its recorded goodwill of $3.3 million at December 31, 2006. If Rambus estimates or the related assumptions change in the future, Rambus may be required to record an impairment charge for goodwill to reduce its carrying amount to its estimated fair value.

Impairment of Long-Lived Assets and Other Intangible Assets

Rambus evaluates the recoverability of long-lived assets with finite lives in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment of Long-Lived Assets, (SFAS 144). Intangible assets, including purchased technology and other intangible assets, are carried at cost less accumulated amortization. Finite-lived intangible assets are being amortized on a straight-line basis over their estimated useful lives of three to ten years. SFAS 144 requires recognition of impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. An impairment charge is recognized in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. A significant impairment of finite-lived intangible assets could have a material adverse effect on Rambus financial position and results of operations.

Investments in Non-Consolidated Companies

Rambus makes investments in early stage private companies and private equity funds for business and strategic purposes. These investments are accounted for under the cost method, as Rambus does not have the ability to exercise significant influence over these companies operations. Rambus periodically monitors its investments for impairment and will record reductions in carrying values if and when necessary. The evaluation process is based on information that it requests from these privately-held companies. This information is not subject to the same disclosure regulations as U.S. public companies, and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies. As part of this evaluation process, a review of each company s cash position, recent financing activities, financing needs, earnings/revenue outlook, operational performance, management/ownership changes, and competition is performed. If Rambus determines that the carrying value of an investment is at an amount above fair value, or if a company has completed a financing with new third-party investors based on a valuation significantly lower than the carrying value of Rambus investment and the decline is other than temporary, an investment loss is recorded in Rambus consolidated statement of operations. In calculating the loss to be recorded, Rambus takes into account the latest valuation of each of the portfolio companies based on recent sales of equity securities to outside third party investors.

In the twelve months ended December 31, 2004, Rambus sold its investment in Tessera, a publicly traded company, for a pre-tax gain of $3.6 million, which is included in Interest and other income, net on the consolidated statement of operations.

Foreign Currency Translation

Rambus considers the local currency to be the functional currency for its international subsidiaries. The translation from foreign currencies to U.S. dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average exchange rate during the period. Adjustments resulting from such translation are included in stockholders equity as currency translation adjustment and aggregated within accumulated other comprehensive income (loss). Gains or losses resulting from foreign currency transactions are recorded in the results of operations and have not been significant for any periods presented.

Segment Reporting

Statement of Financial Accounting No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) established standards for reporting information about operating segments in a company s financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Rambus has identified one operating and reporting segment, the design, development and licensing of chip interface technologies and architectures. This segment operates in three geographic regions: North America, Asia and Europe. Enterprise-wide information is provided in accordance with SFAS 131. Information concerning the geographic breakdown of revenues and identifiable assets is set forth in Note 13, Business Segments, Exports and Major Customers.

Advertising

Rambus expenses all advertising costs as incurred. Advertising costs were not significant in 2006, 2005 and 2004.

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. Other comprehensive income is presented in the statement of stockholders equity and comprehensive income.

Litigation

Rambus is involved in certain legal proceedings. Based upon consultation with outside counsel handling its defense in these matters and an analysis of potential results, Rambus accrues for losses related to litigation if it determines that a loss is probable and can be reasonably estimated. If a loss cannot be estimated, Rambus reviews the range of possible outcomes and accrues the low end of the range of estimates. Any such accrual would be charged to expense in the appropriate period. Rambus recognizes litigation expenses in the period in which the litigation services were provided.

Recent Accounting Pronouncements

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

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements in Current Year Financial Statements, (SAB 108). SAB 108 addresses the diversity in practice used to quantify financial statement misstatements and establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on a company s financial statements and related disclosures. SAB 108 is effective for fiscal years ending after November 15, 2006. As of December 31, 2006 no material misstatements exist in the Company s financial statements. As a result, application of SAB 108 did not have a material impact on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . (SFAS 155). SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for the Company for all financial instruments acquired or issued after July 1, 2007. The Company does not currently hold any such instruments.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the Company beginning January 1, 2008. The Company has not completed the process of evaluating the impact of the adoption of SFAS 157.

In July 2006, the FASB issued Emerging Issues Task Force Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (that is, Gross versus Net Presentation), (EITF 06-3). The adoption of EITF 06-3 did not have an impact on Rambus consolidated financial position and results of operations. The Company s accounting policy has been to present the above mentioned taxes, if any, on a net basis, excluded from revenues.

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

As a result of the adoption of FIN 48 on January 1, 2007, the Company s unrecognized tax benefits are expected to decrease by $0.3 million, which will be accounted for as a decrease of $0.3 million to the opening balance of accumulated deficit. In addition, upon the adoption of FIN 48, $2.7 million of unrecognized tax benefits will be reclassified from long-term deferred tax assets to long-term taxes payable.

3. Restatement of Consolidated Financial Statements

Audit Committee Investigation of Historical Stock Option Practices

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, the Company conducted an initial review in which it discovered apparent irregularities in past stock option grants and reported its findings to the Audit Committee and the Board of Directors.

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined the Company s Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the determination, Rambus concluded that it should have recognized material amounts of stock-based compensation expense which were not accounted for in its previously issued consolidated financial statements. Therefore, the Audit Committee and management concluded that Rambus previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005 which were included in the Company s 2005 Annual Report on Form 10-K, Rambus Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in its Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

Findings and Remedial Actions

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of the Company s historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of its initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

The results of the investigation were consistent with the Audit Committee s earlier conclusion that the Company s previously filed consolidated financial statements should no longer be relied upon. Rambus is disclosing the restatement of the consolidated financial statements for the affected periods by filing this Annual Report on Form 10-K for the year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated supplementary financial data for the first quarter of 2006. In addition, the errors Rambus identified impacted the Company s consolidated financial statements for the periods prior to the year ended December 31, 2004. In the restated consolidated financial statements in this Annual Report on Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2004. The impact of these errors will continue to have an effect on Rambus consolidated financial statements for periods through fiscal 2009.

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company s previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company s independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.

The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company s stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company s actual practices.

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Concurrent with the review by the Audit Committee, Rambus management, under the oversight of the Audit Committee, completed an internal review in order to prepare the restated consolidated financial statements which included evaluations of previous accounting and led to adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for Incentive Stock Option (ISO) tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services and adjustments for continued vesting after an individual converted from an employee to a consultant role.

Summary of Accounting Adjustments by Category

These restated consolidated financial statements include adjustments that are primarily related to the stock option matters as well as adjustments that are related to other matters resulting from Rambus internal review and the preparation of these restated consolidated financial statements.

The primary components of the restatement of Rambus historical consolidated financial statements related to stock-based compensation are as follows:

New Hire Grants to Employees Rambus determined that during the period from February 1999 through October 2003, the individuals responsible for stock option grants to newly hired non-executive employees had a regular practice of selecting an exercise price equal to the lowest price of the quarter between the employee s start date and the end of the quarter for such grants. On certain occasions, individual employees were given a formal employment start date which preceded the date on which they actually began working for the Company. The result of this practice was that certain employees received a new hire grant at a grant price that was lower than the price of the stock on the employee s actual start date.

There were three new hire grants to non-executive employees between October 2003 and December 2004, for which there were administrative errors made by Rambus human resources department.

There were no material measurement date differences relating to grants to non-executive new hires in the fiscal years 2005 and 2006.

Annual and Other Grants to Employees Rambus determined that between September 1998 and October 2003, the Stock Option Committee granted approximately 13.0 million stock options to non-executive employees for which the appropriate measurement dates differed from the recorded grant dates. The Stock Option Committee during this time period consisted of the Company s CEO, Geoff Tate, as its sole member. The majority of the measurement date differences during this time period were caused by the creation of incorrect documentation concerning the date on which the stock options were approved. The human resources department usually

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created Stock Option Committee memoranda reflecting stock option grants which purported to issue the grants on certain dates which differed from the actual dates on which the approvals were obtained. In October 2003 the Stock Option Committee was dissolved and this practice ceased.

In late 2003 and 2004 there were grants to non-executive employees for which the price was set on the same date that the Compensation Committee meeting had met and discussed a pool of stock options. However, the individual allocations of the stock option pool had not been completed by management until after the date of those meetings and, consequently, Rambus recorded a retroactively selected measurement date for those grants.

There were no material measurement date differences relating to annual or other grants to non-executives employees in the fiscal years 2005 and 2006.

Grants to Officers Rambus determined that, during each of the years between 1997 and 2001, officers were granted stock options that were not approved by the Compensation Committee of the Board of Directors on the date listed on the approval documentation. Instead, on some occasions, the dates were selected to coincide with a low price for a period. The grants were typically documented using a Unanimous Written Consent (UWC) prepared in most instances by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. With the following exceptions, this practice appears to have ended after 2001.

Between December 1999 and January 2003 there were instances where officers received a new hire grant that was dated on a date different from the date on which the Compensation Committee approved the grant. Each of these grants was documented using a UWC prepared by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. This practice, with one exception in January 2003, appears to have ended in July 2002.

In late 2003, there was one granting action for which the exercise price of the options coincided with the date of a Compensation Committee meeting, but for which Rambus was unable to establish that all of the specific allocations and approvals had been completed as of the date of that meeting. Consequently, Rambus has concluded that the grants relating to some of the officers receiving that grant had incorrect measurement dates.

There were no material measurement date differences relating to annual or other grants to non-executive employees in the fiscal years 2005 and 2006.

Extension of Termination Dates Rambus determined that from 1997 to March 2005 it had not maintained accurate documentation, and had not properly accounted for stock-based compensation, for stock options granted to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees. These types of modifications were not always communicated to Rambus finance department, were not identified in Rambus financial reporting processes and were therefore not properly reflected in its consolidated financial statements.

Payroll Tax Withholding Liability Rambus determined that certain of its stock grants which had incorrect measurement dates for accounting purposes had been originally issued as incentive stock options but no longer qualified for ISO tax treatment. The disqualification of the ISO classification and the resulting conversion to non-qualified stock option (NSO) status exposes Rambus to additional withholding taxes and penalties for failure to properly withhold taxes on the exercise of those options. These expenses reverse in the period in which the related statute of limitations expires.

Other Stock-based Compensation Adjustments Rambus determined that other miscellaneous modifications and errors had occurred related to employee options that were not identified in its financial reporting processes and therefore not properly reflected in its consolidated financial statements. These miscellaneous items included adjustments for grants to non-employees providing consulting services, adjustments for continued vesting after an individual converted from an employee to a consultant and adjustments in 2006 related to the accounting for the Company s ESPP under FAS123(R).

In connection with the restatement and Rambus internal review of other accounting items relating to transactions occurring in fiscal years 1997 through 2006, the Company identified certain other errors in accounting determinations and judgments which, although immaterial, have been reflected in the restated consolidated financial statements. These primarily include timing differences for revenue and expense recognition and certain balance sheet reclassifications.

Rambus previously applied APB 25 and its related interpretations and provided the required pro forma disclosures under SFAS 123 through its fiscal year ended December 31, 2005. Under the provisions of APB 25, a non-cash, stock-based compensation expense was required to be recognized for any option granted for which the exercise price was below the market price on the actual grant date. Because most of the Company s remeasured options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the options. Starting in fiscal year 2006, Rambus adopted SFAS 123(R). As a result, beginning in fiscal year 2006, the additional stock-based compensation expense required to be recorded for each remeasured option is equal to the fair value of the option on the actual grant date, amortized over the remaining expected requisite service period of the option. Rambus did not record these stock-based compensation expenses under APB 25 or SFAS 123(R) in its previously issued consolidated financial statements, and that is why it is restating them in this filing.

Restatement and Impact on Consolidated Financial Statements

As a result of the issues identified, Rambus recorded additional pre-tax, non-cash, stock-based compensation expense of $169.4 million under APB 25 for the period between May 13, 1997 (the date of its initial public offering) and December 31, 2005, comprised of $146.9 million related to remeasured stock options and $22.5 million related to other stock compensation adjustments. The cumulative tax benefit from the recording of these adjustments was $67.0 million. The impact of these adjustments, net of taxes, decreased Rambus previously reported cumulative net income by $102.4 million for the same period. The tax benefit amount differs from the statutory tax benefit principally as a result of limitations on Rambus ability to deduct certain executive stock-based compensation and change in geographical mix of expenses.

For the year ended December 31, 2006, in accordance with SFAS 123(R), Rambus recorded additional pre-tax, non-cash, stock-based compensation expense of $6.8 million, comprised of $6.3 million related to these remeasured stock options and $0.5 million related to other stock compensation adjustments. As of December 31, 2006, the Company had $6.6 million of unrecognized pre-tax stock-based compensation costs calculated under SFAS 123(R) related to remeasured stock option grants that will be recorded as compensation expense over the remaining expected requisite service period of the options.

Approximately $132.8 million of the total stock-based compensation expenses, representing adjustments from 1997 through 2003, have been reflected, net of income tax effects of $46.4 million, as an increase of $86.4 million to accumulated deficit in the opening balance sheet for fiscal 2004.

Because certain options formerly classified as ISO grants were determined to have been granted with an exercise price below the fair market value of Rambus stock on the actual grant date, they do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to NSO status exposes Rambus to

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additional withholding taxes and penalties for failing to properly withhold taxes on exercise of those options. Through December 31, 2006, the Company recorded a tax liability of $1.5 million in connection with the disqualification of such ISO tax treatment for tax years ending December 31, 2003 through December 31, 2006. Of the total liability, $0.3 million was related to fiscal 2006 and was paid in fiscal 2007. These amounts are included in the other stock-based compensation adjustments discussed above. Rambus is currently under IRS remote examination with regard to this issue.

Rambus was unable to record additional deferred tax assets related to stock-based compensation in accordance with limits imposed by Section 162(m) of the Internal Revenue Code on certain executive compensation. Consequently, the Company was required to reduce its available tax net operating loss carry-forwards arising from certain exercised stock options by $15.6 million for periods through December 31, 2005 because of this Section 162(m) limitation.

For explanatory purposes, Rambus has classified the stock option and other adjustments that were affected by the restatement into the aforementioned categories as presented below. The classified amounts involve certain subjective judgments by Rambus to the extent particular stock option related accounting errors may fall within more than one category As such, the table below should be considered a reasonable representation of the magnitude of expenses in each category. For the fiscal years ended December 31, 2005 and September 30, 2000, Rambus had previously recorded stock-based compensation expense of $2.7 million and $171.1 million, respectively, with a related tax benefit of $0.1 million and $29.8 million, respectively, in its reported consolidated financial statements. For fiscal 2005 and 2000, total stock-based compensation, as restated, was $20.5 million and $204.1 million, respectively, with a related tax benefit of $13.2 million and $40.0 million, respectively.

The ten year impact of the restatement on stock-based compensation is as follows:

(in thousands)	Cumulative effect at December 31, 2005	Twelve Months ended December 31, 2005	Twelve Months ended December 31, 2004	Cumulative effect at December 31, 2003	Twelve Months Ended December 31, 2003	Three Months Ended December 31, 2002
Net income, as previously reported (1)		$ 33,677	$ 33,559			
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (13,766)	(762)	(1,323)	$ (11,681)	$ (2,722)	$ (665)
Annual and other grants to employees	(83,893)	(12,655)	(12,230)	(59,008)	(14,413)	(3,891)
All grants to officers	(49,235)	(4,311)	(8,148)	(36,776)	(8,404)	(2,763)
Subtotal charges for changes to measurement date	(146,894)	(17,728)	(21,701)	(107,465)	(25,539)	(7,319)
Other stock-based compensation adjustments:						
Terminations	(21,180)	(277)	(1,576)	(19,327)	(1,613)	(21)
Payroll tax (expense) benefit	(960)	234	4,534	(5,728)	344	
Other matters related to stock-based compensation	(328)		(32)	(296)		
Subtotal other stock-based compensation adjustments	(22,468)	(43)	2,926	(25,351)	(1,269)	(21)
Total stock-based compensation adjustments	(169,362)	(17,771)	(18,775)	(132,816)	(26,808)	(7,340)
Tax related effects of stock-based compensation adjustments	66,989	13,070	7,558	46,361	9,421	2,057
Additional compensation expense, net of tax	(102,373)	(4,701)	(11,217)	(86,455)	(17,387)	(5,283)

Other miscellaneous adjustments	(60)	(60)	32	(32)
Tax related effects for other miscellaneous adjustments	24	24	(13)	13
Other adjustments, net of tax	(36)	(36)	19	(19)
Total decrease	$ (102,409)	(4,737)	(11,198)	$ (86,474)
Net income, as restated		$ 28,940	$ 22,361	

(1) The effects of the restatement adjustments on previously reported net income are reconciled only for the years being reported in the Statement of Operations in this Form 10-K. Net income for all other periods is not being reconciled for the effects of the restatement.

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	Twelve Months Ended September 30, 2002	2001	2000	1999	1998	1997
Stock-based compensation adjustments:						
Additional compensation expense resulting from improper measurement dates for stock option grants:						
New hire grants to employees	$ (2,767)	$ (3,194)	$ (1,902)	$ (431)	$	$
Annual and other grants to employees	(21,287)	(11,138)	(6,159)	(2,110)	(10)	
All grants to officers	(10,312)	(7,280)	(5,917)	(2,064)	(36)	
Subtotal charges for changes to measurement date	(34,366)	(21,612)	(13,978)	(4,605)	(46)	
Other stock-based compensation adjustments:						
Terminations	(56)	(1,463)	(13,623)	(2,063)	(488)	
Payroll tax (expense) benefit	106	(353)	(5,137)	(581)	(107)	
Other matters related to stock-based compensation		63	(274)	216	(301)	
Subtotal other stock-based compensation adjustments	50	(1,753)	(19,034)	(2,428)	(896)	
Total stock-based compensation adjustments	(34,316)	(23,365)	(33,012)	(7,033)	(942)	
Tax related effects of stock-based compensation adjustments	10,142	12,216	10,166	2,000	359	
Additional compensation expense, net of tax	(24,174)	(11,149)	(22,846)	(5,033)	(583)	

Costs of Restatement and Related Legal Activities

Rambus has incurred substantial expenses for legal, accounting, tax and other professional services in connection with the investigation, the Company s internal review, restatement activities, preparation of the December 31, 2006 consolidated financial statements and restated consolidated financial statements and related legal matters. These expenses were approximately $31.4 million for the year ended December 31, 2006, including an accrual of of $18.0 million related to the potential settlement of the class action lawsuits in connection with the stock option investigation. Through the second quarter of fiscal year 2007, the Company has incurred additional expenses of approximately $14.4 million for the above noted activities. Rambus expects to continue to incur significant expenses in connection with the derivative and private lawsuits and other stock option investigation related matters. See Note 17, Litigation and Asserted Claims.

Default and Potential Acceleration of Convertible Notes

For a complete discussion of the convertible notes and related alleged default and potential acceleration, See Note 16 Convertible Notes .

Impact on Consolidated Financial Statements

The following tables reflect the impact of the adjustments for stock-based compensation and other adjustments, including the related tax impacts on:

the consolidated statements of operations for the years ended December 31, 2005 and 2004

the consolidated balance sheet as of December 31, 2005

the consolidated statements of cash flows for the years ended December 31, 2005 and 2004

the pro forma information required by SFAS No. 123 for the years ended December 31, 2005 and 2004 net income per share for the years ended December 31, 2005 and 2004

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Consolidated Statements of Operations

(in thousands, except per share amounts)	**Twelve Months Ended December 31, 2005**			**2004**		
	As previously reported	**Adjustments**	**As restated**	**As previously reported**	**Adjustments**	**As restated**
Revenues:						
Contract revenues	$ 26,876	$	$ 26,876	$ 24,742	$	$ 24,742
Royalties	130,322		130,322	120,132		120,132
Total revenues	157,198		157,198	144,874		144,874
Costs and expenses:						
Cost of contract revenues *	19,766	3,967	23,733	20,246	3,281	23,527
Research and development *	40,972	8,144	49,116	32,627	5,676	38,303
Marketing, general and administrative *	74,698	5,720	80,418	52,484	9,786	62,270
Total costs and expenses	135,436	17,831	153,267	105,357	18,743	124,100
Operating income	21,762	(17,831)	3,931	39,517	(18,743)	20,774
Interest and other income, net	34,830		34,830	8,368		8,368
Income before income taxes	56,592	(17,831)	38,761	47,885	(18,743)	29,142
Provision for income taxes	22,915	(13,094)	9,821	14,326	(7,545)	6,781
Net income	$ 33,677	$ (4,737)	$ 28,940	$ 33,559	$ (11,198)	$ 22,361
Net income per share:						
Basic	$ 0.34	$ (0.05)	$ 0.29	$ 0.33	$ (0.11)	$ 0.22
Diluted	$ 0.32	$ (0.04)	$ 0.28	$ 0.30	$ (0.09)	$ 0.21
Weighted average shares used in per share calculations:						
Basic	99,876		99,876	101,931		101,931
Diluted	103,993		103,530	110,050		108,547

* Includes stock-based compensation:

Cost of contract revenues	$	$ 3,897	$ 3,897	$	$ 3,293	$ 3,293
Research and development	$	$ 8,056	$ 8,056	$	$ 5,664	$ 5,664
Marketing, general and administrative	$ 2,689	$ 5,818	$ 8,507	$	$ 9,818	$ 9,818

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Consolidated Balance Sheet

(in thousands, except share and per share amounts)	December 31, 2005		
	As previously reported	Adjustments	As restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 42,391	$	$ 42,391
Marketable securities	118,416		118,416
Accounts receivable	954		954
Deferred and prepaid taxes	3,786	41	3,827
Prepaids and other current assets	4,235	184	4,419
Total current assets	169,782	225	170,007
Marketable securities, long term	194,583		194,583
Restricted cash	2,279		2,279
Deferred taxes, long term	69,059	29,485	98,544
Purchased intangible assets, net	23,650		23,650
Property and equipment, net	18,898	724	19,622
Goodwill	3,315		3,315
Other assets	3,953		3,953
Total assets	$ 485,519	$ 30,434	$ 515,953
LIABILITIES			
Current liabilities:			
Accounts payable	$ 4,374	$	$ 4,374
Accrued salaries and benefits	4,934	960	5,894
Accrued litigation expenses	4,633		4,633
Other accrued liabilities	5,693	(1,155)	4,538
Deferred revenue	973		973
Total current liabilities	20,607	(195)	20,412
Convertible notes	160,000		160,000
Deferred revenue, less current portion	8,317		8,317
Other long-term liabilities	1,592	2,165	3,757
Total liabilities	190,516	1,970	192,486
Commitments and contingencies (Notes 7 and 17)			
STOCKHOLDERS EQUITY			
Convertible preferred stock, $.001 par value:			
Authorized: 5,000,000 shares;			
Issued and outstanding: no shares at December 31, 2005			
Common Stock, $.001 par value:			
Authorized: 500,000,000 shares;			
Issued and outstanding: 99,397,257 shares at December 31, 2005	99		99
Additional paid in capital	327,524	150,995	478,519
Deferred stock-based compensation		(20,122)	(20,122)
Accumulated deficit	(30,973)	(102,409)	(133,382)
Accumulated other comprehensive loss	(1,647)		(1,647)
Total stockholders equity	295,003	28,464	323,467

Total liabilities and stockholders equity	$ 485,519	$ 30,434	$ 515,953

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Consolidated Statements of Cash Flows

(in thousands)	Twelve Months Ended December 31, 2005			2004		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Cash flows from operating activities:						
Net income	$ 33,677	$ (4,737)	$ 28,940	$ 33,559	$ (11,198)	$ 22,361
Adjustments to reconcile net income to net cash provided by operating activities:						
Stock-based compensation	2,689	17,771	20,460		18,775	18,775
Depreciation	9,165	(63)	9,102	5,646		5,646
Amortization of intangible assets and note issuance costs	5,410		5,410	2,501		2,501
Tax benefit from equity incentive plans	3,592	(2,923)	669	39,463	(16,269)	23,194
Gain on repurchase of convertible notes	(24,014)		(24,014)			
Gain on sale of investment				(3,598)		(3,598)
Loss on disposal of property and equipment	221		221			
Change in operating assets and liabilities:						
Accounts receivable	481		481	8,828		8,828
Prepaids, deferred taxes and other assets	16,062	(10,382)	5,680	(30,957)	8,695	(22,262)
Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities	382	995	1,377	6,640	(3)	6,637
Increases in deferred revenue	17,384		17,384	14,116		14,116
Decreases in deferred revenue	(31,917)		(31,917)	(32,495)		(32,495)
Net cash provided by operating activities	33,132	661	33,793	43,703		43,703
Cash flows from investing activities:						
Purchases of property and equipment	(7,375)	(661)	(8,036)	(11,934)		(11,934)
Purchases of leasehold improvements	(531)		(531)	(325)		(325)
Acquisition of intangible assets	(2,500)		(2,500)	(11,084)		(11,084)
Acquisition of business	(5,434)		(5,434)			
Purchases of marketable securities	(347,700)		(347,700)	(119,456)		(119,456)
Maturities of marketable securities	222,142		222,142	76,812		76,812
Decrease (increase) in restricted cash	2,788		2,788	(491)		(491)
Proceeds from sale of investment				5,598		5,598
Net cash used in investing activities	(138,610)	(661)	(139,271)	(60,880)		(60,880)
Cash flows from financing activities:						
Payments under installment payment arrangement	(400)		(400)			
Net proceeds from issuance of Common Stock under stock options and employee stock purchase plan	8,523		8,523	45,087		45,087
Repurchase and retirement of Common Stock	(88,166)		(88,166)	(21,653)		(21,653)
Net proceeds from issuance of convertible notes	292,750		292,750			
Repurchase of convertible notes	(112,988)		(112,988)			
Net cash provided by financing activities	99,719		99,719	23,434		23,434
Effect of exchange rates on cash and cash equivalents	(160)		(160)	48		48

Net increase (decrease) in cash and cash equivalents		(5,919)				(5,919)		6,305				6,305
Cash and cash equivalents at beginning of period		48,310				48,310		42,005				42,005
Cash and cash equivalents at end of period	$	42,391	$		$	42,391	$	48,310	$		$	48,310
Non-cash investing and financing activities:												
Property and equipment acquired under installment payment arrangement	$	2,800	$		$	2,800	$		$		$	
Supplemental disclosure of cash flow information:												
Taxes paid	$	1,530	$	1,094	$	2,624	$	2,494	$	5,243	$	7,737
Taxes refunded	$		$		$		$		$	499	$	499

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Pro Forma Net Income (Loss) per Share

(in thousands, except per share amounts)	2005 As previously reported	2005 Adjustments	2005 As restated	2004 As previously reported	2004 Adjustments	2004 As restated
Net income, as reported	$ 33,677	$ (4,737)	$ 28,940	$ 33,559	$ (11,198)	$ 22,361
Add: Stock-based employee compensation expense included in reported net earnings, net of tax (2)	1,600	5,628	7,228		11,217	11,217
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(32,221)	(12,950)	(45,171)	(34,051)	(10,937)	(44,988)
Pro forma net income (loss)	$ 3,056	$ (12,059)	$ (9,003)	$ (492)	$ (10,918)	$ (11,410)
Basic income (loss) per share						
As reported	$ 0.34	$ (0.05)	$ 0.29	$ 0.33	$ (0.11)	$ 0.22
Pro forma	$ 0.03	$ (0.12)	$ (0.09)	$	$ (0.11)	$ (0.11)
Diluted income (loss) per share						
As reported	$ 0.32	$ (0.04)	$ 0.28	$ 0.30	$ (0.09)	$ 0.21
Pro forma (1)	$ 0.03	$ (0.12)	$ (0.09)	$	$ (0.11)	$ (0.11)
Weighted average shares used in per share calculations:						
Basic	99,876		99,876	101,931		101,931
Diluted (1)	103,993		103,530	110,050		108,547

(1) When results of operations are a net loss, the diluted shares are the same as the basic shares.
(2) Adjustments to stock-based compensation expense in 2005 include the adjustment of $4.7 million related to the restatement as well as an adjustment of $0.9 million to the tax effect allocated to stock-based compensation as previously reported.

Net Income per Share

(in thousands, except per share amounts)	December 31, 2005 As previously reported	December 31, 2005 Adjustments	December 31, 2005 As restated	December 31, 2004 As previously reported	December 31, 2004 Adjustments	December 31, 2004 As restated
Numerator:						
Net income	$ 33,677	$ (4,737)	$ 28,940	$ 33,559	$ (11,198)	$ 22,361
Denominator:						
Weighted average shares used to compute basic EPS	99,876		99,876	101,931		101,931
Dilutive potential shares from stock options, ESPP and restricted stock units	4,117		3,654	8,119		6,616
Weighted average shares used to compute diluted EPS	103,993		103,530	110,050		108,547
Net income per share:						
Basic	$ 0.34	$ (0.05)	$ 0.29	$ 0.33	$ (0.11)	$ 0.22
Diluted	$ 0.32	$ (0.04)	$ 0.28	$ 0.30	$ (0.09)	$ 0.21

4. Business Risks and Credit Concentration

Rambus operates in the intensely competitive semiconductor industry, which has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns, litigation regarding patent and other intellectual property rights, and heightened international and domestic competition. Significant technological changes in the industry could adversely affect operating results.

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Rambus markets and sells its chip interfaces to a narrow base of customers and generally does not require collateral. For the twelve months ended December 31, 2006, revenue from Fujitsu, Elpida, Qimonda and Intel each accounted for greater than 10% of its total revenues. For the twelve months ended December 31, 2005, revenue from Intel, Elpida, Toshiba and Matsushita, each accounted for greater than 10% of Rambus total revenues. For the twelve months ended December 31, 2004, revenue from Intel, Toshiba and Elpida each accounted for greater than 10% of Rambus total revenues. Rambus expects that its revenue concentration will decrease over time as Rambus licenses new customers.

As of December 31, 2006 and 2005, Rambus cash and cash equivalents were invested with two financial institutions in the form of commercial paper, money market accounts, and demand deposits. Rambus exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Rambus places its investments with high credit issuers and, by policy, attempts to limit the amount of credit exposure to any one issuer. As stated in Rambus policy, it will ensure the safety and preservation of Rambus invested funds by limiting default risk and market risk. Rambus has no investments denominated in foreign country currencies and therefore is not subject to foreign exchange risk from these assets.

Rambus mitigates default risk by investing in high credit quality securities and by positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to enable portfolio liquidity.

5. Marketable Securities

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

All marketable securities are classified as available-for-sale and are summarized as follows:

(dollars in thousands)	December 31, 2006			
	Fair Value	Book Value	Unrealized Gain/(Loss)	Weighted Rate of Return
Marketable securities:				
United States government debt securities	$ 226,813	$ 227,576	$ (763)	4.2%
Corporate notes and bonds	136,224	136,417	(193)	5.2%
Total marketable securities	$ 363,037	$ 363,993	$ (956)	

	December 31, 2005			
	Fair Value	Book Value	Unrealized Gain/(Loss)	Weighted Rate of Return
Marketable securities:				
United States government debt securities	$ 280,659	$ 283,018	$ (2,359)	3.8%
Corporate notes and bonds	32,340	32,705	(365)	2.4%
Total marketable securities	$ 312,999	$ 315,723	$ (2,724)	

The estimated fair value of short and long-term investments classified by date of contractual maturity and the associated unrealized losses at December 31, 2006 and 2005 are as follows:

(in thousands)	Twelve months ended December 31,		Unrealized loss as of December 31,	
	2006	2005	2006	2005
Contractual Maturity				

Due within one year	$ 351,055	$ 118,416	$ (942)	$ (804)
Due from one year through three years	11,982	194,583	(14)	(1,920)
	$ 363,037	$ 312,999	$ (956)	$ (2,724)

Of the total gross unrealized losses of $1.0 million as of December 31, 2006, approximately $0.8 million relates to securities with a fair value of $184.7 million that have been in a loss position for twelve months or more.

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6. Balance Sheet Details

Purchased Intangible Assets, net

Purchased intangible assets are comprised of the following:

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

	December 31, 2005		
(in thousands)	Gross	Accumulated Amortization	Net
Patents	$ 9,911	$ (2,051)	$ 7,860
Intellectual property	9,784	(2,728)	7,056
Customer contracts and contractual relationships	8,000	(1,564)	6,436
Existing technology	2,700	(478)	2,222
Non-competition agreement	100	(24)	76
Total purchased intangible assets	$ 30,495	$ (6,845)	$ 23,650

See Note 14, Acquisition and Note 15, Acquisition of Intellectual Property for a discussion of amortization expense and useful lives of purchased intangibles.

Property and Equipment, net

Property and equipment, net is comprised of the following:

	December 31,	
(in thousands)	2006	2005 As restated (1)
Computer equipment	$ 21,628	$ 18,020
Computer software	31,992	21,669
Furniture and fixtures	6,057	5,683
Leasehold improvements	12,735	10,162
	72,412	55,534
Less accumulated depreciation and amortization	(46,393)	(35,912)
	$ 26,019	$ 19,622

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

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Depreciation expense for the years ended December 31, 2006, 2005 and 2004 was $11.2 million, $9.1 million and $5.6 million, respectively.

Goodwill

Changes in the carrying value of goodwill in the twelve months ended December 31, 2006 and 2005 are as follows:

(in thousands)	2006	2005
Beginning balance at January 1	$ 3,315	$ 581
Goodwill acquired during the period		2,734
Ending balance at December 31	$ 3,315	$ 3,315

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is comprised of the following:

	December 31,	
(in thousands)	2006	2005
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	$ 41	$ 17
Unrealized losses on available for sale securities, net of tax	589	1,630
Total	$ 630	$ 1,647

7. Commitments and Contingencies

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

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

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On February 1, 2005, Rambus issued $300.0 million aggregate principal amount of zero coupon convertible senior notes (the convertible notes) due February 1, 2010 to Credit Suisse First Boston LLC and Deutsche Bank Securities as initial purchasers who then sold the convertible notes to institutional investors. Rambus elected to pay the principal amount of the convertible notes in cash when they are due and the initial conversion price of the convertible notes is $26.84 per share. Subsequently, Rambus repurchased a total of $140.0 million face value of the outstanding convertible notes. As a result, the convertible notes outstanding and payable as of December 31, 2005 were reduced to $160.0 million.

On August 17, 2006, Rambus received a notice of default from U.S. Bank National Association, as trustee (the Trustee) for the convertible notes. The notice asserted that the Company s failure to file its Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the indenture, dated as of February 1, 2005 between Rambus and the Trustee (the Indenture). The notice stated that per Section 9.1 of the Indenture, if Rambus did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, Rambus received a notice from the Trustee stating that since the Company had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, Rambus received an additional notice of default from the Trustee relating to the Company s failure to file its Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, Rambus received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable. Default interest on the convertible notes accrues at a rate of 2% per annum from the date on which full payment of the convertible notes is due to the date that full payment is made.

As of December 31, 2006, the Company has reclassified the aggregate principal amount of the convertible notes of $160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. In addition, related issuance costs of approximately $3.2 million have been expensed in 2006, including approximately $2.4 million which was accelerated into the quarter ending December 31, 2006. Rambus is evaluating its options with respect to the notes as a result of the receipt of the notice of acceleration and believes that it has adequate financial resources to pay any unpaid principal and any accrued or default interest due on the convertible notes. See Note 16, Convertible Notes, for a detailed discussion of this matter.

As of December 31, 2006, Rambus s material contractual obligations are:

		Payment due by period			
(in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations					
Operating leases	$ 23,239	$ 6,446	$ 11,728	$ 5,065	$
Convertible notes	160,000	160,000			
Purchased software license agreements(1)	8,212	7,394	818		
Total	$ 191,451	$ 173,840	$ 12,546	$ 5,065	$

(1) Rambus has commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of December 31, 2006, which are also listed on Rambus balance sheet under current and other long-term liabilities.

Rent expense was approximately $6.0 million for the year ending December 31, 2006 and $5.1 million for each of the years ended December 31, 2005 and 2004.

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Deferred rent, included primarily in other long-term liabilities, was approximately $1.7 million as of December 31, 2006 and 2005.

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

The Company entered into compensation agreements with two new executives in December 2006, which provide for the granting of a total of 60,000 restricted stock units as soon as practicable after the Company becomes current with its SEC filings and registers its 2006 Equity Incentive Plan under which these units would be granted.

Indemnifications

Rambus enters into standard license agreements in the ordinary course of business. Although Rambus does not indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnifications cover customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement claim by any third party with respect to Rambus products. The maximum amount of indemnification Rambus could be required to make under these agreements is generally limited to fees received by Rambus. Rambus estimates the fair value of its indemnification obligation as insignificant, based upon its history of litigation concerning product and patent infringement claims. Accordingly, Rambus has no liabilities recorded for indemnification under these agreements as of December 31, 2006 or 2005.

Several securities fraud class actions, private lawsuits and shareholder derivative actions were filed in state and federal courts against certain of the Company s current and former officers and directors related to the stock option granting actions under investigation. As permitted under Delaware law, Rambus has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at Rambus request in such capacity. The term of the indemnification period is for the officer s or director s term in such capacity. The maximum potential amount of future payments Rambus could be required to make under these indemnification agreements is unlimited. Rambus has a director and officer insurance policy that reduces Rambus exposure and enables Rambus to recover a portion of future amounts to be paid. As a result of these indemnification agreements, Rambus continues to make payments on behalf of current and former officers. As of December 31, 2006, the Company had made payments of approximately $0.9 million on their behalf. Through the second quarter of fiscal 2007, the Company had made additional payments of approximately $3.5 million.

Warranties

Rambus offers some of its customers a warranty that its products will conform to their functional specifications. To date, there have been no payments or material costs incurred related to fulfilling these warranty obligations. Accordingly, Rambus has no liabilities recorded for these warranties as of December 31, 2006 or 2005. Rambus assesses the need for a warranty accrual on a quarterly basis and there can be no guarantee that a warranty accrual will not become necessary in the future.

8. Employee Stock Option Plans

Stock Option Plans

1997 Stock Option Plan

In May 1997, the Company adopted the 1997 Stock Option Plan (the 1997 Plan), which, as amended, provided for the issuance of incentive and nonqualified stock options to its employees, directors and non-employees. The 1997 Plan provided for an annual increase equal to the lesser of (i) the number of shares needed to restore the maximum aggregate number of shares which may be optioned and sold under the 1997 Plan to 4,000,000 shares; (ii) four percent

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(4%) of the outstanding shares on such date; or (iii) a lesser amount determined by the Board of Directors. The Company reserved 31,089,057 shares of Common Stock for issuance under the 1997 Plan. The 1997 Plan was set to expire ten years after adoption, and the Board of Directors or a committee designated by the Board of Directors has the authority to determine to whom options would be granted, the number of shares, the vesting period and the exercise price (which generally cannot be less than 100% of the fair market value at the date of grant for incentive stock options). The options are exercisable at times and increments as specified by the Board of Directors, typically had a requisite service period of 60 months, had graded vesting schedules and expire not more than ten years from date of grant. In October 1999, the 1997 Plan was revised to add the provision and ability of the Company to grant Common Stock equivalents, which are unfunded and unsecured rights to receive shares in the future. See Note 9, Stockholders Equity, for a discussion of these Common Stock equivalents. Effective with stockholder approval of the 2006 Equity Incentive Plan on May 10, 2006, the ability to grant options under the 1997 Plan expired. No further awards will be made under this plan, but it will continue to govern awards previously granted under the plan.

1999 Non-statutory Stock Option Plan

In October 1999, the Company adopted the 1999 Non-statutory Stock Option Plan (the 1999 Plan), which, as amended, provides for the issuance of nonqualified stock options to its employees and non-employees. Under the 1999 Plan, 14.8 million shares of Common Stock have been authorized for issuance. The 1999 Plan expires ten years after adoption, and the Board of Directors or a committee designated by the Board of Directors has the authority to determine to whom options will be granted, the number of shares, the vesting period, the expiration date and the exercise price (which generally is the fair market value at the date of grant). These options typically had a requisite service period of 60 months, graded vesting schedules, and expired not more than ten years from date of grant. Effective with stockholder approval of the 2006 Equity Incentive Plan on May 10, 2006, the ability to grant options under the 1999 Plan terminated. No further awards will be made under this plan, but it will continue to govern awards previously granted under the plan.

2006 Equity Incentive Plan

In March 2006, the Company adopted the 2006 Equity Incentive Plan (the 2006 Plan), subject to stockholder approval, which, as amended, provides for the issuance of the following types of incentive awards: (i) stock options; (ii) stock appreciation rights; (iii) restricted stock; (iv) restricted stock units; (v) performance shares and performance units; and (vi) other stock or cash awards. This plan provides for the granting of shares at less than fair market value, but such grants would be counted against the numerical limits of available shares at a ratio of 1.5 to 1. The Board of Directors reserved 8,400,000 shares in March 2006 for issuance under this plan, subject to stockholder approval. Upon stockholder approval of this Plan on May 10, 2006, the 1997 Plan was replaced and the 1999 Plan was terminated. Those who will be eligible for awards under the 2006 Plan include employees, directors and consultants who provide services to the Company and its affiliates. These options typically have a requisite service period of 60 months, have straight-line vesting schedules, and expire not more than ten years from date of grant. The Board expects that the number of shares reserved for issuance under the 2006 Plan will be sufficient to operate the plan for two years from its inception without having to request the approval of additional shares from the Company s stockholders. The Board will periodically review actual share consumption under the 2006 Plan and may make a request for additional shares earlier or later than this period, as needed. As of December 31, 2006, 7,866,200 shares remain available for grant under this plan.

The 2006 Plan is now Rambus only plan for providing stock-based incentive compensation to eligible employees, executive officers and non-employee directors and consultants.

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

	Shares Available for Grant
Shares available as of December 31, 2003	3,916,659
Additional shares reserved	3,653,146
Stock options granted	(3,153,800)
Stock options forfeited	1,214,603
Shares available as of December 31, 2004	5,630,608
Additional shares reserved	2,211,276
Stock options granted	(3,333,740)
Stock options forfeited	1,209,322
Nonvested equity stock and stock units granted	(125,000)
Shares available as of December 31, 2005	5,592,466
Additional shares reserved	10,818,836
Stock options granted	(2,397,850)
Stock options forfeited	4,879,815
Stock options expired	(10,923,684)
Nonvested equity stock and stock units granted	(103,383)
Total available for grant as of December 31, 2006	7,866,200

General Stock Option Information

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

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(dollars in thousands, except per share amounts)	Options Outstanding Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2003	27,643,801	$ 14.80		
Options granted	3,153,800	19.81		
Options exercised	(4,618,914)	8.97		
Options forfeited	(1,214,603)	20.34		
Outstanding as of December 31, 2004	24,964,084	16.25		
Options granted	3,333,740	15.61		
Options exercised	(1,060,985)	5.22		
Options forfeited	(1,209,322)	23.09		
Outstanding as of December 31, 2005	26,027,517	16.30		
Options granted	2,397,850	26.99		
Options exercised	(4,872,675)	11.34		
Options forfeited	(4,879,815)	18.80		
Outstanding as of December 31, 2006	18,672,877	$ 18.32	6.11	$ 96,258
Vested or expected to vest at December 31, 2006	16,625,402	$ 18.82	6.05	$ 81,713
Options exercisable at December 31, 2006	9,693,513	$ 18.00	4.71	$ 64,394

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for in-the-money options at December 31, 2006, based on the $18.93 closing stock price on December 29, 2006, the last trading day of 2006, of Rambus Common Stock on The Nasdaq Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of December 31, 2006 was 12,227,982 and 7,029,923, respectively.

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The following table summarizes the information about stock options outstanding and exercisable as of December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.25 - $ 4.67	2,071,578	3.92	$ 3.35	1,150,043	$ 3.70
$ 4.72 - $ 7.10	1,995,053	4.71	5.01	1,978,329	4.99
$ 7.17 - $13.75	2,242,010	4.99	11.19	1,574,854	11.27
$ 13.91 - $15.23	2,528,303	7.78	14.81	661,453	14.64
$ 15.26 - $16.76	1,868,817	5.06	15.73	1,179,129	15.75
$ 16.84 - $22.36	1,895,521	8.25	18.11	601,238	18.38
$ 2.77 - $25.16	2,912,400	7.77	24.21	345,829	23.85
$ 25.51 - $37.66	2,119,495	5.38	34.04	1,572,388	35.48
$ 38.48 - $77.36	1,019,700	6.30	53.62	610,250	61.58
$ 83.00 - $83.00	20,000	3.75	83.00	20,000	83.00
$ 1.25 - $83.00	18,672,877	6.11	18.32	9,693,513	18.00

As of December 31, 2006, there was $79.9 million of total unrecognized stock-based compensation cost, net of expected forfeitures, related to non-vested share-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 2.91 years. The total fair value of shares vested as of the years ended December 31, 2006, 2005 and 2004, was $183.6 million, $271.6 million and $193.5 million, respectively.

Employee Stock Purchase Plans

1997 Employee Stock Purchase Plan

In May 1997, the Company adopted the 1997 Employee Stock Purchase Plan, as amended, (the 1997 Purchase Plan), and reserved 1,600,000 shares of Common Stock for issuance thereunder. This plan allowed for an annual increase equal to the lesser of: (i) the number of shares needed to restore the maximum aggregate number of shares which may be optioned and sold under the plan to 1,600,000 shares; (ii) 1% of the number of shares of Common Stock which are issued and outstanding on the last day of the preceding fiscal year; or (iii) a lesser number of shares determined by the Board of Directors. Employees generally were eligible to participate in the 1997 Purchase Plan if they had been employed by Rambus for more than 20 hours per week and more than five months in a fiscal year. This plan provided for offerings of four consecutive, overlapping six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees were able to purchase stock at the lower of 85% of the fair market value on the first day of the 24 month offering period (the enrollment date), or the purchase date (the exercise date). Employees generally were not able to purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the beginning of the offering period. This plan was suspended effective July 19, 2006 due to the stock options investigation. For all participants electing to stay in the plan, contributions made through that date are being held and will be applied towards the first purchase date subsequent to the reinstatement of the plan. It is the Company s intention to reinstate this plan as soon as practicable after it is current on its filings with the Securities and Exchange Commission. No further offerings will be made under this plan and the plan will terminate effective with the October 31, 2007 purchase date in accordance with its governing documents.

Under the 1997 Purchase Plan, the Company issued 208,820 shares at an average price per share of $10.88 in fiscal 2006, 319,277 shares of Common Stock at an average price per share of $11.45 in fiscal 2005 and 543,129 shares at an

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average price per share of $6.55 in fiscal 2004. Due to the fact that the 1997 Purchase Plan was suspended effective July 19, 2006 no purchases were made subsequent to the most recent purchase date, April 30, 2006. As of December 31, 2006, there were 1,391,180 shares available for issuance under this Plan. The majority of these shares are not expected to be issued. Any shares not used in the October 31, 2007 purchase will expire according to the Plan s terms.

2006 Employee Stock Purchase Plan

In March 2006, the Company adopted the 2006 Employee Stock Purchase Plan, as amended (the 2006 Purchase Plan) and reserved 1,600,000 shares, subject to stockholder approval which was received on May 10, 2006. Employees generally will be eligible to participate in this plan if they are employed by Rambus for more than 20 hours per week and more than five months in a fiscal year. The 2006 Purchase Plan provides for six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees may purchase stock at the lower of 85% of the beginning of the offering period (the enrollment date), or the end of each offering period (the exercise date). Employees generally may not purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the purchase date. There have been no offerings under this plan and as such there has been no shares issued under this plan. As of December 31, 2006, there were 1,600,000 shares available for issuance under this Plan. The first offering under this plan will be made as soon as practicable after the Company is current with its SEC filings and the underlying shares have been registered with the SEC.

As of December 31, 2006, there was $0.6 million of total unrecognized stock-based compensation cost related to share-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over 10 months.

9. Stockholders Equity

Preferred and Common Stock

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

Warrants

In October 1998, Rambus 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. Warrants exercisable for a total of 1,520,000 shares of our Common Stock had been issued under the program. As of December 31, 2006, no warrants were exercised as the defined milestones were not achieved, and all warrants have expired.

Contingent Common Stock Equivalents and Options

As of December 31, 2005, there were 1,000,000 contingent unvested Common Stock Equivalents, or CSEs, and 799,346 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM 850E chipsets. These CSEs were granted to Rambus previous Chief Executive Officer (CEO) and President in 1999 and the options were granted to certain of 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 per share and a term of 10 years.

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It was previously expected that there would be a non-cash charge to Rambus statement of operations, based on fair value of the CSEs and options, when the achievement of certain Intel milestones became probable. Intel has since phased out the 850E chipset and as a result the unvested CSEs and options will never vest. The impact of these CSEs and options has been excluded from the calculation of net income per share.

During the year ended December 31, 2006, 77,500 contingent unvested options were forfeited and all of the contingent unvested CSEs were forfeited unvested when the officers terminated their service. The forfeitures of the contingent unvested options are included in the forfeitures in the table in Note 8 Employee Stock Option Plans summarizing stock option activity.

As of December 31, 2006, there were no contingent unvested CSEs and 721,846 contingent unvested options. As noted above, none are expected to vest.

Nonvested Equity Stock and Stock Units

On January 10, 2005, Rambus granted 125,000 shares of nonvested equity stock to its CEO and President, Harold Hughes at an exercise price of $.001 per share. The nonvested equity stock was valued at fair market value at the date of grant, giving it a valuation of $2.7 million. Rambus recorded $2.7 million of stock-based compensation expense over the six month vesting period in the year ended December 31, 2005. There was no outstanding deferred stock-compensation balance as of December 31, 2005.

On February 1, 2006, Rambus entered into an amended and restated employment agreement with its then Senior Vice President and General Counsel, John Danforth. Pursuant to the terms of the Agreement, Mr. Danforth was granted 36,603 and 26,780 nonvested equity stock units on February 1, 2006 and May 2, 2006, respectively. The nonvested equity stock units were valued at fair market value at the date of grant, assuming no shares would be forfeited, giving each a valuation of approximately $1.0 million which will be attributed to expense over the 21 and 18 month vesting periods beginning February 1, 2006 and May 2, 2006, respectively. For the year ended December 31, 2006, Rambus recorded stock-based compensation of approximately $1.0 million. Unrecognized stock- based compensation cost related to these grants was approximately $1.0 million at December 31, 2006.

On April 11, 2006, Rambus granted its Chief Financial Officer, Satish Rishi, 40,000 shares of nonvested equity stock at an exercise price of $.001 per share. These shares are not transferable until vested and any unvested shares are subject to repurchase upon termination. The nonvested equity stock grant was valued at fair market value at the date of grant, assuming no shares would be forfeited, giving it a valuation of $1.6 million which will be attributed to expense over the four year vesting period beginning April 11, 2006. For the year ended December 31, 2006, Rambus recorded stock-based compensation of approximately $0.3 million related to this grant. Unrecognized stock-based compensation cost related to this grant was $1.3 million at December 31, 2006.

The following table reflects the activity related to nonvested equity stock and stock units for the year ended December 31, 2006:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2005		$
Granted	103,383	$ 35.13
Vested	(29,613)	$ 32.62
Forfeited		$
Nonvested at December 31, 2006	73,770	$ 36.14

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Share Repurchase Program

In October 2001, Rambus Board of Directors approved a share repurchase program of its Common Stock, principally to reduce the dilutive effect of employee stock options. On January 23, 2006 Rambus Board of Directors approved an authorization to repurchase up to an additional five million shares of its Common Stock, giving the Company a total authorization to purchase up to 19.0 million shares of its outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, Rambus repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, Rambus had repurchased a cumulative total of 13.2 million shares of its Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with Rambus $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of Rambus outstanding Common Stock. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. The Company will not repurchase additional shares until after it is current with its SEC filings.

Rambus records stock repurchases as a reduction to stockholders equity. As prescribed by APB Opinion No. 6, Status of Accounting Research Bulletins, Rambus records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the cost of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock. In the fiscal year ended December 31, 2006 and 2005, the cumulative price of the shares repurchased exceeded the proceeds received from the issuance of the same number of shares. The excess of $20.2 and $59.8 million was recorded as an increase to accumulated deficit for the years ended December 31, 2006 and 2005, respectively.

10. Benefit Plans

Rambus has a 401(k) Profit Sharing Plan (the 401(k) Plan) qualified under Section 401(k) of the Internal Revenue Code of 1986. Each eligible employee may elect to contribute up to 60% of the employee s annual compensation to the 401(k) Plan, up to the Internal Revenue Service limit. Rambus, at the discretion of its Board of Directors, may match employee contributions to the 401(k) Plan. In conjunction with modifications to other employee benefits, effective January 1, 2006, the Company match provision under the 401(k) Plan was modified from 10% of the eligible employee s contribution to 50%, up to the first 6% of an eligible employee s qualified earnings. For the twelve months ended December 31, 2006 and 2005, Rambus made matching contributions totaling $1,117,000 and $260,000, respectively.

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11. Income Taxes

The provision for (benefit from) income taxes is comprised of:

(in thousands)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Federal:			
Current	$ (858)	$ 8,849	$ 5,095
Deferred	(9,338)	(1,918)	(5,426)
State:			
Current	(218)	1,922	2,925
Deferred	(1,904)	(258)	(1,057)
Foreign:			
Current	429	1,226	5,244
	$ (11,889)	$ 9,821	$ 6,781

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

The differences between Rambus effective tax rate and the U.S. federal statutory regular tax rate are:

	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Provision (benefit) at U.S. federal statutory rate	(35.0)%	35.0%	35.0%
Provision (benefit) at state statutory rate	(5.5)%	5.7%	9.9%
R&D credit	(8.8)%	(2.6)%	(10.3)%
Foreign tax credit	%	%	(14.0)%
Executive compensation	6.3%	(17.7)%	1.7%
Non-deductible stock compensation	(3.6)%	3.0%	1.4%
Other	0.3%	1.9%	(0.4)%
	(46.3)%	25.3%	23.3%

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

While the Company does not expect any impact to the effective tax rate for U.S. non-qualified stock option or restricted stock expense due to the adoption of SFAS 123(R), the effective tax rate may be negatively impacted by foreign stock option expense and stock option expense related to executive officers that may not be deductible. Also, SFAS 123(R) requires that the tax benefit of stock option deductions relating to incentive stock options and ESPPs be recorded in the period of disqualifying disposition. This could result in significant fluctuations in the effective tax rate between accounting periods.

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The components of the net deferred tax assets are as follows:

(in thousands)	December 31, 2006	December 31, 2005 As restated (1)
Deferred tax assets:		
Deferred revenue	$ 845	$ 1,315
Depreciation and amortization	22,908	26,781
Other liabilities and reserves	11,714	4,288
Employee stock-based compensation	694	894
Deferred equity compensation	33,669	37,031
Net operating loss carryover	15,792	10,071
Tax credits	23,959	21,520
Total deferred tax assets	$ 109,581	$ 101,900

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

Management periodically evaluates the realizability of the deferred tax assets based on all available evidence, both positive and negative. Future taxable income and other factors determine how much benefit Rambus ultimately realizes from deferred tax assets. If the Company s estimate of future taxable income or the overall expected realizability of the deferred tax assets changes, a valuation allowance may have to be recorded which could materially impact Rambus financial position and results of operation.

As of December 31, 2006, Rambus has federal and state net operating loss carryforwards for income tax purposes of $103.8 million and $91.7 million, respectively, which expire from 2014 through 2026. As of December 31, 2006, Rambus has federal and state research and development tax credit carryforwards for income tax purposes of $13.5 million and $6.4 million, respectively. The federal research and development tax credit carryforwards expire from 2012 through 2026 and the state tax credit can be carried forward indefinitely.

Pursuant to Footnote 82 of SFAS No. 123(R), tax attributes related to stock option windfall deductions should not be recorded until they result in a reduction of cash taxes payable. On a prospective basis, Rambus no longer includes net operating losses attributable to stock option windfall deductions as components of its gross deferred tax assets. Therefore, its unrealized federal and state net operating losses excluded for the year ended December 31, 2006 are $62.9 million and $65.2 million, respectively. The benefit of these net operating losses will be recorded to equity when they reduce cash taxes payable.

At December 31, 2006, no deferred taxes have been provided for any portion of the approximately $1.1 million of undistributed earnings of the Company s international subsidiaries, since these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries. The Company s operations in India currently operate under a tax holiday, which will expire in 2009.

For U.S. federal tax purposes, the Company is generally no longer subject to tax examinations for years prior to March 31, 1998. For California tax purposes, the Company is generally no longer subject to tax examinations for years prior to March 31, 1999.

In the event of a change in ownership, as defined under federal and state tax laws, Rambus net operating loss and tax credit carryforwards could be subject to annual limitations. The annual limitations could result in the expiration of the net operating loss and tax credit carryforwards prior to utilization.

12. Earnings (Loss) Per Share

Earnings (loss) per share is calculated in accordance with, Statement of Financial Accounting Standard No. 128, Earnings Per Share (SFAS 128). Basic earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of incremental common shares issuable upon exercise of stock options, employee stock purchases, restricted stock and restricted stock units and shares issuable upon the conversion of convertible notes. The dilutive effect of the convertible notes is calculated under the if-converted method. The dilutive effect of outstanding shares is reflected in diluted earnings per share by application of the treasury stock method. This method includes consideration of the amounts to be paid by the employees, the amount of excess tax benefits that would be recognized in equity if the instruments were exercised and the amount of unrecognized stock-based compensation related to future services. The impact of the CSEs (See Note 9, Stockholders Equity). has been excluded from all periods because the CSEs are not expected to vest. No potential dilutive common shares were included in the computation of any diluted per share amount when a net loss was reported.

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

(in thousands, except per share amounts)	Twelve Months Ended December 31, 2006	2005 As restated (1)	2004 As restated (1)
Numerator:			
Net income (loss)	$ (13,816)	$ 28,940	$ 22,361
Denominator:			
Weighted average shares used to compute basic EPS	103,048	99,876	101,931
Dilutive potential shares from stock options, ESPP and restricted stock units		3,654	6,616
Weighted average shares used to compute diluted EPS	103,048	103,530	108,547
Net income (loss) per share:			
Basic	$ (0.13)	$ 0.29	$ 0.22
Diluted	$ (0.13)	$ 0.28	$ 0.21

(1) See Note 3, Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

For the twelve months ended December 31, 2006 and 2005, approximately 5.9 million shares that would be issued upon the conversion of the contingently issuable convertible notes were excluded from the calculation of earnings per share because the conversion price was higher than the average market price of the Common Stock during this period. For the twelve months ended December 31, 2006, 2005 and 2004, options to purchase approximately 8.2 million, 14.9 million and 7.3 million shares, respectively, were excluded from the calculation because they were anti-dilutive after considering proceeds from exercise, taxes and related unrecognized stock-based compensation costs. For the year ended December 31, 2006, an additional 5.5 million shares that would be dilutive were excluded from the calculation of weighted average dilutive shares because there is a net loss for the period.

13. Business Segments, Exports and Major Customers

Rambus operates in a single industry segment, the design, development and licensing of chip interface technologies and architectures. Four customers accounted for 18%, 13%, 12% and 10%, respectively, of revenues in the year ending December 31, 2006. Four customers accounted for 26%, 17%, 11% and 10%, respectively, of revenues in the twelve months ended December 31, 2005. Three customers accounted for 28%, 15% and 13%, respectively, of revenues in the twelve months ended December 31, 2004. Rambus expects that its revenue concentration will decrease over time as Rambus licenses new customers.

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

(in thousands)	Twelve Months Ended December 31, 2006	2005	2004
Japan	$ 119,884	$ 96,465	$ 85,382
North America	49,186	46,098	45,351
Taiwan	975	220	80
Korea	1,156	8,440	13,807
Europe	24,123	5,975	254
	$ 195,324	$ 157,198	$ 144,874

Revenues are attributed to individual countries according to the countries in which the licensees are headquartered. At December 31, 2006, approximately $22.0 million of long-lived assets are located in the United States and approximately $3.2 million are located in India.

14. Acquisition

On April 15, 2005, Rambus completed the acquisition of a portion of GDA Technologies (GDA) including certain proprietary digital core designs for a preliminary total of $6.4 million in cash, including transaction costs. Rambus did not have a pre-existing relationship with GDA before the acquisition. Under the terms of the purchase agreement, Rambus paid a total of $5.3 million in cash to GDA at the initial closing. Rambus was contractually obligated to pay out an additional $1.0 million in conjunction with its acquisition of intellectual property from GDA, and has paid this amount in the quarter ended March 31, 2006. In addition, Rambus paid $0.2 million for legal fees incurred in connection with this transaction. The acquisition has been recorded using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations, (SFAS 141). As a result of the acquisition, Rambus recorded $3.7 million of purchased intangible assets and $2.7 million of goodwill. The valuation of the purchased intangible assets was determined based on their estimated fair values at the acquisition date. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the purchased intangible assets. Key assumptions included estimates of revenue growth, cost of revenues, operating expenses, and discount rates. The discount rates used in the valuation of intangible assets reflected the level of risk associated with the investment, as well as the time value of money.

The purchased intangible assets are being amortized over useful lives of three to five years using the straight-line method. The useful life of existing technology was based on management estimates and the estimated length of economic benefit derived from the technology. The useful life of the non-competition agreement was based on the contractual term of the agreement. The useful life of customer contracts and related relationships was based on estimated customer attrition and technology obsolescence. Amortization expense was $0.9 million and $0.6 million in the twelve months ended December 31, 2006 and 2005, respectively. Rambus estimates that it will expense approximately $0.9 million in each of the twelve months ending December 31, 2007 and 2008, $0.4 million in the twelve months ending December 31, 2009 and $0.1 million in the twelve months ending December 31, 2010.

In addition to the $6.4 million preliminary purchase price, the purchase agreement calls for an earn-out payment that is based on future performance and events. Under the terms of the purchase agreement, the earn-out payment is computed on cash collections from the sale or license of acquired GDA products. Effective April 11, 2006, Rambus and GDA entered into an amendment to the original agreement that extended the earn-out period from one year from the initial closing date to March 31, 2007. The amendment also reduced the maximum earn-out amount from $5.0 million to $3.8 million. Using guidance provided by SFAS 141, Rambus concluded that the earn-out payment is a contingent payment and that the existence of a liability was not determinable as of December 31, 2006. Accordingly, Rambus has not recorded a liability for any earn-out payment as of December 31, 2006. In March 2007, the Company was notified, and later confirmed, that cash collections from the sale or license of these products had exceeded the minimum amount as defined in the purchase agreement and that additional payments were due GDA. As a result, Rambus recorded a liability for the earn-out payment and an increase to goodwill of approximately $1.1 million in the first quarter of fiscal 2007.

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The purchase price has been allocated as follows (in thousands):

Amortizable intangible assets:	
Existing technology	$ 2,700
Non-competition agreement	100
Customer contracts and relationships	900
Goodwill	2,734
Total purchase price	$ 6,434

15. Acquisition of Intellectual Property

Cadence Design Systems

In July 2004, Rambus acquired certain serial link intellectual property from Cadence for $11.0 million in cash, to be incorporated into Rambus serial link product line of serial link cells. In addition, if Cadence achieves certain milestones by a pre-determined time, Rambus has the option, but not the obligation, to purchase additional serial link intellectual property from Cadence for $5.0 million in cash, which intellectual property would also be incorporated into Rambus serial link product line of serial link cells. Rambus did acquire additional serial link intellectual property from Cadence for an initial price of $2.5 million in December 2005 and for $0.3 million in May 2006 under the agreement. Cadence Engineering Services will gain access to Rambus portfolio of serial link cells to deliver customized design solutions as needed. Cadence will be the exclusive EDA industry reseller of Rambus foundry serial link cells and will exclusively sell only Rambus foundry serial link cells off-the-shelf. The technology is valuable for currently available products and continues to be the basis for products under development.

As a result of the acquisition, Rambus recorded $11.1 million of purchased intangible assets, including transaction costs, in 2004, $2.5 million of purchased intangible assets in 2005 and $0.3 million of purchased intangible assets in 2006. These assets are being amortized over their useful lives of four to seven years. Amortization expense of these purchased intangible assets was $3.0 million, $2.4 million and $1.2 million for the twelve months ended December 31, 2006, 2005 and 2004, respectively, Rambus estimates that it will expense approximately $3.1 million in the twelve months ending December 31, 2007, $2.2 million in the twelve months ending December 31, 2008, $1.2 million in the twelve months ending December 31, 2009, $0.5 million in the twelve months ending December 31, 2010 and $0.3 million in the twelve months ending December 31, 2011.

The components of purchased intangibles assets are as follows (in thousands):

Serial Link Cells	$ 10,084
Patents	3,800
Purchased intangible assets:	$ 13,884

The net book value of the Cadence related purchased intangible assets at December 31, 2006 was $7.3 million.

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Velio Communications, Inc.

In December 2003, Rambus completed the acquisition of certain high speed signaling assets from Velio for $13.0 million in cash. As a result of this acquisition, Rambus recorded purchased intangible assets of $13.2 million, including transaction costs. The acquired intangible assets include the acquisition of certain Velio high speed signaling assets, the related Velio patent portfolio and the existing Velio licensing business. Rambus integrated these assets into its serial link product line. The technology is valuable for currently available products and continues to be the basis for products under development under an existing contract with one important customer. These assets are being amortized over their useful lives of ten years. Amortization expense of purchased intangible assets was $1.3 million in each of the twelve months ended December 31, 2006, 2005 and 2004. There were no contingent payments required as part of this acquisition. Rambus estimates that it will expense a total of approximately $1.3 million, ratably, for each of the twelve months ending December 31, 2007 through 2013.

The components of purchased intangible assets are as follows (in thousands):

Contractual relationships	$ 7,100
Patents	6,114
Purchased intangible assets	$ 13,214

The net book value of the Velio related purchased intangible assets at December 31, 2006 was $9.3 million.

The valuation and useful lives of the Cadence and Velio acquired intangible assets were allocated based on estimated fair values at the acquisition dates. The value of the agreements, along with interviews and management s estimates were used to determine the useful lives of the assets. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing the acquired patented technology. Key assumptions included estimates of revenue growth, cost of revenues, operating expenses and taxes. The discount rates used in the valuation of intangible assets reflected the level of risk associated with the particular technology and the current return on investment requirements of the market.

16. Convertible Notes

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

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

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

cash in an amount equal to the lesser of

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

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

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

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

The convertible notes are carried at fair value at December 31, 2006 and 2005 due to the cash settlement feature. The convertible notes are subject to repurchase in cash in the event of a fundamental change involving Rambus at a price equal to 100% of the principal amount. Rambus may be obligated to pay an additional premium (payable in shares of Common Stock) in the event the convertible notes are converted following a fundamental change. The premium is based on numerous factors and could be up to 33% per $1,000 principal amount of convertible notes.

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

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

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

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

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

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

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

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

On July 20, 2005, Rambus repurchased $60.0 million face value of the outstanding convertible notes, for a price of approximately $49.6 million. The gain of approximately $10.4 million, less related unamortized note issuance costs of approximately $1.3 million was recognized as other income in the year ended December 31, 2005.

On August 30, 2005, Rambus repurchased $45.0 million face value of the outstanding convertible notes for a price of approximately $34.5 million. The gain of approximately $10.5 million, less related unamortized notes issuance costs of approximately $1.0 million was recognized as other income in the year ended December 31, 2005.

On October 20, 2005, Rambus repurchased $35.0 million face value of the outstanding convertible notes for a price of approximately $28.9 million. The gain of approximately $6.1 million, less related unamortized notes issuance costs of approximately $0.7 million was recognized as other income in the year ended December 31, 2005.

These repurchases were financed from Rambus investment portfolio.

At the time of the issuance, Rambus recorded $7.2 million of related note issuance costs in long-term other assets which was subsequently reduced to $4.2 million related to the repurchases of Rambus outstanding convertible notes in 2005. For the fiscal years ended December 31, 2006 and 2005, Rambus recorded amortization expense of $3.2 million and $1.1 million, respectively. The 2006 expense includes the impact of the acceleration of the convertible notes as discussed below.

On August 17, 2006, Rambus received a notice of default from U.S. Bank National Association, as trustee (the Trustee) for the convertible notes. The notice asserted that the Company s failure to file its Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the indenture, dated as of February 1, 2005 between Rambus and the Trustee (the Indenture). The notice stated that per Section 9.1 of the Indenture, if Rambus did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, Rambus received a notice from the Trustee stating that since the Company had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, Rambus received an additional notice of default from the Trustee relating to the Company s failure to file its Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, Rambus received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable. Default interest on the convertible notes accrues at a rate of 2% per annum from the date on which full payment of the convertible notes is due to the date that full payment is made.

As of December 31, 2006, the Company has reclassified the aggregate principal amount of the convertible notes of $160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. In addition, related issuance costs of approximately $3.2 million have been expensed in 2006, including approximately $2.4 million which was recorded in the quarter ending December 31, 2006. Rambus is evaluating its options with respect to the convertible notes as a result of the receipt of the notice of acceleration and believes that it has adequate financial resources to pay any unpaid principal and any accrued or default interest due on the convertible notes.

17. Litigation and Asserted Claims

Stock option investigation related claims

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and related accounting issues.

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

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

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

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

On August 24, 2007, the final written report setting forth the findings of the Special Litigation Committee was filed with the California court. As set forth in its report, the SLC determined that all claims should be terminated and dismissed against the named defendants in *In re Rambus Inc. Derivative Litigation* with the exception of claims against named defendant Ed Larsen, who served as Vice President, Human Resources from September 1996 until December 1999, and then Senior Vice President, Administration until July 2004. The SLC entered into settlement agreements with certain former officers of the Company. These settlements are conditioned upon the dismissal of the claims asserted against these individuals in *In re Rambus Inc. Derivative Litigation.* The aggregate value of the settlements to the Company exceeds $6.5 million in cash and cash equivalents as well as substantial additional value to the Company relating to the relinquishment of claims to over 2.7 million stock options. The SLC intends to assert control over the litigation. The conclusions and recommendations of the SLC are subject to review by the California court. At a case management conference on September 7, 2007, Rambus informed the California court that it intended to file a motion to terminate in accordance with the SLC s recommendations. Rambus motion is due by October 5, 2007. Plaintiffs stated their intention to oppose Rambus motion and to file a motion for leave to amend their complaint. The California court scheduled a hearing on both motions for January 18, 2008.

On August 30, 2007, another shareholder derivative action was filed in the Southern District of New York against Rambus (as a nominal defendant) and PricewaterhouseCoopers LLP. Rambus is evaluating the complaint but believes the action should be transferred to the Northern District of California and made part of *In re Rambus Inc. Derivative Litigation*, Master File No. C-06-3513-JF (N.D. Cal.), pursuant to the consolidation order dated August 9, 2006.

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

On March 1, 2007, a pro se lawsuit was filed in the Northern District of California by two alleged Rambus shareholders against Rambus, certain current and former executives and board members. and PricewaterhouseCoopers LLP (*Kelley et al. v. Rambus, Inc. et al.* C-07-01238-JF (N.D. Cal.)). On April 25, 2007, the plaintiffs filed an amended complaint adding Wilson Sonsini Goodrich & Rosati, P.C., as a defendant. The plaintiffs filed second and third amended complaints without leave of court on May 8 and 14, 2007, respectively. On May 14, 2007 this case was related to the

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class action, *In re Rambus Inc. Securities Litigation*, C-06-4346-JF. Rambus and the other named defendants filed or joined various motions to dismiss the third amended complaint on June 4 and 5, 2007. On May 8, 2007, a substantially identical pro se lawsuit was filed in the Northern District of California by another purported Rambus shareholder against the same parties. These two pro se lawsuits each allege violations of federal and state securities laws, and state law claims for fraud and breach of fiduciary duty. The two lawsuits were consolidated into a single action by court order dated June 25, 2007. Rambus pending motion to dismiss was taken off calendar, and plaintiffs filed a consolidated amended complaint on July 25, 2007. Rambus and other defendants filed motions to dismiss on August 10, 2007. At a hearing on these motions held on September 7, 2007, the California court stated the intention to dismiss the complaint with leave to amend, but no written order has been issued to date.

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

FTC Complaint

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

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

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

On February 5, 2007, the FTC released its February 2, 2007, opinion and order on remedy. The remedy order sets the maximum royalty rate that Rambus can collect on the manufacture, use or sale in the United States of certain JEDEC-compliant parts after the Order becomes effective, as follows: 0.25% for SDRAM products; 0.5% for DDR SDRAM products; 0.5% for SDRAM memory controllers or other non-memory chip components; and 1.0% for DDR SDRAM memory controllers or other non-memory chip components. The order specifies that these maximum rates will be in effect for three years, after which time the maximum rates for these products will be 0%. The order also mandates

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that Rambus offer a license for these products at rates no higher than the maximums set by the FTC, including a further cap on rates for the affected non-memory products. The order further requires Rambus to take certain steps to comply with the terms of the order and applicable disclosure rules of any standard setting organization of which it may become a member.

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

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

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

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

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

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

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Infineon Litigation

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

Hynix Litigation

U.S District Court of the Northern District of California

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

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

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

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

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

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

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

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

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

On April 4, 2007, the California court held a case management conference involving Rambus, Hynix, Micron, Samsung, and Nanya to discuss how each of the various actions involving Rambus and these other parties should proceed. On April 24, 2007, the California court ordered that this action (*Hynix v Rambus*, Case No. C 00-20905 RMW) and three others pending before the same court (*Rambus Inc. v. Samsung Electronics Co. Ltd. et al.,* Case No. 05-02298 RMW, *Rambus Inc. v. Hynix Semiconductor Inc., et al.,* Case No. 05-00334, and *Rambus Inc. v. Micron Technology, Inc., et al.,* Case No. C 06-00244 RMW, each described in further detail below) shall have a coordinated trial beginning on January 22, 2008, of certain common claims and defenses related to the claims set to be tried in the third phase of the *Hynix* 00-20905 action. The order states that it is the California court s intention that the *Hynix* 00-20905 action will be ready for entry of final judgment shortly after the conclusion of the January 22, 2008 trial.

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to tried in the January 22, 2008 trial (see below). Oral argument on these briefs was heard on August 3, 2007.

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On June 27, 2007, the California court granted Hynix s request to file a short brief regarding what effect, if any, the Supreme Court s decision in *KSR* has on the patent verdict. Hynix filed its opening brief on July 6, 2007. Rambus filed an opposition brief on August 3, 2007. The California court will advise the parties if it wishes to hear any oral argument.

European Patent Infringement Case

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

Micron Litigation

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

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

On January 13, 2006, the Delaware court issued an order lifting the stay that had prevented Rambus from filing certain new patent litigation against Micron since February 27, 2002. Also on January 13, 2006, the Delaware court issued an order confirming that the trial there will proceed in three phases in the same general order as in the *Hynix* case: (1) unclean hands; (2) patent infringement; and (3) antitrust, equitable estoppel, and related issues (conduct). In a scheduling order dated March 16, 2006, the Delaware court set the unclean hands trial to begin on October 23, 2006; the patent trial to begin on November 5, 2007; and the conduct trial to begin on November 10, 2008.

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

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

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

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

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

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

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

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

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

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

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix s motion for summary judgment in the *Hynix* 00-20905 action on Hynix s state unfair competition claim and equitable estoppel defense based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007. Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. The Court took the motions under submission, and no opinion has issued to date on these motions.

European Patent Infringement Cases

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

One proceeding in Italy relating to the 642 patent was adjourned at a hearing on June 15, 2007, each party bearing its own costs. In a second proceeding in Italy relating to the 956 patent, the court has scheduled a hearing for November 8, 2007, regarding continuation of the proceedings. On September 29, 2005, Rambus received a letter from

Micron seeking to toll a statute of limitations period in Italy for a purported cause of action resulting from a seizure of evidence in Italy in 2000 carried out by Rambus pursuant to a court order. Micron asserts that its damages allegedly caused by this seizure equal or exceed $30.0 million. Micron formally filed suit against Rambus relating to this seizure in February 2006. Rambus filed its written defense on April 24, 2006. The Italian court has ordered further briefing on issues related to Rambus suit in Italy for infringement of its 068 patent. A hearing in the Italian court is set for October 30, 2007, on both proceedings involving the 068 patent and Micron s claim for damages related to seizure of evidence.

DDR2, GDDR2 & GDDR3 Litigation (DDR2)

U.S District Court in the Northern District of California

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

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

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

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

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issues its decision in the matter Rambus is appealing from the U.S. District Court in the Eastern District of Virginia, described below.

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

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix s motion for summary judgment in the *Hynix* 00-20905 action on Hynix s state unfair competition claim and equitable estoppel defense based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007, and Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. The Court took the motions under submission, and no opinion has issued to date on these motions.

Samsung Litigation

U.S District Court in the Northern District of California

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

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

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

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

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

As a result of the coordinated proceedings, the California court permitted supplemental briefing on issues relating to what effect, if any, the FTC opinion has on the claims to tried in the January 22, 2008 trial. On June 28, 2007, Micron, Nanya, and Samsung filed (1) a joint motion seeking to give prima facie evidentiary effect to certain findings by the FTC in the January 22, 2008 trial; and (2) a joint brief in support of Hynix s motion for summary judgment in the *Hynix* 00-20905 action on Hynix s state unfair competition claims and equitable estoppel defenses based on findings made by the FTC. Rambus filed opposition briefs to these motions on July 16, 2007. Micron, Nanya, and Samsung filed reply briefs on July 23 and 24, 2007. Oral argument on these motions was held on August 3, 2007. The Court took the motions under submission, and no opinion has issued to date on these motions.

U.S District Court in the Eastern District of Virginia

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

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

Rambus notified the Virginia court that it made a Rule 68 offer of judgment to Samsung on November 30, 2005, and that this offer divested the court of any remaining subject matter jurisdiction. Samsung did not accept the Rule 68 offer. A hearing on the jurisdiction issue and supplemental argument on the exceptional case issue was held on February 21, 2006. The court subsequently ordered that the *Hynix v. Rambus* record from the phase one unclean hands trial in California should be made part of the record in the Samsung action and took the jurisdictional issue and the exceptional case issue under submission.

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

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

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

Delaware Chancery Court

On June 23, 2005, Samsung sued Rambus in the Delaware Chancery Court asserting claims similar to its counterclaims in the Northern District of California action. The suit seeks a declaration that Rambus patents claiming a priority date prior to the termination of its former employee s employment with Samsung be declared unenforceable as against Samsung as a result of Samsung s allegations charging Rambus with aiding and abetting breach of fiduciary duty and intentional interference with contract.

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Rambus filed an answer on July 18, 2005, denying Samsung s claims. On September 6, 2006, Rambus filed a motion for summary judgment on the ground that Samsung s claims are barred because it released its claims pursuant to the patent license agreement between Rambus and Samsung executed in 2000. At the conclusion of oral argument on December 4, 2006, the Delaware Chancery Court indicated that it would deny Rambus motion for summary judgment without prejudice to the reassertion of the motion after the completion of further discovery and that it would stay the action until after the next status conference in the actions with similar counterclaims pending in the Northern District of California. At the request of the Delaware Chancery Court, the parties submitted separate updates on the status of this matter on September 7, 2007.

Indirect Purchaser Class Action

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

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

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

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European Commission Competition Directorate-General

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

On June 18, 2004, Rambus requested that the European Commission investigate the collusive activities of Infineon/Siemens, Hynix, and Micron, as described in Rambus complaint filed in the price fixing case in the San Francisco Superior Court. On March 10, 2005, Rambus received a responsive letter from the EU Directorate requesting certain additional information. Rambus replied to this request on May 23, 2005. On March 29, 2005, as part of its settlement with Infineon, Rambus withdrew its complaint to the extent that it was directed to Infineon/Siemens. Rambus received a second letter from the European Commission on August 3, 2005, requesting further information following the settlement agreement with Infineon. Rambus responded on August 23, 2005. In a letter dated May 24, 2007, Rambus notified the European Commission that it was withdrawing its complaint without prejudice. This case is now closed.

Price-Fixing Case

Superior Court of California for the County of San Francisco

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

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

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

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Hynix and Samsung appealed the San Francisco court s denial of their respective motions to compel arbitration. The California appellate court heard oral argument on November 15, 2006, and on January 3, 2007, it affirmed the San Francisco court s denial of the motions to compel arbitration. On February 13, 2006, Hynix filed, and Samsung joined, a petition for review of the appellate court s affirmance in the California Supreme Court. On March 21, 2007, the California Supreme Court denied the petition for review. On March 26, 2007, the California appellate court issued a remittitur returning full jurisdiction of the case to the San Francisco court. On June 20, 2007, Hynix filed a petition seeking review of the denial of its motion to compel arbitration by the U.S. Supreme Court. Rambus filed an opposition to this petition on August 17, 2007 and Hynix filed a reply on September 5, 2007. No action on Hynix s petition has been taken to date.

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

Alberta Telecommunications Research Centre Litigation

On November 15, 2005, Alberta Telecommunications Research Centre, dba TR Labs, a Canadian company, filed suit against Rambus in the U.S. District Court in the Eastern District of Virginia. The complaint alleges that Alberta is the owner of U.S. patent no. 5,361,277 (the 277 patent), and asserts claims for interferences-in-fact pursuant to 35 U.S.C. § 291 between the 277 patent and Rambus U.S. patent nos. 5,243,703 (the 703 patent) and 5,954,804 (the 804 patent); infringement of the 277 patent by Rambus; and unjust enrichment. Alberta seeks an order assigning the claims of the 703 and 804 patent to Alberta, disgorgement of Rambus profits from licensing the 703 and 804 patents, compensatory and punitive damages, attorneys fees, and injunctive relief. Rambus filed an answer on February 10, 2006, denying Alberta s claims.

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

General Litigation Matters

The Company is a party from time to time to lawsuits. Litigation, in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict. For the year ended December 31, 2006, the Company has accrued a total of $20.4 million as its best estimate of settlements and/or judgments in the cases noted above when such outcome is deemed by the Company as probable, as that term is defined in SFAS 5, including the $18.0 million to settle the shareholder class action lawsuit related to the stock option investigation.

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

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18. Subsequent Events

Under IRC Section 409A (and, as applicable, under California and other state tax laws), repriced stock options vesting after December 31, 2004 (409A Affected Options) subject the option holder to a penalty tax. If the 409A affected options are amended to increase the exercise price to the market price on the actual grant date, these options would not be subject to taxation under IRC Section 409A. Under IRS regulations, these option agreements had to be completed by December 31, 2006 for anyone who was an executive officer when he or she received 409A affected options. Only one of the Company s option holders was subject to the December 31, 2006 deadline and had his options amended to increase the exercise price.

Because virtually all holders of options for which the measurement dates and grant prices were adjusted in connection with the restatement (see Note 3, Restatement of Consolidated Financial Statements), were not involved in the original stock option granting process, the Company decided to compensate substantially all current and former non-executive employees for the 409A penalty taxes (grossed up for taxes on the compensation) imposed on them in 2006 for revised options that were exercised in 2006. Because the decision to assume the liability was not made by management and the Board of Directors until March 2007 the Company will record approximately $6.8 million of compensation expense in the first quarter of 2007. The Company has also notified all employees that it will not provide a similar benefit for 2007 and forward penalties that may be assessed by the IRS or the states.

In February 2007, the Compensation Committee approved the granting of 100,000 restricted stock units to Satish Rishi, the Company s Chief Financial Officer. The restricted stock units will be granted as soon as practicable after the Company becomes current with its SEC filings and registers its 2006 Equity Incentive Plan under which these units would be granted.

In June 2007, an appellate court in Germany notified the Company that it had denied the Company s appeal to reduce the amount owed for court costs related to Rambus European patent case with Infineon. The Company recorded its best estimate of the liability from this case in September 2006. Because the amount was subsequently adjusted and the financial statements had not yet been issued, the Company increased its accrual for these court costs for the year ended December 31, 2006 in connection with the appellate court s ruling. (See Note 17, Litigation and Asserted Claims for more information).

In the third quarter of 2007, the Company reached a preliminary agreement in principle with the lead plaintiffs in the class action litigation related to the stock option investigation (see Note 17, Litigation and Asserted Claims). Because the complaints giving rise to the settlement of this litigation were filed in the third quarter of 2006 and the financial statements for that period had not yet been issued, the potential settlement amount of $18.0 million is recorded in the third quarter of 2006 in accordance with Statement of Financial Accounting Standards No. 5 Accounting for Contingencies (SFAS 5). This amount is included in the Company s statement of operations in the line item Costs of restatement and related legal activities.

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

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Supplementary Financial Data

RAMBUS INC.

CONSOLIDATED SUPPLEMENTARY FINANCIAL DATA

Quarterly Statements of Operations (As Previously Reported)

(Unaudited)

(in thousands, except for per share amounts)	Dec. 31, 2006 (3)	Sept. 30, 2006 (3)	June 30, 2006 (3)	March 31, 2006 As previously reported (2)	Dec. 31, 2005 As previously reported (2)	Sept. 30, 2005 As previously reported (2)	June 30, 2005 As previously reported (2)	March 31, 2005 As previously reported (2)
Revenue:								
Contract Revenues	$ 8,577	$ 4,422	$ 7,745	$ 5,564	$ 6,904	$ 7,983	$ 5,390	$ 6,600
Royalties	44,013	41,523	41,699	41,681	34,685	28,031	34,595	33,011
Total revenues	52,590	45,945	49,444	47,245	41,589	36,014	39,985	39,611
Costs and expenses:								
Cost of contract revenues	7,382	6,121	9,521	6,765	4,742	4,455	4,965	5,603
Research and development	17,424	17,695	15,841	16,752	11,848	10,598	9,934	8,591
Marketing, general and administrative	22,692	24,114	32,883	24,192	17,687	17,033	19,482	20,498
Costs of restatement and related legal activities	5,746	23,796	1,894					
Total costs and expenses (1)	53,244	71,726	60,139	47,709	34,277	32,086	34,381	34,692
Operating Income (loss)	(654)	(25,781)	(10,695)	(464)	7,312	3,928	5,604	4,919
Interest and other income, net (3)	2,344	4,472	4,076	3,445	8,084	21,202	3,414	2,129
Income (loss) before income taxes	1,690	(21,309)	(6,619)	2,981	15,396	25,130	9,018	7,048
Provision for (benefit from) income taxes	(379)	1,337	(12,728)	1,164	6,015	10,634	3,658	2,608
Net income (loss)	$ 2,069	$ (22,646)	$ 6,109	$ 1,817	$ 9,381	$ 14,496	$ 5,360	$ 4,440
Net income (loss) per share - basic	$ 0.02	$ (0.22)	$ 0.06	$ 0.02	$ 0.09	$ 0.15	$ 0.05	$ 0.04
Net income (loss) per share - diluted	$ 0.02	$ (0.22)	$ 0.06	$ 0.02	$ 0.09	$ 0.14	$ 0.05	$ 0.04
Shares used in per share calculations - basic	103,806	103,792	103,414	101,142	99,688	99,944	99,596	100,280
Shares used in per share calculations - diluted	108,209	103,792	110,495	109,332	103,561	103,211	103,675	105,913

(1) Stock-based compensation included in -

Cost of contract revenues	$ 1,805	$ 1,844	$ 2,524	$ 1,351	$	$	$	$

Research and development	$ 3,460	$ 4,269	$ 3,003	$ 2,700	$	$	$	$
Marketing, general and administrative	$ 4,421	$ 4,366	$ 3,822	$ 4,324	$	$ 268	$ 1,281	$ 1,140

(2) Fiscal year 2006 amounts reflect the application SFAS 123(R) to account for stock-based compensation while the fiscal year 2005 amounts reflect the application of APB 25. Therefore, the results are not comparable.

(3) Interest income and other income, net in the fourth quarter of 2006 includes $2.4 million related to the acceleration of the amortization of note issuance cost in connection with the notice of acceleration relating to the convertible notes (see Note 16, Convertible Notes).

RAMBUS INC.

CONSOLIDATED SUPPLEMENTARY FINANCIAL DATA

Quarterly Statements of Operations (Adjustments)

(Unaudited)

(in thousands, except for per share amounts)	**Dec. 31, 2006 Adjustments**	**Sept. 30, 2006 Adjustments**	**June 30, 2006 Adjustments**	**March 31, 2006 Adjustments**	**Dec. 31, 2005 Adjustments**	**Sept. 30, 2005 Adjustments**	**June 30, 2005 Adjustments**	**March 31, 2005 Adjustments**
Revenue:								
Contract Revenues	$	$	$	$ 100	$	$	$	$
Royalties								
Total revenues				100				
Costs and expenses:								
Cost of contract revenues				603	869	897	997	1,205
Research and development				1,265	2,171	2,132	1,994	1,847
Marketing, general and administrative				680	1,464	1,387	1,255	1,612
Costs of restatement and related legal activities								
Total costs and expenses (1)				2,548	4,504	4,416	4,246	4,664
Operating income (loss)				(2,448)	(4,504)	(4,416)	(4,246)	(4,664)
Interest and other income, net								
Income (loss) before income taxes				(2,448)	(4,504)	(4,416)	(4,246)	(4,664)
Provision for (benefit from) income taxes				(1,283)	(564)	(1,578)	(1,702)	(9,249)
Net income (loss)	$	$	$	$ (1,165)	$ (3,940)	$ (2,838)	$ (2,544)	$ 4,585
Net income (loss) per share - basic	$	$	$	$ (0.01)	$ (0.04)	$ (0.03)	$ (0.02)	$ 0.05
Net income (loss) per share - diluted	$	$	$	$ (0.01)	$ (0.04)	$ (0.03)	$ (0.02)	$ 0.05

(1) Stock-based compensation included in -

Cost of contract revenues	$	$	$	$ 631	$ 834	$ 860	$ 991	$ 1,212
Research and development	$	$	$	$ 1,470	$ 2,156	$ 2,116	$ 1,953	$ 1,831
Marketing, general and administrative	$	$	$	$ 533	$ 1,462	$ 1,487	$ 1,256	$ 1,613

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RAMBUS INC.

CONSOLIDATED SUPPLEMENTARY FINANCIAL DATA

Quarterly Statements of Operations (As Restated)

(Unaudited)

(in thousands, except for per share amounts)	Dec. 31, 2006 (3)	Sept. 30, 2006 (3)	June 30, 2006 (3)	March 31, 2006 (3) As restated(2)	Dec. 31, 2005 As restated(2)	Sept. 30, 2005 As restated(2)	June 30, 2005 As restated(2)	March 31, 2005 As restated(2)
Revenue:								
Contract Revenues	$ 8,577	$ 4,422	$ 7,745	$ 5,664	$ 6,904	$ 7,983	$ 5,390	$ 6,600
Royalties	44,013	41,523	41,699	41,681	34,685	28,031	34,595	33,011
Total revenues	52,590	45,945	49,444	47,345	41,589	36,014	39,985	39,611
Costs and expenses:								
Cost of contract revenues	7,382	6,121	9,521	7,368	5,611	5,352	5,962	6,808
Research and development	17,424	17,695	15,841	18,017	14,019	12,730	11,928	10,438
Marketing, general and administrative	22,692	24,114	32,883	24,872	19,151	18,420	20,737	22,110
Costs of restatement and related legal activities	5,746	23,796	1,894					
Total costs and expenses (1)	53,244	71,726	60,139	50,257	38,781	36,502	38,627	39,356
Operating income (loss)	(654)	(25,781)	(10,695)	(2,912)	2,808	(488)	1,358	255
Interest and other income, net (4)	2,344	4,472	4,076	3,445	8,084	21,202	3,414	2,129
Income (loss) before income taxes	1,690	(21,309)	(6,619)	533	10,892	20,714	4,772	2,384
Provision for (benefit from) income taxes	(379)	1,337	(12,728)	(119)	5,451	9,056	1,956	(6,641)
Net income (loss)	$ 2,069	$ (22,646)	$ 6,109	$ 652	$ 5,441	$ 11,658	$ 2,816	$ 9,025
Net income (loss) per share - basic	$ 0.02	$ (0.22)	$ 0.06	$ 0.01	$ 0.05	$ 0.12	$ 0.03	$ 0.09
Net income (loss) per share - diluted	$ 0.02	$ (0.22)	$ 0.06	$ 0.01	$ 0.05	$ 0.11	$ 0.03	$ 0.09
Shares used in per share calculations - basic	103,806	103,792	103,414	101,142	99,688	99,944	99,596	100,280
Shares used in per share calculations - diluted	108,209	103,792	110,495	109,289	103,179	102,982	103,209	105,518

(1) Stock-based compensation included in -

Cost of contract revenues	$ 1,805	$ 1,844	$ 2,524	$ 1,982	$ 834	$ 860	$ 991	$ 1,212
Research and development	$ 3,460	$ 4,269	$ 3,003	$ 4,170	$ 2,156	$ 2,116	$ 1,953	$ 1,831
Marketing, general and administrative	$ 4,421	$ 4,366	$ 3,822	$ 4,857	$ 1,462	$ 1,755	$ 2,537	$ 2,753

(2) See Note 3 Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

(3)

Fiscal year 2006 amounts reflect the application SFAS 123(R) to account for stock-based compensation while the fiscal year 2005 amounts reflect the application of APB 25. Therefore, the results are not comparable.

(4) Interest income and other income, net in the fourth quarter of 2006 includes $2.4 million related to the acceleration of the amortization of note issuance cost in connection with the notice of acceleration relating to our convertible notes (see Note 16, Convertible Notes).

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RAMBUS INC.

CONSOLIDATED SUPPLEMENTARY FINANCIAL DATA

Quarterly Balance Sheets (As Restated)

(Unaudited)

(in thousands, except per share amounts)	March 31, 2006 As restated(1)	Dec. 31, 2005 As restated(1)	Sept. 30, 2005 As restated(1)	June 30, 2005 As restated(1)	March 31, 2005 As restated(1)
ASSETS					
Current assets:					
Cash and cash equivalents	$ 98,223	$ 42,391	$ 56,144	$ 69,929	$ 208,021
Marketable securities	173,164	118,416	88,973	101,470	96,802
Accounts receivable	1,808	954	1,329	1,667	1,580
Unbilled receivables					2,016
Deferred and prepaid taxes	3,834	3,827	13,703	13,703	13,710
Prepaids and other current assets	6,469	4,419	5,413	5,686	4,149
Total current assets	283,498	170,007	165,562	192,455	326,278
Marketable securities, long term	119,264	194,583	242,906	299,325	155,360
Restricted cash	2,298	2,279	2,274	2,302	5,076
Deferred taxes, long term	98,710	98,544	93,234	101,265	102,137
Purchased intangible assets, net	22,351	23,650	22,294	23,437	20,844
Property and equipment, net	20,174	19,622	21,257	22,489	18,890
Goodwill	3,315	3,315	3,315	3,295	581
Other assets	4,166	3,953	4,895	7,449	7,837
Total assets	$ 553,776	$ 515,953	$ 555,737	$ 652,017	$ 637,003
LIABILITIES					
Current liabilities:					
Accounts payable	6,558	4,374	4,110	12,398	8,837
Accrued salaries and benefits	7,850	5,894	4,906	3,898	5,425
Accrued litigation expenses	6,307	4,633	5,721	4,116	5,309
Other accrued liabilities	3,744	4,538	4,462	4,232	2,170
Deferred revenue	1,369	973	4,963	8,035	13,447
Total current liabilities	25,828	20,412	24,162	32,679	35,188
Convertible notes	160,000	160,000	195,000	300,000	300,000
Deferred revenue, less current portion	7,884	8,317	7,905	6,630	5,314
Other long-term liabilities	2,826	3,757	4,173	4,124	2,053
Total liabilities	196,538	192,486	231,240	343,433	342,555
Commitments and contingencies					
STOCKHOLDERS EQUITY					
Convertible preferred stock, $.001 par value:					
Common Stock, $.001 par value	103	99	100	100	99
Additional paid in capital	511,784	478,519	483,579	483,675	478,970

Deferred stock-based compensation		(20,122)	(24,770)	(29,655)	(35,680)
Accumulated deficit	(152,928)	(133,382)	(132,850)	(144,508)	(147,324)
Accumulated other comprehensive loss	(1,721)	(1,647)	(1,562)	(1,028)	(1,617)
Total stockholders equity	357,238	323,467	324,497	308,584	294,448
Total liabilities and stockholders equity	$ 553,776	$ 515,953	$ 555,737	$ 652,017	$ 637,003

(1) See Note 3 Restatement of Consolidated Financial Statements, of the Notes to Consolidated Financial Statements.

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(a)(2) Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable, not required, or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

See Exhibit Index immediately following the signature pages.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 13, 2007	
	By: /s/ Satish Rishi Satish Rishi Sr. Vice President, Finance and Chief Financial Officer

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Satish Rishi as his true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to (i) act on, sign, and file with the Securities and Exchange Commission any and all amendments to this Annual Report on Form 10-K, together with all schedules and exhibits thereto, (ii) act on, sign, and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith, and (iii) take any and all actions that may be necessary or appropriate to be done, as fully for all intents and purposes as he might or could do in person, hereby approving, ratifying and confirming all that such agent, proxy and attorney-in-fact or any of his substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HAROLD HUGHES **Harold Hughes**	Chief Executive Officer, President and Director (Principal Executive Officer)	September 13, 2007
/s/ SATISH RISHI **Satish Rishi**	Sr. Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	September 13, 2007
/s/ KEVIN KENNEDY **Kevin Kennedy**	Chairman of the Board of Directors	September 13, 2007
/s/ J. THOMAS BENTLEY **J. Thomas Bentley**	Director	September 13, 2007
/s/ SUNLIN CHOU **Sunlin Chou**	Director	September 13, 2007
/s/ BRUCE DUNLEVIE **Bruce Dunlevie**	Director	September 13, 2007
/s/ P. MICHAEL FARMWALD **P. Michael Farmwald**	Director	September 13, 2007
/s/ PENELOPE HERSCHER **Penelope Herscher**	Director	September 13, 2007
/s/ MARK HOROWITZ **Mark Horowitz**	Director	September 13, 2007
/s/ DAVID SHRIGLEY **David Shrigley**	Director	September 13, 2007

/s/ ABRAHAM D. SOFAER	Director	September 13, 2007
Abraham D. Sofaer		

INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1(1)	Amended and Restated Certificate of Incorporation of Registrant filed May 29, 1997.
3.2(2)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Registrant filed June 14, 2000.
3.3(3)	Amended and Restated Bylaws of Registrant dated November 21, 2002.
3.4(4)	Amendment No. 1 to Amended and Restated Bylaws of Registrant dated March 28, 2003.
3.5(5)	Amendment No. 2 to Amended and Restated Bylaws of Registrant dated June 7, 2007.
4.1(6)	Form of Registrant s Common Stock Certificate.
4.2(6)	Amended and Restated Information and Registration Rights Agreement, dated as of January 7, 1997, between Registrant and the parties indicated therein.
4.3.1(7)	Amended and Restated Preferred Stock Rights Agreement, dated as of July 31, 2000, between Registrant and Fleet National Bank.
4.3.2(8)	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(9)	Indenture, between the Registrant and U.S. Bank National Association, dated February 1, 2005 (including the form of Zero Coupon Convertible Senior Note due February 1, 2010 therein).
4.5(9)	Registration Rights Agreement, among the Registrant, Credit Suisse First Boston LLC and Deutsche Bank Securities Inc., dated February 1, 2005.
10.1(6)	Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers.
10.2*	1990 Stock Plan (as amended and restated as of April 4, 2007) and related form of agreement.
10.3*	1997 Stock Plan (as amended and restated as of April 4, 2007).
10.4*	1999 Nonstatutory Stock Option Plan (as amended and restated as of April 4, 2007) and related form of agreement.
10.5(10)*	2006 Equity Incentive Plan.
10.6(19)*	2006 Employee Stock Purchase Plan (as amended and restated as of February 21, 2007).
10.7(11)(12)*	Amended and Restated John Danforth Employment Agreement, dated February 1, 2006, between Registrant and John Danforth.
10.8(13)*	Offer Letter of Satish Rishi, dated April 7, 2006, between the Registrant and Satish Rishi.
10.9*	Offer Letter of Thomas R. Lavelle, dated October 30, 2006, between the Registrant and Thomas R. Lavelle.
10.10*	Offer Letter of Dr. Martin Scott, dated December 7, 2006, between the Registrant and Dr. Martin Scott.
10.10(6)(11)	Semiconductor Technology License Agreement, dated as of November 15, 1996, between Registrant and Intel Corporation.
10.11(14)	Amendment No. 1 to Semiconductor Technology License Agreement, dated as of July 10, 1998, between Registrant and Intel Corporation.
10.12(11)(15)	Patent License Agreement, dated as of September 14, 2001, by and between the Registrant and Intel Corporation.

Exhibit Number	Description of Document
10.13(4)	Development Agreement, dated as of January 6, 2003, by and among Registrant, Sony Computer Entertainment Inc. and Toshiba Corporation.
10.14(4)	Redwood and Yellowstone Semiconductor Technology License Agreement, dated as of January 6, 2003, between Registrant, Sony Corporation and Sony Computer Entertainment Inc.
10.15(4)	Redwood and Yellowstone Semiconductor Technology License Agreement, dated as of January 6, 2003, between Registrant and Toshiba Corporation.
10.16(6)	Standard Office Lease, dated as of March 10, 1991, between Registrant and SouthBay/ Latham.
10.17(16)	Office Lease dated as of August 27, 1999, between Registrant and Los Altos El Camino Associates, LLC.
10.18(17)	Office Sublease, dated as of May 8, 2000, between Registrant and Muse Prime Software, Inc.
10.19(18)	Amendment to Sublease, dated as of March 25, 2002, between Registrant and Muse Prime Software, Inc.
21.1	Subsidiaries of Registrant.
24	Power of Attorney (included in signature page).
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Selected Quarterly Financial Data.

* Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.
(1) Incorporated by reference to the Form 10-K filed on December 15, 1997.
(2) Incorporated by reference to the Form 10-Q filed on May 4, 2001.
(3) Incorporated by reference to the Form 10-K filed on November 26, 2002.
(4) Incorporated by reference to the Form 10-Q filed on April 30, 2003.
(5) Incorporated by reference to the Form 8-K filed on June 12, 2007.
(6) Incorporated by reference to Registration Statement No. 333-22885.
(7) Incorporated by reference to the Form 8-A12G/A filed on August 3, 2000.
(8) Incorporated by reference to the Form 8-A12G/A filed on August 5, 2003.
(9) Incorporated by reference to the Form S-3 filed on April 29, 2005.
(10) Incorporated by reference to the Form 8-K filed on May 16, 2006.
(11) Confidential treatment was granted with respect to certain portions of this exhibit. Omitted portions were filed separately with the Securities and Exchange Commission.
(12) Incorporated by reference to the Form 10-K filed on February 21, 2006.
(13) Incorporated by reference to the Form 10-Q filed on May 9, 2006.

(14) Incorporated by reference to the Form 10-K filed on December 9, 1998.
(15) Incorporated by reference to the Form 10-K filed on December 4, 2001.
(16) Incorporated by reference to the Form 10-K405 filed on December 23, 1999.
(17) Incorporated by reference to the Form 10-Q filed on August 9, 2000.
(18) Incorporated by reference to the Form 10-Q filed on April 30, 2002.
(19) Incorporated by reference to the Form 10-Q for the period ended June 30, 2006 filed on September 14, 2007.