

RAMBUS INC
Form 10-Q
April 26, 2013
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 March 31, 2013

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)

1050 Enterprise Way, Suite 700, Sunnyvale, CA 94089

(Address of principal executive offices) (zip code)

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

94-3112828

(I.R.S. Employer
Identification No.)

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 111,641,153 as of March 31, 2013.

Table of Contents

RAMBUS INC.
TABLE OF CONTENTS

	PAGE
<u>Special Note Regarding Forward-Looking Statements</u>	<u>3</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2013 and 2012</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</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>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
PART II. OTHER INFORMATION	<u>40</u>
<u>Item 1. Legal Proceedings</u>	<u>40</u>
<u>Item 1A. Risk Factors</u>	<u>40</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>49</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>49</u>
<u>Item 5. Other Information</u>	<u>49</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>Signature</u>	<u>50</u>
<u>Exhibit Index</u>	<u>51</u>

Table of Contents

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Success in the markets of our or our licensees’ products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in renewing license agreements;
- Technology product development;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation;
- Dispositions, acquisitions, mergers or strategic transactions and our related integration efforts;
- Write-down of assets;
- Pricing policies of our licensees;
- Changes in our strategy and business model;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Engineering, marketing 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;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
 - Realization of deferred tax assets/release of deferred tax valuation allowance;
- Trading price of our Common Stock;
- Internal control environment;
- Corporate governance;
- The level and terms of our outstanding debt;
- Resolution of the governmental agency matters involving us;
- Litigation expenses;
- Protection of intellectual property;
- Terms of our licenses and amounts owed under license agreements;
- Indemnification and technical support obligations;

Table of Contents

Issuances of our securities, which could involve restrictive covenants or be dilutive to our existing stockholders; and
Likelihood of paying dividends or repurchasing securities.

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

RAMBUS INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	March 31, 2013	December 31, 2012
	(In thousands, except shares and par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$157,215	\$148,984
Marketable securities	57,613	54,346
Accounts receivable	60	529
Prepays and other current assets	9,038	10,529
Deferred taxes	788	788
Total current assets	224,714	215,176
Intangible assets, net	145,930	153,173
Goodwill	124,969	124,969
Property, plant and equipment, net	78,218	86,905
Deferred taxes, long-term	4,806	4,458
Other assets	3,029	3,131
Total assets	\$581,666	\$587,812
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,036	\$7,918
Accrued salaries and benefits	31,925	23,992
Accrued litigation expenses	10,256	9,822
Other accrued liabilities	7,954	12,402
Total current liabilities	54,171	54,134
Convertible notes, long-term	151,487	147,556
Long-term imputed financing obligation	39,685	45,919
Long-term income taxes payable	6,534	6,533
Other long-term liabilities	13,992	12,076
Total liabilities	265,869	266,218
Commitments and contingencies (Notes 9 and 14)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at March 31, 2013 and December 31, 2012	—	—
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 111,641,153 shares at March 31, 2013 and 111,525,021 shares at December 31, 2012	112	112
Additional paid-in capital	1,080,380	1,075,761
Accumulated deficit	(764,381	) (753,979
Accumulated other comprehensive loss	(314	) (300
Total stockholders' equity	315,797	321,594
Total liabilities and stockholders' equity	\$581,666	\$587,812
See Notes to Unaudited Condensed Consolidated Financial Statements		

Table of Contents

RAMBUS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share amounts)	
Revenue:		
Royalties	\$66,222	\$62,043
Contract revenue	644	820
Total revenue	66,866	62,863
Operating costs and expenses:		
Cost of revenue*	5,249	7,163
Research and development*	32,848	38,394
Marketing, general and administrative*	25,105	34,834
Restructuring charges	2,206	—
Costs of restatement and related legal activities	17	30
Total operating costs and expenses	65,425	80,421
Operating income (loss)	1,441	(17,558)
Interest income and other income (expense), net	(20)	) 98
Interest expense	(7,312)	) (6,580)
Interest and other income (expense), net	(7,332)	) (6,482)
Loss before income taxes	(5,891)	) (24,040)
Provision for income taxes	4,511	3,850
Net loss	\$(10,402)	) \$(27,890)
Net loss per share:		
Basic	\$(0.09)	) \$(0.25)
Diluted	\$(0.09)	) \$(0.25)
Weighted average shares used in per share calculation:		
Basic	111,599	110,358
Diluted	111,599	110,358
<hr/>		
* Includes stock-based compensation:		
Cost of revenue	\$—	\$10
Research and development	\$1,876	\$2,720
Marketing, general and administrative	\$3,072	\$3,996

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

RAMBUS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 (Unaudited)

(In thousands)	Three Months Ended	
	March 31,	
	2013	2012
Net loss	\$ (10,402	) \$ (27,890
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities, net of tax	(14	) 94
Total comprehensive loss	\$ (10,416	) \$ (27,796
See Notes to Unaudited Condensed Consolidated Financial Statements		

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(10,402	) \$(27,890
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	4,948	6,726
Depreciation	3,791	3,099
Amortization of intangible assets	7,040	7,616
Non-cash interest expense and amortization of convertible debt issuance costs	4,089	3,510
Deferred tax benefit	263	—
Non-cash restructuring	653	—
Gain on sale of assets	(1,282) —
Change in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	469	298
Prepaid expenses and other assets	2,965	4,200
Accounts payable	(2,243	) (9,565
Accrued salaries and benefits and other accrued liabilities	4,209	1,502
Accrued litigation expenses	434	306
Income taxes payable	378	(794
Net cash provided by (used in) operating activities	15,312	(10,992
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,703	) (3,043
Acquisition of intangible assets	(1,875	) (250
Purchases of marketable securities	(36,699) —
Maturities of marketable securities	33,250	82,926
Proceeds from sale of assets	2,000	—
Acquisition of business, net of cash acquired	—	(42,397
Net cash provided by (used in) investing activities	(7,027	) 37,236
Cash flows from financing activities:		
Payments under installment payment arrangement	(28) —
Principal payments against lease financing obligation	(26	) (3
Proceeds received from issuance of common stock under employee stock plans	—	63
Net cash provided by (used in) financing activities	(54	) 60
Net increase in cash and cash equivalents	8,231	26,304
Cash and cash equivalents at beginning of period	148,984	162,244
Cash and cash equivalents at end of period	\$157,215	\$188,548
Non-cash investing and financing activities during the period:		
Property, plant and equipment received and accrued in accounts payable and other accrued liabilities	\$166	\$3,893
Non-cash obligation for property, plant and equipment	\$—	\$495
Intangible assets acquired under installment payment arrangement	\$—	\$1,050
Remaining purchase consideration for acquisition of business	\$—	\$3,881

See Notes to Unaudited Condensed Consolidated Financial Statements

8

Table of Contents

RAMBUS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Rambus Inc. ("Rambus" or the "Company") and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. Investments in entities with less than 20% ownership or in which the Company does not have the ability to significantly influence the operations of the investee are being accounted for using the cost method and are included in other assets.

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") applicable to interim financial information. Certain information and Note disclosures included in the financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements pursuant to such SEC rules and regulations. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto in Form 10-K for the year ended December 31, 2012.

Operating Segment Definitions

Operating segments are based upon Rambus' internal organization structure, the manner in which its operations are managed, the criteria used by its Chief Operating Decision Maker ("CODM") to evaluate segment performance and availability of separate financial information regularly reviewed for resource allocation and performance assessment. The Company determined its CODM to be the Chief Executive Officer and determined its operating segments to be: (1) Memory and Interfaces Division ("MID"), which focuses on the design, development and licensing of technology that is related to memory and interfaces; (2) Cryptography Research, Inc. ("CRI"), which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; (3) Lighting and Display Technologies ("LDT"), which focuses on the design, development and licensing of technologies for lighting and displays; and (4) CTO, which is a centralized research and development and business incubation organization that consolidates early-stage investments, longer-term research activities and worldwide engineering, including Mobile Technologies Division ("MTD").

2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the income statement or as a separate disclosure in the notes. The new guidance became effective for the Company's interim period ended March 31, 2013. The Company adopted this guidance and the adoption did not have any impact on its financial position, results of operations or cash flows as the amounts reclassified out of accumulated other comprehensive income is not significant.

In July 2012, the FASB amended its guidance to simplify how an entity tests indefinite-lived intangible assets for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test. An entity no longer will be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment became effective for the Company's interim period ended March 31, 2013. The Company adopted this guidance and the adoption did not have an impact on its financial position or results of operations as it does not have any indefinite-lived intangible assets.

In December 2011, the FASB issued No. 2011-11, "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 will require the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The new guidance became

effective for the Company's interim period ended March 31, 2013. The Company adopted this guidance and the adoption did not have any impact on its financial position, results of operations or cash flows as it is disclosure-only in nature.

Table of Contents

3. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (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 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 instrument was 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 net loss is reported.

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended March 31,	
	2013	2012
Basic and diluted net loss per share:	(In thousands, except per share amounts)	
Numerator:		
Net Loss	\$ (10,402)	\$ (27,890)
Denominator:		
Weighted-average shares outstanding	111,599	110,358
Basic and diluted net loss per share	\$ (0.09)	\$ (0.25)

For the three months ended March 31, 2013 and 2012, options to purchase approximately 12.9 million and 16.1 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 expense. For the three months ended March 31, 2013 and 2012, an additional 6.4 million and 5.4 million potentially dilutive shares, respectively, have been excluded from the weighted average dilutive shares because there were net losses for the periods.

4. Intangible Asset and Goodwill

Goodwill

The following table presents goodwill balances and adjustments to those balances for each of the reportable segments for the three months ended March 31, 2013:

Reportable Segment:	December 31, 2012	Additions to Goodwill	Impairment Charge of Goodwill	March 31, 2013
	(In thousands)			
MID	\$19,905	\$		