RAMBUS INC
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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 No.)

1050 Enterprise Way, Suite 700 Sunnyvale, California	94089
(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 ý No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
The number of shares outstanding of the registrant’s Common Stock, par value $.001 per share, was 108,500,937 as of September 30, 2018.

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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 acquisitions of Smart Card Software Ltd., the assets of Semtech Corporation's Snowbush IP group 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, software, services and solutions to address additional markets in memory, 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, operations and expansion;
- 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, shipping 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, including adoption of the new revenue recognition standard on our financial position and results of operations;
- Effective tax rates, including as a result of the new U.S. tax legislation;
- 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;
- 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;

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- Issuances of debt or equity securities, which could involve restrictive covenants or be dilutive to our existing stockholders;
- Effects of fluctuations in currency exchange rates;
- 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 neg 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 Part II: 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.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
RAMBUS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(In thousands, except shares and par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,534	$ 225,844
Marketable securities	113,637	103,532
Accounts receivable	42,674	25,326
Unbilled receivables	164,487	566
Inventories	6,272	5,159
Prepaids and other current assets	14,434	11,317
Total current assets	476,038	371,744
Intangible assets, net	65,411	91,722
Goodwill	208,116	209,661
Property, plant and equipment, net	49,174	54,303
Deferred tax assets	3,930	159,099
Unbilled receivables, long-term	535,422	—
Other assets	5,879	4,543
Total assets	$ 1,343,970	$ 891,072
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,572	$ 9,614
Accrued salaries and benefits	14,353	17,091
Convertible notes, short-term	—	78,451
Deferred revenue	12,727	18,272
Income taxes payable, short-term	17,784	258
Other current liabilities	5,942	9,156
Total current liabilities	59,378	132,842
Convertible notes, long-term	140,279	135,447
Long-term imputed financing obligation	36,558	37,262
Long-term income taxes payable	81,400	3,344
Other long-term liabilities	18,040	10,593
Total liabilities	335,655	319,488
Commitments and contingencies (Notes 10 and 14)		
Stockholders' equity:		
Convertible preferred stock, $.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at September 30, 2018 and December 31, 2017	—	—
Common stock, $.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 108,500,937 shares at September 30, 2018 and 109,763,967 shares at December 31, 2017	109	110
Additional paid-in capital	1,219,110	1,212,798

Accumulated deficit	(202,276)	(636,227)
Accumulated other comprehensive loss	(8,628)	(5,097)
Total stockholders’ equity	1,008,315	571,584
Total liabilities and stockholders’ equity	$ 1,343,970	$ 891,072

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Revenue:				
Royalties	$33,599	$72,787	$85,022	$211,733
Product revenue	11,753	8,661	27,153	27,966
Contract and other revenue	14,402	17,686	50,463	51,506
Total revenue	59,754	99,134	162,638	291,205
Operating costs and expenses:				
Cost of product revenue*	5,376	5,152	13,932	17,882
Cost of contract and other revenue	5,952	14,456	29,163	43,274
Research and development*	43,131	36,196	120,944	109,718
Sales, general and administrative*	24,462	26,799	79,143	82,122
Gain from sale of intellectual property	—	(479)	—	(479)
Restructuring charges	—	—	2,223	—
Total operating costs and expenses	78,921	82,124	245,405	252,517
Operating income (loss)	(19,167)	17,010	(82,767)	38,688
Interest income and other income (expense), net	8,008	208	25,373	491
Interest expense	(3,976)	(3,287)	(13,031)	(9,754)
Interest and other income (expense), net	4,032	(3,079)	12,342	(9,263)
Income (loss) before income taxes	(15,135)	13,931	(70,425)	29,425
Provision for income taxes	89,758	6,236	85,514	16,119
Net income (loss)	$(104,893)	$7,695	$(155,939)	$13,306
Net income (loss) per share:				
Basic	$(0.97)	$0.07	$(1.44)	$0.12
Diluted	$(0.97)	$0.07	$(1.44)	$0.12
Weighted average shares used in per share calculation:				
Basic	107,897	109,555	108,324	110,353
Diluted	107,897	113,119	108,324	113,861

* Includes stock-based compensation:

Cost of product revenue	$2	$20	$7	$53
Research and development	$3,184	$2,969	$9,662	$9,048
Sales, general and administrative	$3,003	$3,975	$5,922	$11,068

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Net income (loss)	$(104,893)	$7,695	$(155,939)	$13,306
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,027)	2,581	(2,798)	7,177
Unrealized gain (loss) on marketable securities, net of tax	(42)	339	(734)	634
Total comprehensive income (loss)	$(105,962)	$10,615	$(159,471)	$21,117

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$(155,939)	$13,306
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	15,591	20,169
Depreciation	8,107	9,971
Amortization of intangible assets	24,352	31,436
Non-cash interest expense and amortization of convertible debt issuance costs	7,587	5,324
Deferred income taxes	78,660	(4,108)
Non-cash restructuring	670	—
Gain from sale of marketable equity security	(291)	—
Gain from sale of assets held for sale	(1,266)	—
Loss from disposal of property, plant and equipment	518	169
Change in operating assets and liabilities:		
Accounts receivable	(16,862)	(23,656)
Unbilled receivables	118,872	—
Prepaid expenses and other assets	(3,729)	6,824
Inventories	(1,271)	617
Accounts payable	153	(2,795)
Accrued salaries and benefits and other liabilities	(6,823)	(1,698)
Income taxes payable	(9,618)	(960)
Deferred revenue	(6,647)	3,248
Net cash provided by operating activities	52,064	57,847
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7,849)	(5,444)
Acquisition of intangible assets	—	(120)
Purchases of marketable securities	(192,824)	—
Maturities of marketable securities	181,704	32,048
Proceeds from sale of equity security	1,350	—
Proceeds from sale of marketable securities	—	4,450
Proceeds from sale of assets held for sale	3,754	—
Proceeds from sale of property, plant and equipment	10	28
Net cash provided by (used in) investing activities	(13,855)	30,962
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	9,266	10,792
Principal payments against lease financing obligation	(786)	(625)
Payments of taxes on restricted stock units	(5,964)	(3,525)
Repayment of 1.125% convertible notes due 2018	(81,207)	—
Repurchase and retirement of common stock, including prepayment under accelerated share repurchase program	(50,031)	(50,036)
Net cash used in financing activities	(128,722)	(43,394)
Effect of exchange rate changes on cash and cash equivalents	(797)	1,636

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Net increase (decrease) in cash and cash equivalents	(91,310)	47,051
Cash and cash equivalents at beginning of period	225,844	135,294
Cash and cash equivalents at end of period	$134,534	$182,345
Non-cash investing activities during the period:		
Property, plant and equipment received and accrued in accounts payable and other liabilities	$675	$1,294

See Notes to Unaudited Condensed Consolidated Financial Statements

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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.

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, 2017.

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, manufacturing through partnerships and licensing of technology and solutions that is related to memory and interfaces; (2) Rambus Security Division ("RSD"), which focuses on the design, development, deployment and licensing of technologies for chip, system and in-field application security, anti-counterfeiting, smart ticketing and mobile payments; and (3) Emerging Solutions Division ("ESD"), which includes the Rambus Labs team and the development efforts in the area of emerging technologies.

On January 30, 2018, the Company announced its plans to close its lighting division ("RLD") including related manufacturing operations in Brecksville, Ohio. The Company believes that such business is not core to its strategy and growth objectives. Refer to Note 15, "Restructuring Charges" for additional details.

For the three and nine months ended September 30, 2018, only MID and RSD were reportable segments as each of them met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining operating segments were shown under "Other," which included RLD.

Comparability

Effective January 1, 2018, Rambus adopted multiple new accounting standards. Prior periods were not retrospectively restated, so the consolidated balance sheet as of December 31, 2017 and results of operations for the three and nine months ended September 30, 2017 were prepared using accounting standards that were different than those in effect as of and for the three and nine months ended September 30, 2018. Therefore, the consolidated balance sheets as of September 30, 2018 and December 31, 2017 are not directly comparable, nor are the results of operations for the three and nine months ended September 30, 2018 and 2017.

Reclassifications

Certain prior periods' amounts were reclassified to conform to the current year's presentation. None of these reclassifications had an impact on reported net income for any of the periods presented.

2. Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The amendments in this ASU allow entities to reclassify from AOCI to retained

earnings "stranded" tax effects resulting from passage of the Tax Cuts and Jobs Act ("the Act") on December 22, 2017. An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the change in federal tax rate for all items accounted for in other comprehensive income (e.g., employee benefits, cumulative translation adjustments). Entities may also elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (e.g., state taxes). However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance requiring the effect of a change in tax laws or rates to be included in income from operations is not affected. Upon adoption of this ASU, entities are required to disclose their policy for releasing the income tax effects from AOCI. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU may be applied retrospectively to each period in which the effect of the Act is recognized or an entity may elect to apply the amendments in the period of adoption. The Company early adopted this ASU in the first quarter of 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendment seeks to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective dates. The Company adopted this ASU on January 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, which amends certain aspects of the recognition, measurement, presentation and disclosure of certain financial instruments, including equity investments and liabilities measured at fair value under the fair value option. The main provisions include a requirement that all investments in equity securities be measured at fair value through earnings, with certain exceptions, and a requirement to present separately in other comprehensive income the portion of the total change in fair value attributable to an entity’s own credit risk for financial liabilities where the fair value option has been elected. The Company adopted this ASU on January 1, 2018. Upon adoption, the Company reclassified approximately $1.1 million of unrealized gain related to its equity investment security classified as available-for-sale from accumulated other comprehensive income (AOCI) to retained earnings as a cumulative-effect adjustment, and began recording changes in fair value through earnings.

ASU No. 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers in Accounting Standards Codification (ASC) Topic 606 ("ASC 606" or "the New Revenue Standard"), which superseded the revenue recognition requirements in ASC Topic 605, Revenue Recognition (“ASC 605”). The New Revenue Standard sets forth a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. The New Revenue Standard requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The New Revenue Standard can be applied either retrospectively to each prior reporting period presented (i.e., full retrospective adoption) or with the cumulative effect of initially applying the update recognized at the date of the initial application (i.e., modified retrospective adoption) along with additional disclosures.

The Company adopted the New Revenue Standard on January 1, 2018 and all the related amendments using the modified retrospective method. The Company had previously planned on adopting the New Revenue Standard using the full retrospective method, but ultimately determined to adopt the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit as of January 1, 2018. The comparative information for prior periods has not been recasted and continues to be reported under the accounting standards in effect for those periods. The Company recognized unbilled receivables (contract assets) of $818 million predominantly due to how revenue is recognized for the Company's fixed-fee licensing arrangements (as noted in the first bullet point below), deferred revenue (contract liabilities) of $2 million, withholding tax liabilities of $105 million (and a corresponding deferred tax asset of $105 million, with an offsetting $16 million valuation allowance), and $174 million deferred tax liability. In the aggregate, these adjustments resulted in a $626 million net credit to accumulated deficit.

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The most significant impacts of the New Revenue Standard relate to the following:

- Revenue recognized for certain patent and technology licensing arrangements has changed under the New Revenue Standard. Revenue for (i) fixed-fee arrangements (including arrangements that include minimum guaranteed amounts), (ii) variable royalty arrangements that the Company has concluded are fixed in substance and (iii) the fixed portion of hybrid fixed/variable arrangements is recognized upon control over the underlying IP use right transferring to the licensee rather than upon billing under ASC 605, net of the effect of significant financing components calculated using customer-specific, risk-adjusted lending rates and recognized over time on an effective rate basis. As a consequence of the acceleration of revenue recognition and for matching purposes, all withholding taxes to be paid over the term of these licensing arrangements were expensed on the date the licensing revenue was recognized.

- Adoption of the New Revenue Standard resulted in revenue recognition being accelerated for variable royalties and the variable portion of hybrid fixed/variable patent and technology licensing arrangements. Under the New Revenue Standard, royalty revenue is being recognized on the basis of management's estimates of sales or usage, as applicable, of the licensed IP in the period of reference, with a true-up being recorded in subsequent periods based on actual sales or usage as reported by licensees (rather than upon receiving royalty reports from licensees as was the case under ASC 605).

- Adoption of the New Revenue Standard also resulted in revenue recognition being accelerated for certain professional services arrangements, including arrangements consisting of significant software customization or modification and development arrangements. Under the New Revenue Standard, such arrangements are accounted for based on man-days incurred during the reporting period as compared to estimated total man-days necessary for contract completion, as the customer either controls the asset as it is created or enhanced by us or, where the asset has no alternative use to us, we are entitled to payment for performance to date and expect to fulfill the contract - revenue recognition is no longer capped to the lesser of inputs in the period or accepted billable project milestones as was the case under ASC 605.

Adoption of the New Revenue Standard had no impact to cash provided by (used in) operating, financing, or investing activities on the Company's Consolidated Statements of Cash Flows.

In accordance with the New Revenue Standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statement of Operations and Balance Sheet was as follows (in thousands):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
(In thousands)	As Reported	Effect of Change Higher/ (Lower)	Amounts under ASC 605	As Reported	Effect of Change Higher/ (Lower)	Amounts under ASC 605
Consolidated Statement of Operations						
Revenue:						
Royalties	$33,599	$42,105	$75,704	$85,022	$141,482	$226,504
Product revenue	11,753	—	11,753	27,153	377	27,530
Contract and other revenue	14,402	(2,019)	12,383	50,463	(5,378)	45,085
Total revenue	$59,754	$40,086	$99,840	$162,638	$136,481	$299,119
Costs and expenses:						
Interest income and other income (expense), net	$8,008	$(6,532)	$1,476	$25,373	$(21,087)	$4,286
Provision for income taxes	$89,758	$(10,509)	$79,249	$85,514	$—	$85,514
Net loss	$(104,893)	$44,063	$(60,830)	$(155,939)	$115,394	$(40,545)

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(In thousands)	September 30, 2018 As Reported	Effect of Change Higher/ (Lower)	Amounts under ASC 605
Consolidated Balance Sheet			
Assets:			