

Samsung, Rambus Settle Patent Litigation



OBJECTIVE ANALYSIS SEMICONDUCTOR MARKET RESEARCH



Lengthy Contest Comes to a Close

On January 21, 2010, Samsung and Rambus announced a settlement to end litigation that has dragged on for years concerning royalty payments for Rambus patents. The financial settlement consists of three parts:

- A one-time payment to Rambus of \$200 million
- Future payments of about \$25 million per quarter for the next five years
- Samsung's purchase of \$200 million worth of Rambus stock

Samsung will receive a license to Rambus' patent portfolio for all Samsung semiconductor products and a perpetual fully paid-up license to certain current DRAM products.

In addition, the two companies have signed a memorandum of understanding (MOU) to jointly develop new memory technologies initially focusing on graphics and mobile memories with potential future collaboration covering server technologies and high-speed NAND.

A Closer Look:

Whenever a settlement is agreed upon it is structured to be a good deal for both of the parties involved in the suit. With this in mind, let's analyze these payments:

Benefits for Rambus

From Rambus' perspective the company will end litigation in return for a sum that it finds fair. Payments are doubtlessly lower than the company expected had the suit run its course, however this would have taken longer and higher legal fees would have subtracted from any final settlement. With its \$500+ million in current assets, the company does not appear to need Samsung's stock investment, but it has structured a deal that supports Samsung's needs in order to settle the matter.

Rambus regains the close relationship to Samsung that the company had in its early years, a relationship that helped the company move its technologies from the lab to production.

How Samsung Wins

We believe that each of the three parts of the financial settlement has a separate benefit for Samsung:

- The one-time payment of \$200 million will settle issues of outstanding royalties Samsung is alleged to have owed on past shipments of DDR DRAMs.
- The \$25 million quarterly payments will serve as royalties for any technology that might be covered by the Rambus patents in the next 5 years. Samsung's Q3 DRAM revenues were approximately \$3 billion, setting \$25 million as a royalty rate of about 0.8%. This sets a standard for royalty payments from other defendants.
- The \$200 million investment is the most interesting point. By participating as an investor, Samsung will be able to share in any royalties Rambus is able to

collect from Samsung's competition.

We find it unlikely that Samsung would make an investment unless the company anticipated a positive return. The \$200 million stock investment infers that Samsung expects Rambus to prevail in the ongoing suits against Micron and Hynix, and this should drive an increase in Rambus' stock price.

Objective Analysis sees this as a sign that Samsung's legal counsel has decided that Rambus is a good position in the majority of its lawsuits, and this counsel has probably advised the Samsung to share in the benefits likely to come of this.

With regard to the joint development effort, Objective Analysis firmly believes that NAND will find a home in all PCs in the next few years. A fast Rambus interface on a NAND part could compete favorably against the ONFi solution that Intel plans to use with its upcoming Braidwood technology. This is spelled out in depth in the Objective Analysis report "Intel's Braidwood: Death to SSDs?" available on the Objective Analysis website.

Jim Handy

+1 (408) 356-2549 +1 (408) 356-2549

OBJECTIVE ANALYSIS

PO Box 440
Los Gatos, CA 95031-0440
USA

www.Objective-Analysis.com