

Semiconductors

License Deal Paves Way for Rambus

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Rambus (RMBS:Nasdaq) has been mired in litigation with computer memory-chip makers for years. But the company's next batch of intellectual property licensees could prove less messy -- and a lot more lucrative -- for the Los Altos, Calif., company.

Tuesday's announcement that Rambus has inked a five-year patent license agreement with Advanced Micro Devices (AMD:NYSE) for use in designing memory and logic interfaces has the potential to boost the company's fortunes well beyond the deal's \$75 million value.

"This is a very favorable start for Rambus in securing additional licensing agreements with other companies in the [memory] controller area," says Bob Merritt, vice president of the DRAM portfolio at Semico Research.

Until now, Rambus has focused on licensing its technology to memory manufacturers. But the company has long been expected to seek payments from companies whose products interface with memory chips -- a vastly larger pool of licensees.

Under this next phase of its strategy, Rambus' list of licensees could conceivably include just about every major tech company, including Texas Instruments (TXN:NYSE), Cisco Systems (CSCO:Nasdaq), Sun Microsystems (SUNW:Nasdaq), IBM (IBM:NYSE) and graphics-chip makers like Nvidia (NVDA:Nasdaq) and ATI Technologies (ATYT:Nasdaq), says Merritt.

AMD incorporates a memory controller directly onto its Athlon and Opteron processors. The fact that Rambus inked the AMD deal outside of the courtroom could bode well as the company moves ahead with its strategy.

It's unclear whether Tuesday's deal was preceded by any patent infringement claims against AMD. A Rambus representative declined to comment on any legal steps taken prior to the agreement. Tuesday's agreement is Rambus' first with AMD.

"Obviously it has a significant revenue impact for Rambus," says Sharon Holt, senior vice president of sales, licensing and marketing at Rambus. "But we believe it also makes its own statement to the industry about our patent position and our innovation."

Analysts polled by Thomson First Call expect the company to generate \$166 million in revenue in 2006. The AMD deal should add to Rambus' top line, although another stream of revenue from a separate five-year deal with Intel (INTC:Nasdaq) could dry up with that agreement slated to end this year, according to analysts.

According to Rambus, the latest deal with AMD is an example of the company's new strategy of licensing its broad portfolio of more than 900 pending and issued patents to a wide swath of semiconductor companies, rather than simply licensing specific technologies to memory-chip makers.

The status of Rambus' intellectual property litigation with memory makers is still an open question. But with a key ruling in one of its suits expected in the near future, Rambus soon could have a much stronger negotiating position as it seeks licenses from other companies.

"If Rambus won against the memory industry, then those who have integrated memory controllers would also be infringing [on] Rambus patents," says Michael Cohen, director of research at Pacific American Securities who personally owns shares of both Rambus and AMD. "So, this settled a potential liability issue [for AMD] ."

AMD was not available to comment.

Shares of Rambus were up 11.4%, of \$1.85, at \$18.04. AMD's stock was up 3.8%, or \$1.17, at \$31.77.

In going after the next set of licensees, Rambus appears to be making efforts to sweeten its offer. The agreement with AMD entails a flat-fee rather than ongoing royalties, which is different than some of the initial deals that Rambus offered the memory makers, says Semico's Merritt.

"Semiconductor companies in general much prefer fixed fees over royalty-based fees because they know how much it's going to cost them up front," says Merritt. "This is much more in line as to what the industry is used to dealing with in third-party IP."

Rambus' Holt acknowledges that the company is creating a new licensing model that is more palatable to the memory controller companies. Time will tell how appetizing the rest of the technology industry finds it.
