

RAMBUS INC  
Form 10-Q  
October 28, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-22339

---

RAMBUS INC.

(Exact name of registrant as specified in its charter)

---

Delaware

(State or other jurisdiction of incorporation or organization) 94-3112828 (I.R.S. Employer Identification No.)

1050 Enterprise Way, Suite 700

94089

Sunnyvale, California

(Address of principal executive offices) (ZIP Code)

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

---

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

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

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

Large accelerated filer

Accelerated filer

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

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

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share, was 110,451,608 as of September 30, 2016.

---

Table of Contents

RAMBUS INC.  
TABLE OF CONTENTS

	PAGE
<u>Note Regarding Forward-Looking Statements</u>	<u>3</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>5</u>
<u>Item 1. Financial Statements (Unaudited):</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	<u>8</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>
<u>PART II. OTHER INFORMATION</u>	<u>47</u>
<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>47</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>59</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>59</u>
<u>Item 5. Other Information</u>	<u>59</u>
<u>Item 6. Exhibits</u>	<u>60</u>
<u>Signature</u>	<u>61</u>
<u>Exhibit Index</u>	<u>62</u>

Table of Contents

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements include, without limitation, predictions regarding the following aspects of our future:

- Success in the markets of our products and services or our customers’ products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in signing and renewing license agreements;
- Terms of our licenses and amounts owed under license agreements;
- Technology product development;
- Dispositions, acquisitions, mergers or strategic transactions and our related integration efforts, including our recent acquisition of Smart Card Software Ltd., Semtech Corporation's Snowbush IP and Inphi Corporation's Memory Interconnect Business;
- Impairment of goodwill and long-lived assets;
- Pricing policies of our customers;
- Changes in our strategy and business model, including the expansion of our portfolio of inventions, products and solutions to address additional markets in lighting, chip, mobile payments, smart ticketing and security;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Effects of security breaches or failures in our or our customers’ products and services on our business;
- Engineering, sales and general and administration expenses;
- Contract revenue;
- Operating results;
- International licenses and operations;
- Effects of changes in the economy and credit market on our industry and business;
- Ability to identify, attract, motivate and retain qualified personnel;
- Effects of government regulations on our industry and business;
- Manufacturing and supply partners and/or sale and distribution channels;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
- Restructurings and plans of termination;
  - Realization of deferred tax assets/release of deferred tax valuation allowance;
- Trading price of our common stock;
- Internal control environment;
- The level and terms of our outstanding debt and the repayment or financing of such debt;
- Potential litigation expenses;
- Protection of intellectual property;
- Any changes in laws, agency actions and judicial rulings that may impact the ability to enforce intellectual property rights;
- Indemnification and technical support obligations;
- Equity repurchase plans;

Table of Contents

• Issuances of debt or equity securities, which could involve restrictive covenants or be dilutive to our existing stockholders;

• Outcome and effect of potential future intellectual property litigation and other significant litigation; and

• Likelihood of paying dividends.

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

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

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## RAMBUS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except shares and par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 89,479	\$ 143,764
Marketable securities	61,310	143,942
Accounts receivable	26,363	16,408
Prepays and other current assets	22,150	11,476
Total current assets	199,302	315,590
Intangible assets, net	164,862	64,266
Goodwill	207,531	116,899
Property, plant and equipment, net	59,191	56,616
Deferred tax assets	165,661	162,485
Other assets	3,749	2,165
Total assets	\$ 800,296	\$ 718,021
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,188	\$ 4,096
Accrued salaries and benefits	10,209	12,278
Deferred revenue	17,772	5,780
Accrued acquisition liability	10,779	—
Other current liabilities	10,853	6,212
Total current liabilities	59,801	28,366
Convertible notes, long-term	124,443	119,418
Long-term imputed financing obligation	38,194	38,625
Long-term income taxes payable	2,897	2,903
Deferred tax liabilities	14,779	—
Other long-term liabilities	7,342	2,176
Total liabilities	247,456	191,488
Commitments and contingencies (Notes 9 and 13)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at September 30, 2016 and December 31, 2015	—	—
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 110,451,608 shares at September 30, 2016 and 109,287,591 shares at December 31, 2015	110	109
Additional paid-in capital	1,173,609	1,130,368
Accumulated deficit	(611,606)	(604,317)
Accumulated other comprehensive income (loss)	(9,273)	373
Total stockholders' equity	552,840	526,533

Total liabilities and stockholders' equity	\$ 800,296	\$ 718,021
--	------------	------------

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

RAMBUS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Revenue:				
Royalties	\$68,298	\$66,823	\$194,010	\$196,173
Contract and other revenue	21,557	6,956	45,028	23,332
Total revenue	89,855	73,779	239,038	219,505
Operating costs and expenses:				
Cost of revenue*	19,424	11,111	45,720	34,004
Research and development*	33,820	27,784	91,100	85,506
Sales, general and administrative*	24,795	17,860	69,679	53,701
Gain from sale of intellectual property	—	(106 )	—	(3,262 )
Gain from settlement	—	(510 )	(579 )	(1,530 )
Total operating costs and expenses	78,039	56,139	205,920	168,419
Operating income	11,816	17,640	33,118	51,086
Interest income and other income (expense), net	142	539	1,522	874
Interest expense	(3,193 )	(3,117 )	(9,497 )	(9,291 )
Interest and other income (expense), net	(3,051 )	(2,578 )	(7,975 )	(8,417 )
Income before income taxes	8,765	15,062	25,143	42,669
Provision for (benefit from) income taxes	4,254	(166,971 )	14,878	(155,727 )
Net income	\$4,511	\$182,033	\$10,265	\$198,396
Net income per share:				
Basic	\$0.04	\$1.56	\$0.09	\$1.71
Diluted	\$0.04	\$1.52	\$0.09	\$1.67
Weighted average shares used in per share calculation:				
Basic	110,214	116,444	109,951	115,940
Diluted	113,723	119,542	112,805	118,997

\* Includes stock-based compensation:

Cost of revenue	\$14	\$12	\$42	\$51
Research and development	\$2,337	\$1,548	\$6,526	\$5,303
Sales, general and administrative	\$3,092	\$2,008	\$8,788	\$6,395

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

RAMBUS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 4,511	\$ 182,033	\$ 10,265	\$ 198,396
Other comprehensive income (loss):				
Foreign currency translation adjustment	(2,704 )	—	(8,903 )	9
Unrealized gain (loss) on marketable securities, net of tax	(374 )	13	(745 )	40
Total comprehensive income	\$ 1,433	\$ 182,046	\$ 617	\$ 198,445

See Notes to Unaudited Condensed Consolidated Financial Statements

7



Table of Contents

RAMBUS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 10,265	\$ 198,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	15,356	11,749
Depreciation	9,388	9,374
Amortization of intangible assets	26,045	18,914
Non-cash interest expense and amortization of convertible debt issuance costs	5,025	4,744
Deferred income taxes	(4,157 )	(171,509 )
Excess tax benefits from stock-based compensation	(927 )	(652 )
Gain from sale of intellectual property and property, plant and equipment, net	(29 )	(3,257 )
Effect of exchange rate on assumed cash liability from acquisition	(985 )	—
Change in operating assets and liabilities, net of impact of acquisitions:		
Accounts receivable	333	(4,313 )
Prepaid expenses and other assets	(3,887 )	(3,736 )
Accounts payable	2,302	(1,001 )
Accrued salaries and benefits and other liabilities	(8,277 )	(7,280 )
Income taxes payable	1,644	593
Deferred revenue	7,532	1,674
Net cash provided by operating activities	59,628	53,696
Cash flows from investing activities:		
Purchases of property, plant and equipment		