RAMBUS INC
Form 10-Q
July 23, 2015
Table of Contents

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 June 30, 2015
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 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 ý No o
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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 116,360,766 as of June 30, 2015.

Table of Contents

RAMBUS INC.
TABLE OF CONTENTS

	PAGE
Note Regarding Forward-Looking Statements	3
PART I. FINANCIAL INFORMATION	5
Item 1. Financial Statements (Unaudited):	5
Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014	5
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014	6
Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014	7
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014	8
Notes to Unaudited Condensed Consolidated Financial Statements	9
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures about Market Risk	38
Item 4. Controls and Procedures	39
PART II. OTHER INFORMATION	40
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3. Defaults Upon Senior Securities	50
Item 4. Mine Safety Disclosures	50
Item 5. Other Information	50
Item 6. Exhibits	50
Signature	51
Exhibit Index	52

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 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;
- 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 and system 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;
- 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;
- 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;
- 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.

Table of Contents

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 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)

	June 30, 2015	December 31, 2014
	(In thousands, except shares and par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$201,477	$154,126
Marketable securities	146,649	145,983
Accounts receivable	6,745	6,001
Prepaids and other current assets	9,690	8,541
Deferred taxes	1,113	187
Total current assets	365,674	314,838
Intangible assets, net	76,694	89,371
Goodwill	116,899	116,899
Property, plant and equipment, net	60,689	64,023
Deferred taxes, long-term	454	536
Other assets	3,345	2,612
Total assets	$623,755	$588,279
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,187	$6,962
Accrued salaries and benefits	11,857	14,840
Deferred revenue	6,551	4,133
Other current liabilities	7,774	8,723
Total current liabilities	31,369	34,658
Convertible notes, long-term	117,949	115,089
Long-term imputed financing obligation	38,874	39,063
Long-term income taxes payable	2,679	2,769
Other long-term liabilities	8,139	5,078
Total liabilities	199,010	196,657
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 June 30, 2015 and December 31, 2014	—	—
Common stock, $.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 116,360,766 shares at June 30, 2015 and 115,161,675 shares at December 31, 2014	116	115
Additional paid-in capital	1,170,159	1,153,435
Accumulated deficit	(745,164)	(761,526)
Accumulated other comprehensive loss	(366)	(402)
Total stockholders' equity	424,745	391,622
Total liabilities and stockholders' equity	$623,755	$588,279

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

RAMBUS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Revenue:				
Royalties	$62,387	$69,741	$129,350	$143,378
Contract and other revenue	10,425	6,777	16,376	11,428
Total revenue	72,812	76,518	145,726	154,806
Operating costs and expenses:				
Cost of revenue*	12,137	10,637	22,893	20,659
Research and development*	29,188	27,668	57,722	54,566
Sales, general and administrative*	17,339	18,619	35,841	37,439
Gain from sale of intellectual property	(896)	—	(3,156)	(170)
Restructuring charges	—	—	—	39
Gain from settlement	(510)	(510)	(1,020)	(1,020)
Total operating costs and expenses	57,258	56,414	112,280	111,513
Operating income	15,554	20,104	33,446	43,293
Interest income and other income (expense), net	203	104	335	117
Interest expense	(3,091)	(8,770)	(6,174)	(18,696)
Interest and other income (expense), net	(2,888)	(8,666)	(5,839)	(18,579)
Income before income taxes	12,666	11,438	27,607	24,714
Provision for income taxes	5,805	6,395	11,244	11,867
Net income	$6,861	$5,043	$16,363	$12,847
Net income per share:				
Basic	$0.06	$0.04	$0.14	$0.11
Diluted	$0.06	$0.04	$0.14	$0.11
Weighted average shares used in per share calculation:				
Basic	116,027	114,116	115,683	113,854
Diluted	120,939	117,398	119,225	116,733

* Includes stock-based compensation:				
Cost of revenue	$27	$15	$39	$22
Research and development	$1,988	$2,615	$3,755	$3,926
Sales, general and administrative	$2,400	$2,225	$4,387	$3,806

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net income	$6,861	$5,043	$16,363	$12,847
Other comprehensive income:				
Foreign currency translation adjustment	9	—	9	—
Unrealized gain (loss) on marketable securities, net of tax	(26)	(59)	27	(51)
Total comprehensive income	$6,844	$4,984	$16,399	$12,796

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

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

	Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$16,363	$12,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	8,181	7,754
Depreciation	6,295	6,979
Amortization of intangible assets	12,645	13,554
Non-cash interest expense and amortization of convertible debt issuance costs	3,140	11,711
Deferred income taxes	1,233	5,941
Gain from sale of intellectual property and property, plant and equipment	(3,151)	(170)
Change in operating assets and liabilities:		
Accounts receivable	(744)	(10,252)
Prepaid expenses and other assets	(2,106)	(1,283)
Accounts payable	(1,873)	756
Accrued salaries and benefits and other liabilities	(3,843)	(19,630)
Income taxes payable	282	(3,982)
Deferred revenue	2,418	2,229
Net cash provided by operating activities	38,840	26,454
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,117)	(4,293)
Purchases of marketable securities	(97,665)	(166,070)
Maturities of marketable securities	70,396	51,428
Proceeds from sale of marketable securities	26,648	17,689
Proceeds from sale of intellectual property and property, plant and equipment	3,404	2,500
Net cash used in investing activities	(334)	(98,746)
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	9,053	5,855
Principal payments against lease financing obligation	(208)	(132)
Payments under installment payment arrangement	—	(56)
Repayment of convertible senior notes	—	(172,500)
Net cash provided by (used in) financing activities	8,845	(166,833)
Net increase (decrease) in cash and cash equivalents	47,351	(239,125)
Cash and cash equivalents at beginning of period	154,126	338,696
Cash and cash equivalents at end of period	$201,477	$99,571
Non-cash investing activities during the period:		
Property, plant and equipment received and accrued in accounts payable and other liabilities	$677	$166

See Notes to Unaudited Condensed Consolidated Financial Statements

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, 2014.

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 Interface Division ("MID"), which focuses on the design, development and licensing of technology that is related to memory and interfaces; (2) Cryptography Research Division ("CRD"), which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; (3) Emerging Solutions Division ("ESD"), which includes the computational sensing and imaging group along with the development efforts in the area of emerging technologies; and (4) Lighting and Display Technologies ("LDT"), which focuses on the design, development and licensing of technologies for lighting.

For the three and six months ended June 30, 2015, only MID and CRD were reportable segments as each of them met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining other operating segment were shown under “Other.”

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

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern." The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect that this guidance will have a material impact on its financial position, results of operations or cash flows.

Table of Contents

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718)," which makes amendments to the codification topic 718, "Accounting for Share-Based Payments," when the terms of an award provide that a performance target could be achieved after the requisite service period. The new accounting standards update becomes effective for the Company on January 1, 2016. The Company is currently evaluating the impact that this guidance will have on its financial position, results of operations or cash flows.

In May 2014, the FASB and International Accounting Standards Board issued their converged accounting standards update on revenue recognition. The core principle of the new guidance is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new guidance also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new accounting standards update becomes effective for the Company on January 1, 2018. The Company is currently evaluating the impact that this guidance will have on its financial condition and results of operations.

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 per share is calculated by dividing the earnings 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 net income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income per share:	(In thousands, except per share amounts)			
Numerator:				
Net income	$6,861	$5,043	$16,363	$12,847
Denominator:				
Weighted-average shares outstanding - basic	116,027	114,116	115,683	113,854
Effect of potential dilutive common shares	4,912	3,282	3,542	2,879
Weighted-average shares outstanding - diluted	120,939	117,398	119,225	116,733
Basic net income per share	$0.06	$0.04	$0.14	$0.11
Diluted net income per share	$0.06	$0.04	$0.14	$0.11

For the three months ended June 30, 2015 and 2014, options to purchase approximately 2.6 million and 3.7 million shares, respectively, and for the six months ended June 30, 2015 and 2014, options to purchase approximately 2.6 million and 6.2 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.

Table of Contents

4. Intangible Assets and Goodwill

Goodwill

The following tables present goodwill information for each of the reportable segments for the six months ended June 30, 2015:

Reportable Segment:	As of December 31, 2014	Additions to Goodwill	Impairment Charge of Goodwill	As of June 30, 2015
	(In thousands)			
MID	$19,905	$—	$—	$19,905
CRD	96,994	—	—	96,994
Total	$116,899	$—	$—	$116,899

Reportable Segment:	As of June 30, 2015 Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount
	(In thousands)		
MID	$19,905	$—	$19,905
CRD	96,994	—	96,994
Other	21,770	(21,770)	—
Total	$138,669	$(21,770)	$116,899

Intangible Assets

The components of the Company's intangible assets as of June 30, 2015 and December 31, 2014 were as follows:

	Useful Life	As of June 30, 2015 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Existing technology	3 to 10 years	$185,321	$(115,835)	$69,486
Customer contracts and contractual relationships	1 to 10 years	31,093	(23,885)	7,208
Non-compete agreements	3 years	300	(300)	—
Total intangible assets		$216,714	$(140,020)	$76,694

	Useful Life	As of December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Existing technology	3 to 10 years	$185,321	$(104,426)	$80,895
Customer contracts and contractual relationships	1 to 10 years	31,093	(22,617)	8,476
Non-compete agreements	3 years	300	(300)	—
Total intangible assets		$216,714	$(127,343)	$89,371

During the three and six months ended June 30, 2015, the Company did not purchase or sell any intangible assets. During the six months ended June 30, 2014, the Company sold portfolios of its intellectual property covering wireless and other technologies for $4.4 million and the related gain was recorded as gain from sale of intellectual property and revenue in the condensed consolidated statements of operations.

The favorable contracts (included in customer contracts and contractual relationships) are acquired patent licensing agreements where the Company has no performance obligations. Cash received from these acquired favorable contracts reduces

11

Table of Contents

the favorable contract intangible asset. For the three months ended June 30, 2015 and 2014, the Company received $0.1 million and $0.1 million related to the favorable contracts, respectively. For the six months ended June 30, 2015 and 2014, the Company received $0.1 million and $0.9 million related to the favorable contracts, respectively. As of June 30, 2015 and December 31, 2014, the net balance of the favorable contract intangible assets was zero and $0.1 million, respectively.

Amortization expense for intangible assets for the three and six months ended June 30, 2015 was $6.3 million and $12.6 million, respectively. Amortization expense for intangible assets for the three and six months ended June 30, 2014 was $6.8 million and $13.6 million, respectively. The estimated future amortization expense of intangible assets as of June 30, 2015 was as follows (amounts in thousands):

Years Ending December 31:	Amount
2015 (remaining 6 months)	$12,428
2016	24,311
2017	23,709
2018	10,827
2019	1,789
Thereafter	3,630
	$76,694

It is reasonably possible that the businesses could perform significantly below the Company's expectations or a deterioration of market and economic conditions could occur. This would adversely impact the Company's ability to meet its projected results, which could cause the goodwill in any of its reporting units or long-lived assets in any of its asset groups to become impaired. Significant differences between these estimates and actual cash flows could materially affect the Company's future financial results. If the reporting units are not successful in commercializing new business arrangements, if the businesses are unsuccessful in signing new license agreements or renewing their existing license agreements, or if the Company is unsuccessful in managing its costs, the revenue and income for these reporting units could adversely and materially deviate from their historical trends and could cause goodwill or long-lived assets to become impaired. If the Company determines that its goodwill or long-lived assets are impaired, it would be required to record a non-cash charge that could have a material adverse effect on its results of operations and financial position.

5. Segments and Major Customers

For the three and six months ended June 30, 2015, MID and CRD 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.” Additionally, some employees moved departments in the fourth quarter of 2014 causing a change in the prior period reportable segment financial results. The presentation of the 2014 segment data has been updated accordingly to conform with the updated segment presentation.

The Company evaluates the performance of its segments based on segment operating income (loss), which is defined as revenue minus segment operating expenses. Segment operating expenses are comprised of direct operating expenses.

Segment operating expenses do not include sales, general and administrative expenses and the allocation of certain expenses managed at the corporate level, such as stock-based compensation, amortization, and certain bonus and acquisition costs. The “Reconciling Items” category includes these unallocated sales, general and administrative expenses as well as corporate level expenses.

Table of Contents

The tables below present reported segment operating income (loss) for the three and six months ended June 30, 2015 and 2014, respectively.

	For the Three Months Ended June 30, 2015				For the Six Months Ended June 30, 2015			
	MID	CRD	Other	Total	MID	CRD	Other	Total
	(In thousands)				(In thousands)			
Revenues	$54,579	$11,778	$6,455	$72,812	$109,313	$24,604	$11,809	$145,726
Segment operating expenses	12,801	7,329	8,770	28,900	24,321	14,665	16,029	55,015
Segment operating income (loss)	$41,778	$4,449	$(2,315)	$43,912	$84,992	$9,939	$(4,220)	$90,711
Reconciling items				(28,358)				(57,265)
Operating income				$15,554				$33,446
Interest and other income (expense), net				(2,888)				(5,839)
Income before income taxes				$12,666				$27,607

	For the Three Months Ended June 30, 2014				For the Six Months Ended June 30, 2014			
	MID	CRD	Other	Total	MID	CRD	Other	Total
	(In thousands)				(In thousands)			
Revenues	$58,664	$12,771	$5,083	$76,518	$119,820	$25,674	$9,312	$154,806
Segment operating expenses	9,038	7,189	9,193	25,420	18,319	13,719	17,847	49,885
Segment operating income (loss)	$49,626	$5,582	$(4,110)	$51,098	$101,501	$11,955	$(8,535)	$104,921
Reconciling items				(30,994)				(61,628)
Operating income				$20,104				$43,293
Interest and other income (expense), net				(8,666)				(18,579)
Income before income taxes				$11,438				$24,714

The Company’s CODM does not review information regarding assets on an operating segment basis. Additionally, the Company does not record intersegment revenue or expense.

Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable at June 30, 2015 and December 31, 2014, respectively, was as follows:

	As of	
Customer	June 30, 2015	December 31, 2014
Customer 1 (Other segment)	62%	50%
Customer 2 (CRD reportable segment)	12%	*
Customer 3 (MID reportable segment)	*	33%

* Customer accounted for less than 10% of total accounts receivable in the period

Table of Contents

Revenue from the Company's major customers representing 10% or more of total revenue for the three and six months ended June 30, 2015 and 2014, respectively, was as follows:

Customer	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Customer A (MID and CRD reportable segments)	21 %	20 %	21 %	19 %
Customer B (MID reportable segment)	16 %	15 %	16 %	15 %
Customer C (MID reportable segment)	13 %	13 %	13 %	13 %

Revenue from customers in the geographic regions based on the location of contracting parties was as follows:

(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
South Korea	$26,821	$26,946	$53,642	$53,799
USA	29,677	27,898	57,384	56,572
Japan	7,915	7,388	16,406	16,643
Europe	1,540	4,276	6,715	12,839
Canada	5	1,787	201	3,611
Asia-Other	6,854	8,223	11,378	11,342
Total	$72,812	$76,518	$145,726	$154,806

6. Marketable Securities

Rambus invests its excess cash and cash equivalents primarily in U.S. government sponsored obligations, commercial paper, corporate notes and bonds, money market funds and municipal notes and bonds that mature within three years. As of June 30, 2015 and December 31, 2014, all of the Company's cash equivalents and marketable securities had a remaining maturity of less than one year.

All cash equivalents and marketable securities are classified as available-for-sale. Total cash, cash equivalents and marketable securities are summarized as follows:

	As of June 30, 2015				
(In thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return
Money market funds	$175,972	$175,972	$ —	$ —	0.01 %
Corporate notes, bonds and commercial paper	146,649	146,735	2	(88)	0.40 %
Total cash equivalents and marketable securities	322,621	322,707	2	(88)	
Cash	25,505	25,505	—	—	
Total cash, cash equivalents and marketable securities	$348,126	$348,212	$ 2	$ (88)	

	As of December 31, 2014				
(In thousands)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return
Money market funds	$124,938	$124,938	$ —	$ —	0.01 %
Corporate notes, bonds and commercial paper	145,983	146,096	1	(114)	0.25 %
Total cash equivalents and marketable securities	270,921	271,034	1	(114)	
Cash	29,188	29,188	—	—	
Total cash, cash equivalents and marketable securities	$300,109	$300,222	$ 1	$ (114)	

Table of Contents

Available-for-sale securities are reported at fair value on the balance sheets and classified as follows:

	As of June 30, 2015	December 31, 2014
	(In thousands)	
Cash equivalents	$175,972	$124,938
Short term marketable securities	146,649	145,983
Total cash equivalents and marketable securities	322,621	270,921
Cash	25,505	29,188
Total cash, cash equivalents and marketable securities	$348,126	$300,109

The Company continues to invest in highly rated quality, highly liquid debt securities. As of June 30, 2015, these securities have a remaining maturity of less than one year. The Company holds all of its marketable securities as available-for-sale, marks them to market, and regularly reviews its portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis, proper valuation, and unrealized losses that may be other than temporary.

The estimated fair value of cash equivalents and marketable securities classified by the length of time that the securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014 are as follows:

	Fair Value		Gross Unrealized Loss	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
	(In thousands)			
Less than one year				
Corporate notes, bonds and commercial paper	$126,434	$139,989	$(88)	$(114)

The gross unrealized loss at June 30, 2015 and December 31, 2014 was not material in relation to the Company's total available-for-sale portfolio. The gross unrealized loss can be primarily attributed to a combination of market conditions as well as the demand for and duration of the corporate notes and bonds. There is no requirement to sell and the Company believes that it can recover the amortized cost of these investments. The Company has found no evidence of impairment due to credit losses in its portfolio. Therefore, these unrealized losses were recorded in other comprehensive income (loss). However, the Company cannot provide any assurance that its portfolio of cash, cash equivalents and marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company in the future to record an impairment charge for credit losses which could adversely impact its financial results.

See Note 7, "Fair Value of Financial Instruments," for discussion regarding the fair value of the Company's cash equivalents and marketable securities.

7. Fair Value of Financial Instruments

The Company reviews the pricing inputs by obtaining prices from a different source for the same security on a sample of its portfolio. The Company has not adjusted the pricing inputs it has obtained. The following table presents the financial instruments that are carried at fair value and summarizes the valuation of its cash equivalents and marketable securities by the above pricing levels as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015			
	Total	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

	(In thousands)			
Money market funds	$175,972	$175,972	$—	$—
Corporate notes, bonds and commercial paper	146,649	—	146,649	—
Total available-for-sale securities	$322,621	$175,972	$146,649	$—

Table of Contents

	As of December 31, 2014			
	Total	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Money market funds	$124,938	$124,938	$—	$—
Corporate notes, bonds and commercial paper	145,983	—	145,983	—
Total available-for-sale securities	$270,921	$124,938	$145,983	$—

The Company monitors its investments for other-than-temporary impairment and records appropriate reductions in carrying value when necessary. The Company monitors its investments for other-than-temporary losses by considering current factors, including the economic environment, market conditions, operational performance and other specific factors relating to the business underlying the investment, reductions in carrying values when necessary and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in the market. Any other-than-temporary loss is reported under "Interest and other income (expense), net" in the condensed consolidated statement of operations.

For the three and six months ended June 30, 2015 and 2014, there were no transfers of financial instruments between different categories of fair value.

The following table presents the financial instruments that are not carried at fair value but require fair value disclosure as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015			As of December 31, 2014		
(In thousands)	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
1.125% Convertible Senior Notes due 2018 (the "2018 Notes")	$138,000	$117,949	$189,060	$138,000	$115,089	$159,293

The fair value of the convertible notes at each balance sheet date is determined based on recent quoted market prices for these notes which is a level 2 measurement. As discussed in Note 8, "Convertible Notes," as of June 30, 2015, the 2018 Notes are carried at their face value of $138.0 million, less any unamortized debt discount. The carrying value of other financial instruments, including accounts receivable, accounts payable and other liabilities, approximates fair value due to their short maturities.

8. Convertible Notes

The Company's convertible notes are shown in the following table:

(In thousands)	As of June 30, 2015	As of December 31, 2014
1.125% Convertible Senior Notes due 2018	$138,000	$138,000
Unamortized discount	(20,051)	(22,911)
Total convertible notes	$117,949	$115,089
Less current portion	—	—
Total long-term convertible notes	$117,949	$115,089

Table of Contents

Interest expense related to the notes for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
2014 Notes coupon interest at a rate of 5%	$—	$1,773	$—	$3,929
2014 Notes amortization of discount and debt issuance costs at an additional effective interest rate of 11.7%	—	3,975	—	8,744
2018 Notes coupon interest at a rate of 1.125%	388	388	791	776
2018 Notes amortization of discount and debt issuance costs at an additional effective interest rate of 5.5%	1,581	1,494	3,140	2,967
Total interest expense on convertible notes	$1,969	$7,630	$3,931	$16,416

9. Commitments and Contingencies

As of June 30, 2015, the Company’s material contractual obligations were as follows (in thousands):

	Total	Remainder of 2015	2016	2017	2018	2019	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	$31,415	$ 3,039	$6,156	$6,302	$6,447	$6,602	$2,869
Leases and other contractual obligations	7,893	3,825	2,378	1,350	340	—	—
Software licenses (3)	7,403	5,045	2,188	170	—	—	—
Convertible notes	138,000	—	—	—	138,000	—	—
Interest payments related to convertible notes	5,434	776	1,553	1,553	1,552	—	—
Total	$190,145	$ 12,685	$12,275	$9,375	$146,339	$6,602	$2,869

(1) The above table does not reflect possible payments in connection with uncertain tax benefits of approximately $20.6 million including $18.4 million recorded as a reduction of long-term deferred tax assets and $2.2 million in long-term income taxes payable as of June 30, 2015. As noted below in Note 12, “Income Taxes,” although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time.

(2) With respect to the imputed financing obligation, the main components of the difference between the amount reflected in the contractual obligations table and the amount reflected on the condensed consolidated balance sheets are the interest on the imputed financing obligation and the estimated common area expenses over the future periods. The amount includes the amended Ohio lease and the amended Sunnyvale lease.

(3) The Company has commitments with various software vendors for non-cancellable agreements generally having terms longer than one year.

Building lease expense was approximately $0.6 million and $1.3 million for the three and six months ended June 30, 2015, respectively. Building lease expense was approximately $0.7 million and $1.3 million for the three and six months ended June 30, 2014, respectively. Deferred rent of $0.9 million and $1.1 million as of June 30, 2015 and December 31, 2014, respectively, was included primarily in other long-term liabilities.

Indemnification

The Company enters into standard license agreements in the ordinary course of business. Although the Company does not indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnification covers customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement or any other claim by any third party arising as result of the applicable agreement with the

17

Table of Contents

Company. The Company generally attempts to limit the maximum amount of indemnification that the Company could be required to make under these agreements to the amount of fees received by the Company.

10. Equity Incentive Plans and Stock-Based Compensation

As of June 30, 2015, 12,632,940 shares of the 35,400,000 shares approved under the 2006 Equity Incentive Plan (the “2006 Plan”) and 2015 Equity Incentive Plan (the “2015 Plan”) remain available for grant, which included an increase of 4,000,000 shares approved under the 2015 Plan. On April 23, 2015, the Company's stockholders approved the 2015 Plan, which authorizes 4,000,000 shares for future issuance plus the number of shares that remained available for grant under the 2006 Plan as of the effective date of the 2015 Plan. The 2015 Plan became effective and replaced the 2006 Plan on April 23, 2015. The 2015 Plan was the Company’s only plan for providing stock-based incentive awards to eligible employees, executive officers, non-employee directors and consultants as of June 30, 2015. No further awards will be made under the 2006 Plan, but the 2006 Plan will continue to govern awards previously granted under it. In addition, any shares subject to stock options or other awards granted under the 2006 Plan that on or after the effective date of the 2015 Plan are forfeited, cancelled, exchanged or surrendered or terminate under the 2006 Plan will become available for grant under the 2015 Plan. Additionally, the 1997 Stock Option Plan (the “1997 Plan”) continues to govern awards previously granted under that plan.

A summary of shares available for grant under the Company’s plans is as follows:

	Shares Available for Grant	
Shares available as of December 31, 2014	10,724,228	
Increase in shares approved for issuance	4,000,000	
Stock options granted	(362,335	)
Stock options forfeited	1,369,490	
Stock options expired under former plans	(618,722	)
Nonvested equity stock and stock units granted (1) (2)	(2,611,833	)
Nonvested equity stock and stock units forfeited (1)	132,112	
Total available for grant as of June 30, 2015	12,632,940	

____

(1) For purposes of determining the number of shares available for grant under the 2015 Plan (and previously the 2006 Plan) against the maximum number of shares authorized, each share of restricted stock granted reduces the number of shares available for grant by 1.5 shares and each share of restricted stock forfeited increases shares available for grant by 1.5 shares.

(2) Amount includes 238,980 shares that have been reserved for potential future issuance related to certain performance unit awards discussed under the section titled "Nonvested Equity Stock and Stock Units" below.

Table of Contents

General Stock Option Information

The following table summarizes stock option activity under the 1997 Plan, 2006 Plan and 2015 Plan for the six months ended June 30, 2015 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of June 30, 2015.

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
	(In thousands, except per share amounts)			
Outstanding as of December 31, 2014	11,441,646	$ 10.73		
Options granted	362,335	$ 11.27		
Options exercised	(780,858)	$ 7.74		
Options forfeited	(1,369,490)	$ 18.56		
Outstanding as of June 30, 2015	9,653,633	$ 9.88	6.26	$ 58,097
Vested or expected to vest at June 30, 2015	9,277,512	$ 9.90	6.17	$ 56,120
Options exercisable at June 30, 2015	5,317,747	$ 11.71	4.91	$ 28,210

No stock options that contain a market condition were granted during the three and six months ended June 30, 2015. As of both June 30, 2015 and December 31, 2014, there were 1,315,000 stock options outstanding that require the Company to achieve minimum market conditions in order for the options to become exercisable. The fair values of the options granted with a market condition were calculated, on their respective grant dates, using a binomial valuation model, which estimates the potential outcome of reaching the market condition based on simulated future stock prices.
The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at June 30, 2015, based on the $14.49 closing stock price of Rambus’ common stock on June 30, 2015 on the NASDAQ Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of June 30, 2015 was 8,001,891 and 4,302,260, respectively.

Employee Stock Purchase Plan

Under the 2006 Employee Stock Purchase Plan ("2006 ESPP"), the Company issued 315,100 shares at a price of $9.66 per share during the six months ended June 30, 2015. The Company issued 374,588 shares at a price of $7.42 per share during the six months ended June 30, 2014. As of June 30, 2015, 2,607,944 shares under the employee stock purchase plan remain available for issuance, which include the additional 2,000,000 shares from the 2015 Employee Stock Purchase Plan (“2015 ESPP”) approved by the Company's stockholders on April 23, 2015. The 2006 ESPP will remain in effect until the Company’s next offering period scheduled to begin on November 2, 2015 at which time the first offering period under the 2015 ESPP will begin.

Stock-Based Compensation

For the six months ended June 30, 2015 and 2014, the Company maintained stock plans covering a broad range of potential equity grants including stock options, nonvested equity stock and equity stock units and performance based instruments. In addition, the Company sponsors the 2006 ESPP and 2015 ESPP, whereby eligible employees are entitled to purchase common stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the common stock as of specific dates.

Stock Options

During the three months ended June 30, 2015, the Company did not grant any stock options. During the six months ended June 30, 2015, the Company granted 362,335 stock options with an estimated total grant-date fair value of $1.7 million. During the three and six months ended June 30, 2015, the Company recorded stock-based compensation expense related to stock options of $2.3 million and $4.4 million, respectively.

During the three and six months ended June 30, 2014, the Company granted 118,615 and 1,916,077 stock options, respectively, with an estimated total grant-date fair value of $0.6 million and $7.6 million, respectively. During the three and

Table of Contents

six months ended June 30, 2014, the Company recorded stock-based compensation expense related to stock options of $2.4 million and $4.6 million, respectively.

As of June 30, 2015, there was $9.6 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested stock-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 1.9 years. The total fair value of shares vested as of June 30, 2015 was $40.5 million.

The total intrinsic value of options exercised was $3.5 million and $4.6 million for the three and six months ended June 30, 2015, respectively. The total intrinsic value of options exercised was $1.6 million and $2.2 million for the three and six months ended June 30, 2014, respectively. Intrinsic value is the total value of exercised shares based on the price of the Company's common stock at the time of exercise less the cash received from the employees to exercise the options.

During the six months ended June 30, 2015, net proceeds from employee stock option exercises totaled approximately $6.0 million.

Employee Stock Purchase Plan

For the three and six months ended June 30, 2015, the Company recorded compensation expense related to the 2006 ESPP of $0.4 million and $0.8 million, respectively. For the three and six months ended June 30, 2014, the Company recorded compensation expense related to the 2006 ESPP of $1.8 million and $1.9 million, respectively. As of June 30, 2015, there was $0.5 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the 2006 ESPP. That cost is expected to be recognized over four months.

There were no tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units for the three and six months ended June 30, 2015 and 2014 calculated in accordance with accounting for share-based payments.

Valuation Assumptions

The fair value of stock awards is estimated as of the grant date using the Black-Scholes-Merton ("BSM") option-pricing model assuming a dividend yield of 0% and the additional weighted-average assumptions as listed in the table below. The following table presents the weighted-average assumptions used to estimate the fair value of stock options granted that contain only service conditions in the periods presented.

	Stock Option Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock Option Plans				
Expected stock price volatility	—%	40%	41%	40-44%
Risk free interest rate	—%	2.2%	1.2%	2.1-2.2%
Expected term (in years)		6.0	6.0	6.0-6.1
Weighted-average fair value of stock options granted to employees	$—	$4.95	$4.59	$3.98

There were no stock options granted during the three months ended June 30, 2015.

	Employee Stock Purchase Plan	
	Six Months Ended June 30,	
	2015	2014
Employee Stock Purchase Plan		
Expected stock price volatility	34%	39-44%
Risk free interest rate	0.05%	0.0-0.1%
Expected term (in years)	0.5	0.02-0.5
Weighted-average fair value of purchase rights granted under the purchase plan	$3.48	$3.91

20

Table of Contents

Nonvested Equity Stock and Stock Units

The Company grants nonvested equity stock units to officers, employees and directors. During the three and six months ended June 30, 2015, the Company granted nonvested equity stock units totaling 60,724 and 1,581,902 shares under the 2006 Plan. During the three and six months ended June 30, 2014, the Company granted nonvested equity stock units totaling 22,868 and 228,676 shares under the 2006 Plan, respectively. These awards have a service condition, generally a service period of four years, except in the case of grants to directors, for which the service period is one year. For the three and six months ended June 30, 2015, the nonvested equity stock units were valued at the date of grant giving them a fair value of approximately $0.9 million and $18.0 million. For the three and six months ended June 30, 2014, the nonvested equity stock units were valued at the date of grant giving them a fair value of approximately $0.3 million and $2.1 million. During the first quarter of 2015, the Company granted performance unit awards to certain Company executive officers with vesting subject to the achievement of certain performance conditions. The ultimate number of performance units that can be earned can range from 0% to 150% of target depending on performance relative to target over the applicable period. The shares earned will vest on the third anniversary of the date of grant. The Company's shares available for grant has been reduced to reflect the shares that could be earned at 150% of target. During the three and six months ended June 30, 2015, the Company recorded $0.3 million and $0.5 million of stock-based compensation expense related to these performance unit awards.

For the three and six months ended June 30, 2015, the Company recorded stock-based compensation expense of approximately $1.7 million and $2.9 million related to all outstanding nonvested equity stock grants. For the three and six months ended June 30, 2014, the Company recorded stock-based compensation expense of approximately $0.7 million and $1.3 million related to all outstanding nonvested equity stock grants. Unrecognized stock-based compensation related to all nonvested equity stock grants, net of estimated forfeitures, was approximately $15.5 million at June 30, 2015. This amount is expected to be recognized over a weighted average period of 3.0 years.

The following table reflects the activity related to nonvested equity stock and stock units for the six months ended June 30, 2015:

Nonvested Equity Stock and Stock Units	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2014	673,864		$9.23
Granted	1,581,902		$11.39
Vested	(149,982	)	$8.54
Forfeited	(88,074	)	$10.47
Nonvested at June 30, 2015	2,017,710		$10.92

11. Stockholders' Equity

Share Repurchase Program

During the six months ended June 30, 2015, the Company did not repurchase any shares of its common stock under its share repurchase program.

On January 21, 2015, the Company's Board approved a new share repurchase program authorizing the repurchase of up to an aggregate of 20.0 million shares. Share repurchases under the plan may be made through the open market, established plans or privately negotiated transactions in accordance with all applicable securities laws, rules, and regulations. There is no expiration date applicable to the plan. This new stock repurchase program replaced the previous program approved by the Board in February 2010 and canceled the remaining shares outstanding as part of the previous authorization. No repurchases have been made under the new plan.

The Company records stock repurchases as a reduction to stockholders' equity. The Company records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the price of the shares repurchased exceeds the average original proceeds per share received from the issuance of common stock.

12. Income Taxes

The Company recorded a provision for income taxes of $5.8 million and $6.4 million for the three months ended June 30, 2015 and 2014, respectively, and $11.2 million and $11.9 million for the six months ended June 30, 2015 and 2014,

respectively. The provision for income taxes for the three and six months ended June 30, 2015 and 2014 is primarily comprised of withholding taxes, state taxes and other foreign taxes.

During the three and six months ended June 30, 2015, the Company paid withholding taxes of $4.8 million and $9.6 million. During the three and six months ended June 30, 2014, the Company paid withholding taxes of $4.8 million and $9.8 million, respectively.

As of June 30, 2015, the Company’s condensed consolidated balance sheets included net deferred tax assets, before valuation allowance, of approximately $186.5 million, which consists of net operating loss carryovers, tax credit carryovers, amortization, employee stock-based compensation expenses and certain liabilities, partially reduced by deferred tax liabilities associated with the convertible notes. As of June 30, 2015, a full valuation allowance has been recorded against the U.S. deferred tax assets.

Management periodically evaluates the realizability of the Company's net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a full valuation allowance on its deferred tax assets in the United States as of June 30, 2015. The Company emerged from a cumulative loss position over the previous three years during the first quarter of 2015. However, given economic uncertainties and the uncertainty of commercializing new business arrangements and new product acceptances, the Company currently believes there is not sufficient positive evidence of sustained future profitability to change its judgment regarding the need for a full valuation allowance on its deferred tax assets in the United States. The continued improvement in the Company's operating results, along with successfully commercializing new business arrangements, signing new or renewing existing license agreements and managing costs would provide additional positive evidence in determining the need for the valuation allowance and could lead to reversal of substantially all of the Company's valuation allowance on its deferred tax assets in the United States. Until such time, consumption of tax attributes to offset profits will reduce the overall level of deferred tax assets subject to valuation allowance. Should the Company determine that it would be able to realize its remaining deferred tax assets in the foreseeable future, an adjustment to its remaining deferred tax assets would cause a material increase to net income in the period such determination is made.

The Company maintains liabilities for uncertain tax positions within its long-term income taxes payable accounts and as a reduction to existing deferred tax assets to the extent tax attributes are available to offset such liabilities. These liabilities involve judgment and estimation and are monitored by management based on the best information available including changes in tax regulations, the outcome of relevant court cases and other information.

As of June 30, 2015, the Company had approximately $20.6 million of unrecognized tax benefits, including $18.4 million recorded as a reduction of long-term deferred tax assets and $2.2 million in long-term income taxes payable. If recognized, approximately $2.2 million would be recorded as an income tax benefit. No benefit would be recorded for the remaining unrecognized tax benefits as the recognition would require a corresponding increase in the valuation allowance. As of December 31, 2014, the Company had $19.9 million of unrecognized tax benefits, including $17.8 million recorded as a reduction of long-term deferred tax assets and $2.1 million recorded in long-term income taxes payable.

Although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. At June 30, 2015 and December 31, 2014, an immaterial amount of interest and penalties is included in long-term income taxes payable.

Rambus files income tax returns for the U.S., California, India and various other state and foreign jurisdictions. The U.S. federal returns are subject to examination from 2012 and forward. The California returns are subject to examination from 2009 and forward. In addition, any research and development credit carryforward or net operating loss carryforward generated in prior years and utilized in these or future years may also be subject to examination. The India returns are subject to examination from fiscal year ended March 2006 and forward. The Company is currently under examination by California for the 2010 and 2011 tax years. The Company’s India subsidiary is under

examination by the Indian tax administration for years 2008 through 2010. These examinations may result in proposed adjustments to the income taxes as filed during these periods. Management regularly assesses the likelihood of outcomes resulting from income tax examinations to determine the adequacy of their provision for income taxes and believes their provision for unrecognized tax benefits is adequate.
Additionally, the Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where the Company has higher statutory rates or lower than anticipated in countries where it has lower statutory rates, by changes in valuation of its deferred tax assets and liabilities or by changes in tax laws or interpretations of those laws.

Table of Contents

13. Litigation and Asserted Claims

Rambus is not currently a party to any material pending legal proceeding; however, from time to time, Rambus may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial position or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies.

14. Agreements with SK hynix and Micron

SK hynix

On June 11, 2013, Rambus, SK hynix and certain related entities of SK hynix entered into a settlement agreement, pursuant to which the parties have agreed to release all claims against each other with respect to all outstanding litigation between them. Pursuant to the settlement agreement, Rambus and SK hynix entered into a semiconductor patent license agreement on June 11, 2013, under which SK hynix licenses from Rambus non-exclusive rights to certain Rambus patents and has agreed to pay Rambus cash amounts over the next five years. Under the license agreement, Rambus has granted to SK hynix (i) a paid-up perpetual patent license for certain identified SK hynix DRAM products and (ii) a five-year term patent license to all other DRAM and other semiconductor products.

In June 2015, the Company signed an amendment that extends its current agreement with SK hynix for an additional six years for use of Rambus memory-related patented innovations in SK hynix semiconductor products. The Company signed the original agreement with SK hynix for a five-year term in June 2013. Under the amendment, SK hynix has agreed to continue to pay the Company an average quarterly cash payment of $12.0 million which equates to $432.0 million over the remaining term of the agreement ending July 1, 2024, provided that (a) for each of the six full calendar quarters immediately following July 1, 2015, SK hynix will pay the Company a quarterly cash payment of $16.0 million, and (b) in addition, after December 1, 2017, SK hynix will have the option to make six quarterly cash payments of $8.0 million upon six months written notice. In addition, SK hynix has the option to renew the agreement for an additional three-year extension under the existing rate structure.

The agreements with SK hynix are considered a multiple element arrangement for accounting purposes. For a multiple element arrangement under the applicable accounting rules, the Company is required to identify specific elements of the arrangement and then determine when those elements should be recognized. The Company identified three elements in the arrangement: antitrust litigation settlement, settlement of past infringement, and license agreement. The Company considered several factors in determining the accounting fair value of the elements of the SK hynix agreements which included a third party valuation using an income approach (collectively the “SK hynix Fair Value”). The inputs and assumptions used in this accounting valuation were from a market participant perspective and included projected customer revenue, royalty rates, estimated discount rates, useful lives and income tax rates, among others. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and discretion, and is based upon a number of factors, including the selection of industry comparables, market growth rates and other relevant factors. Changes in any number of these assumptions may have a substantial impact on the SK hynix Fair Value as assigned to each element. These inputs and assumptions represent management’s best estimates at the time of the transaction.

During the second quarter of 2015, the Company received cash consideration of $12.0 million from SK hynix. The amount was allocated between royalty revenue ($11.8 million) and gain from settlement ($0.2 million) based on the elements’ SK hynix Fair Value. During the first half of 2015, the Company received cash consideration of $24.0 million from SK hynix. The amount was allocated between royalty revenue ($23.6 million) and gain from settlement ($0.4 million) based on the elements’ SK hynix Fair Value.

23

Table of Contents

The cumulative cash receipts through June 30, 2015 and the remaining future cash receipts from the agreements with SK hynix are expected to be recognized as follows assuming no adjustments to the payments under the terms of the agreements:

	Cumulative Received to-date as of June 30,	Estimated to Be Received in						Total Estimated Cash Receipts
	2015	Remainder of 2015	2016	2017	2018	2019	2020 and Thereafter	
(in millions)								
Royalty revenue	$94.6	$31.6	$63.9	$48.0	$40.0	$32.0	$216.0	$ 526.1
Gain from settlement	1.4	0.4	0.1	—	—	—	—	1.9
Total	$96.0	$32.0	$64.0	$48.0	$40.0	$32.0	$216.0	$ 528.0

Micron

On December 9, 2013, Rambus, Micron and certain related entities of Micron entered into a settlement agreement, pursuant to which the parties have agreed that they will release all claims against each other with respect to all outstanding litigation between them and certain other potential claims. Pursuant to the settlement agreement, Rambus and Micron entered into a semiconductor patent license agreement on December 9, 2013. Under the license agreement, Rambus has granted to Micron and its subsidiaries and certain affiliated entities (i) a paid-up perpetual patent license for certain identified Micron DRAM products and (ii) a seven-year term patent license to other memory and semiconductor products.

The agreements with Micron are considered a multiple element arrangement for accounting purposes. For a multiple element arrangement under the applicable accounting rules, the Company is required to identify specific elements of the arrangement and then determine when those elements should be recognized. The Company identified three elements in the arrangement: antitrust litigation settlement, settlement of past infringement, and license agreement. The Company considered several factors in determining the accounting fair value of the elements of the Micron agreements which included a third party valuation using an income approach (collectively the “Micron Fair Value”). The inputs and assumptions used in this accounting valuation were from a market participant perspective and included projected customer revenue, royalty rates, estimated discount rates, useful lives and income tax rates, among others. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and discretion, and is based upon a number of factors, including the selection of industry comparables, market growth rates and other relevant factors. Changes in any number of these assumptions may have a substantial impact on the Micron Fair Value as assigned to each element. These inputs and assumptions represent management’s best estimates at the time of the transaction.

During the second quarter of 2015, the Company received cash consideration of $10.0 million from Micron. The amount was allocated between royalty revenue ($9.7 million) and gain from settlement ($0.3 million) based on the elements’ Micron Fair Value. During the first half of 2015, the Company received cash consideration of $20.0 million from Micron. The amount was allocated between royalty revenue ($19.4 million) and gain from settlement ($0.6 million) based on the elements’ Micron Fair Value.

The remaining $214.5 million is expected to be paid in successive quarterly payments of $10.0 million, concluding in the fourth quarter of 2020.

The cumulative cash receipts through June 30, 2015 and the remaining future cash receipts from the agreements with Micron are expected to be recognized as follows assuming no adjustments to the payments under the terms of the agreements:

Cumulative Received to-date as of June 30,	Estimated to Be Received in						Total Estimated Cash Receipts
2015		2016	2017	2018	2019	2020	

(in millions)		Remainder of 2015						
Royalty revenue	$63.4	$19.3	$39.5	$40.0	$40.0	$40.0	$34.5	$276.7
Gain from settlement	2.1	0.7	0.5	—	—	—	—	3.3
Total	$65.5	$20.0	$40.0	$40.0	$40.0	$40.0	$34.5	$280.0

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenue or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning developments, performance or industry ranking; any statements regarding future economic conditions or performance; any statements regarding negotiations, litigation, investigations, claims, disputes or settlements; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words “anticipates,” “believes,” “plans,” “expects,” “future,” “intends,” “may,” “should,” “estimates,” “predicts,” “potential,” “contin and similar expressions identify forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to risks, uncertainties and changes in condition, significance, value and effect. As a result of the factors described herein, and in the documents incorporated herein by reference, including, in particular, those factors described under “Risk Factors,” we undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this report with the Securities and Exchange Commission.

Rambus, RDRAM™, XDR™, FlexIO™ and FlexPhase™ are trademarks or registered trademarks of Rambus Inc. Other trademarks that may be mentioned in this quarterly report on Form 10-Q are the property of their respective owners.

Industry terminology, used widely throughout this report, has been abbreviated and, as such, these abbreviations are defined below for your convenience:

Differential Power Analysis	DPA
Dynamic Random Access Memory	DRAM
Light Emitting Diodes	LED
Rambus Dynamic Random Access Memory	RDRAM™
eXtreme Data Rate	XDR™

Table of Contents

From time to time we will refer to the abbreviated names of certain entities and, as such, have provided a chart to indicate the full names of those entities for your convenience.

Advanced Micro Devices Inc.	AMD
Broadcom Corporation	Broadcom
Cryptography Research Division	CRD
Eaton Corporation plc	Eaton
Elpida Memory, Inc.	Elpida
Emerging Solutions Division	ESD
Freescale Semiconductor Inc.	Freescale
Fujitsu Limited	Fujitsu
General Electric Company	GE
Intel Corporation	Intel
International Business Machines Corporation	IBM
Lighting and Display Technology	LDT
LSI Corporation (now a division of Avago Technologies Limited)	LSI
Memory and Interfaces Division	MID
Micron Technologies, Inc.	Micron
Mobile Technology Division	MTD
Nanya Technology Corporation	Nanya
NVIDIA Corporation	NVIDIA
Qualcomm Incorporated	Qualcomm
Panasonic Corporation	Panasonic
Renesas Electronics	Renesas
Samsung Electronics Co., Ltd.	Samsung
SK hynix, Inc.	SK hynix
Sony Computer Electronics	Sony
ST Microelectronics N.V.	STMicroelectronics
Toshiba Corporation	Toshiba

Table of Contents

Business Overview

We are an innovative technology solutions company that brings invention to market. Our customers leverage our customizable platforms, services and tools to improve, differentiate and accelerate the development of products and services. Our extensive technology portfolio addresses the evolving power, performance and security requirements of the mobile, cloud computing and connected device markets. We drive innovations in memory, chip interfaces and architectures, end-to-end security, and advanced LED lighting, while also looking to disruptions and opportunities in tomorrow's high-growth markets. We generate revenue by licensing our inventions and solutions and providing services to market-leading companies.

While we have historically focused our efforts on the development of technologies for electronics memory and chip interfaces, we have expanded our portfolio of inventions and solutions to address additional markets in lighting, chip and system security, as well as new areas within the semiconductor industry, such as computational sensing and imaging. We intend to continue our growth into new technology fields, consistent with our mission to create great value through our innovations and to make those technologies available through both our licensing and non-licensing business models.

We have four operational units: (1) Memory and Interfaces Division, or MID, which focuses on the design, development and licensing of technology that is related to memory and interfaces; (2) Cryptography Research Division, or CRD, which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; (3) Emerging Solutions Division, or ESD, which includes our computational sensing and imaging group along with our development efforts in the area of emerging technologies; and (4) Lighting and Display Technologies, or LDT, which focuses on the design, development and licensing of technologies for lighting. As of June 30, 2015, MID and CRD were considered reportable segments as they met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining operating segments were shown under "Other." For additional information concerning segment reporting, see Note 5, "Segments and Major Customers," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

Our inventions and technology solutions are primarily offered to our customers through either a patent license or a technology license. Royalties from patent licenses accounted for 82% and 85% of our consolidated revenue for the three and six months ended June 30, 2015, respectively, as compared to 88% and 89% for the three and six months ended June 30, 2014. Royalties from technology licenses accounted for 4% and 3% of our consolidated revenue for the three and six months ended June 30, 2015, respectively, as compared to 3% and 3% for the three and six months ended June 30, 2014. Today, a majority of our revenues are derived from patent licenses, through which we provide our customers a license to use a certain portion of our broad portfolio of patented inventions. The license provides our customers with a defined right to use our innovations in the customer's own digital electronics products, systems or services, as applicable. The licenses may also define the specific field of use where our customers may use or employ our inventions in their products. License agreements are structured with fixed, variable or a hybrid of fixed and variable royalty payments over certain defined periods ranging for periods of up to ten years. Leading consumer product, semiconductor and system companies such as AMD, Broadcom, Cisco, Freescale, Fujitsu, GE, IBM, Intel, LSI, Micron, Nanya, Panasonic, Qualcomm, Renesas, Samsung, SK hynix, STMicroelectronics and Toshiba have licensed our patents for use in their own products. The majority of our intellectual property in MID was developed in-house and we have expanded our business strategy of monetizing our MID intellectual property to include the sale of select intellectual property. As any sales executed under this expanded strategy represent a component of our ongoing major or central operations and activities, we will record the related proceeds as revenue.

We also offer our customers technology licenses to support the implementation and adoption of our technology in their products or services. Our customers include leading companies such as Eaton, GE, IBM, Panasonic, Qualcomm, Samsung, Sony and Toshiba. Our technology license offerings include a range of technologies for incorporation into our customers' products and systems. We also offer a range of services as part of our technology licenses which can include know-how and technology transfer, product design and development, system integration, and other services. These technology license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Further, under technology licenses, our customers typically receive licenses to our patents necessary to implement these solutions in their products with specific rights and restrictions to the applicable patents elaborated in their

individual contracts with us.

The remainder of our revenue is contract services revenue which includes license fees and engineering services fees. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenue or account receivables in any given period.

We intend to continue making significant expenditures associated with engineering, sales, general and administration and expect that these costs and expenses will continue to be a significant percentage of revenue in future periods. Whether such expenses increase or decrease as a percentage of revenue will be substantially dependent upon the rate at which our revenue or expenses change.

Our strategy is to evolve from providing primarily patent licenses to providing additional technology, products and services while creating and leveraging strategic synergies to increase revenue. One of our goals is to supplement our patent licensing business with additional licensing opportunities for our technologies, products and services to be incorporated into our customers' products and/or systems. Our technology licenses are designed to support the implementation and adoption of our technology into our customers' products or services. As part of these offerings, we can provide a range of services that can include access to technical experts, advanced system design and analysis, hardware and software to enhance design and validation, system IP and specifications, and process-specific hard and soft macros, along with other services. These technology license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Further, under technology licenses, our customers typically receive licenses to our patents necessary to implement these solutions in their products with specific rights and restrictions to the applicable patents elaborated in their individual contracts with us.

We believe that the successful execution of this strategy requires an exceptional business model that relies on the skills and talent of our employees. Accordingly, we seek to hire and retain world-class scientific and engineering expertise in all of our fields of technological focus, as well as the executive management and operating personnel required to successfully execute our business strategy. In order to attract the quality of employees required for this business model, we have created an environment and culture that encourages, fosters and supports research, development and innovation in breakthrough technologies with significant opportunities for broad industry adoption. We believe we have created a compelling company for inventors and innovators who are able to work within a business model and platform that focuses on technology development to drive strong future growth.

As of June 30, 2015, our semiconductor, lighting, security and other technologies are covered by 1,765 U.S. and foreign patents. Additionally, we have 674 patent applications pending. Some of the patents and pending patent applications are derived from a common parent patent application or are foreign counterpart patent applications. We have a program to file applications for and obtain patents in the United States and in selected foreign countries where we believe filing for such protection is appropriate and would further our overall business strategy and objectives. In some instances, obtaining appropriate levels of protection may involve prosecuting continuation and counterpart patent applications based on a common parent application. We believe our patented innovations provide our customers with the ability to achieve improved performance, lower risk, greater cost-effectiveness and other benefits in their products and services.

Executive Summary

In June 2015, we signed an amendment that extends our current agreement with SK hynix through July 1, 2024 for use of our memory-related patented innovations in SK hynix semiconductor products. We signed the original agreement with SK hynix for a five-year term in June 2013. With this amendment and extension of the agreement for an additional six years, SK hynix will continue making payments to us averaging $12.0 million per quarter for the next thirty-six quarters. In addition, SK hynix has the option to renew the agreement for an additional three-year extension under the existing rate structure. Furthermore, we renewed our patent license agreement with Renesas. The new agreement extends the relationship between us and Renesas until April 1, 2020, covering the use of our patented memory, interface, and security technologies in a wide range of logic integrated circuit (IC) products offered by Renesas.

Engineering expenses continue to play a key role in our efforts to maintain product innovations. Our engineering expenses for the three months ended June 30, 2015 increased $3.0 million as compared to the same period in 2014 primarily due to increased prototyping costs of $1.6 million, increased expenses related to software design tools of $1.2 million, increased headcount related expenses of $0.6 million, increased cost of sales associated with sales of light guides and security products and engineering services of $1.5 million offset by decreased accrual of retention bonuses of $0.9 million, decreased stock-based compensation expense of $0.6 million and decreased amortization costs of 0.4 million. Our engineering expenses for the six months ended June 30, 2015 increased $5.4 million as compared to the same period in 2014 primarily due to increased expenses related to software design tools of $2.2 million, increased prototyping costs of $2.0 million, increased headcount related expenses of $1.8 million, increased bonus accrual expense of $1.1 million and increased cost of sales associated with sales of light guides and security

products and engineering services of $2.7 million offset by decreased accrual of retention bonuses of $2.1 million and decreased amortization costs of $0.8 million

Sales, general and administrative expenses for the three months ended June 30, 2015 decreased $1.3 million as compared to the same period in 2014 primarily due to decreased consulting costs of $0.7 million, decreased litigation costs of $0.4 million, decreased depreciation expense of $0.4 million, decreased general legal costs of $0.3 million and decreased sales and marketing costs of $0.2 million offset by increased headcount related expenses of $1.0 million. Sales, general and administrative expenses for the six months ended June 30, 2015 decreased $1.6 million as compared to the same period in 2014 primarily due to decreased consulting costs of $1.6 million, decreased depreciation expense of $0.8 million, decreased litigation costs of $0.6 million, decreased software and equipment maintenance costs of $0.6 million and decreased accrual of retention

Table of Contents

bonuses of $0.3 million offset by increased headcount related expenses of $1.9 million and increased stock-based compensation expense of $0.6 million.

Trends

There are a number of trends that may have a material impact on us in the future, including but not limited to, the evolution of memory technology, adoption of LEDs in general lighting, the use and adoption of our inventions or technologies and global economic conditions with the resulting impact on sales of consumer electronic systems.

We have a high degree of revenue concentration. Our top five customers for each reporting period represented approximately 66% and 65% of our revenue for the three and six months ended June 30, 2015, respectively, as compared to 62% and 60% for the three and six months ended June 30, 2014. As a result of renewing with Samsung in 2013 and settling with SK hynix and Micron in 2013, as well as extending our license agreement with SK hynix in June 2015, Samsung, SK hynix and Micron are expected to account for a significant portion of our ongoing licensing revenue. For the three and six months ended June 30, 2015, revenue from Micron, Samsung and SK hynix each accounted for 10% or more of our total revenue. For the three and six months ended June 30, 2014, revenue from Micron, Samsung and SK hynix each accounted for 10% or more of our total revenue.

The particular customers which account for revenue concentration have varied from period to period as a result of the addition of new contracts, expiration of existing contracts, renewals of existing contracts, industry consolidation and the volumes and prices at which the customers have recently sold to their customers. These variations are expected to continue in the foreseeable future.

Our licensing cycle is lengthy, costly and unpredictable with any degree of certainty. We may incur costs in any particular period before any associated revenue stream begins, if at all. Our lengthy license negotiation cycles could make our future revenue difficult to predict because we may not be successful in entering into licenses with our customers in the amounts projected, or on our anticipated timelines. In addition, while some of our license agreements provide for fixed, quarterly royalty payments, many of our license agreements provide for volume-based royalties, and may also be subject to caps on royalties in a given period. The sales volume and prices of our customers' products in any given period can be difficult to predict. As a result, our actual results may differ substantially from analyst estimates or our forecasts in any given quarter or over the next year.

The semiconductor industry is intensely competitive and highly cyclical, limiting our visibility with respect to future sales. To the extent that macroeconomic fluctuations negatively affect our principal customers, the demand for our technology may be significantly and adversely impacted and we may experience substantial period-to-period fluctuations in our operating results. The royalties we receive from our semiconductor customers are partly a function of the adoption of our technologies by system companies. Many system companies purchase semiconductors containing our technologies from our customers and do not have a direct contractual relationship with us. Our customers generally do not provide us with details as to the identity or volume of licensed semiconductors purchased by particular system companies. As a result, we face difficulty in analyzing the extent to which our future revenue will be dependent upon particular system companies. System companies face intense competitive pressure in their markets, which are characterized by extreme volatility, frequent new product introductions and rapidly shifting consumer preferences.

Global demand for effective security technologies continues to increase. In particular, highly integrated devices such as smart phones and tablets are increasingly used for applications requiring security such as mobile payments, content protection, corporate information and user data. Our CRD is primarily focused on positioning its DPA countermeasures, CryptoFirewall™ and CryptoManager™ technology solutions to capitalize on these trends and growing adoption among technology partners and customers.

The highly fragmented general lighting industry is undergoing a fundamental shift from incandescent technology to cold cathode fluorescent lights and LED driven technology due to the need to reduce energy consumption and to comply with government mandates. LED lighting typically saves energy costs as compared to existing installed lighting. Our LDT group's patents in LED edge-lit light guide technology can be applied in the design of next generation LED lighting products.

During 2013, we changed our business strategy to increase our focus on general lighting technologies instead of lower margin bulb products. With this shift to focus on the general lighting market, the strategy of the LDT group is to focus on providing the market with novel, patented light guide technologies and products to customers who are leading the transition to solid-state LED-based lamps and fixtures.

Another shift in our business strategy regarding our core display patents led us in 2013 to sell a set of patent assets where the purchaser of the patents can proceed independently with a licensing program. We have a net proceeds-sharing program in place with the purchaser of the patents upon their licensing of these patent assets. We retain the rights to use certain application

techniques and may selectively engage with customers to license our intellectual property and technology for use and applications as permitted under our agreement, including without limitation, display panel and designs.
Our revenue from companies headquartered outside of the United States accounted for approximately 59%, and 61% of our total revenue for the three and six months ended June 30, 2015, respectively, as compared to 64% and 63% for the three and six months ended June 30, 2014, respectively. We expect that revenue derived from international customers will continue to represent a significant portion of our total revenue in the future. To date, all of the revenue from international customers has been denominated in U.S. dollars. However, to the extent that such customers' sales to their customers are not denominated in U.S. dollars, any revenue that we receive as a result of such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of licensed products sold by our foreign customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for licensed products could fall, which in turn would reduce our revenue. We do not use financial instruments to hedge foreign exchange rate risk.
For additional information concerning international revenue, see Note 5, "Segments and Major Customers," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.
Engineering costs in the aggregate and as a percentage of revenue increased for the three months ended June 30, 2015 as compared to the same period in the prior year. Engineering costs in the aggregate and as a percentage of revenue increased for the six months ended June 30, 2015 as compared to the same period in the prior year. In the near term, we expect engineering costs in the aggregate to remain relatively flat.
Sales, general and administrative expenses in the aggregate and as a percentage of revenue decreased for the three months ended June 30, 2015 as compared to the same period in the prior year. Sales, general and administrative expenses in the aggregate decreased and as a percentage of revenue increased for the six months ended June 30, 2015 as compared to the same period in the prior year. In the past, our litigation expenses have been high and difficult to predict. Because we have successfully negotiated settlements and license agreements with SK hynix, Micron and Nanya during the course of 2013 and 2014, we have settled all outstanding litigation and should no longer have material litigation expenses related to these specific matters. In the near term, we expect our sales, general and administrative costs in the aggregate to remain relatively flat. To the extent litigation is again necessary, our expectations on the amount and timing of any future general and administrative costs is uncertain.
Our continued investment in research and development projects, involvement in any future litigation or other legal proceedings and any lower revenue from our customers in the future, will negatively affect our cash from operations.
As a part of our overall business strategy, from time to time, we evaluate businesses and technologies for potential acquisition that are aligned with our core business and designed to supplement our growth. In the first six months of 2015, we did not identify any acquisition opportunities that met our criteria from a strategic and valuation perspective.

We continue to evaluate our acquisition options, but to provide us with more flexibility in returning capital back to our stockholders, on January 21, 2015, our Board authorized a new share repurchase program authorizing the repurchase of up to an aggregate of 20.0 million shares, which we may opportunistically execute from time to time.

Table of Contents

Results of Operations

The following table sets forth, for the periods indicated, the percentage of total revenue represented by certain items reflected in our unaudited condensed consolidated statements of operations:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue:				
Royalties	85.7 %	91.1 %	88.8 %	92.6 %
Contract and other revenue	14.3 %	8.9 %	11.2 %	7.4 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating costs and expenses:				
Cost of revenue*	16.7 %	13.9 %	15.7 %	13.4 %
Research and development*	40.1 %	36.2 %	39.6 %	35.2 %
Sales, general and administrative*	23.8 %	24.3 %	24.6 %	24.2 %
Gain from sale of intellectual property	(1.2)%	— %	(2.2)%	(0.1)%
Gain from settlement	(0.7)%	(0.7)%	(0.7)%	(0.7)%
Total operating costs and expenses	78.7 %	73.7 %	77.0 %	72.0 %
Operating income	21.3 %	26.3 %	23.0 %	28.0 %
Interest income and other income (expense), net	0.3 %	0.1 %	0.2 %	0.1 %
Interest expense	(4.2)%	(11.4)%	(4.2)%	(12.1)%
Interest and other income (expense), net	(3.9)%	(11.3)%	(4.0)%	(12.0)%
Income before income taxes	17.4 %	15.0 %	18.9 %	16.0 %
Provision for income taxes	8.0 %	8.4 %	7.7 %	7.7 %
Net income	9.4 %	6.6 %	11.2 %	8.3 %

* Includes stock-based compensation:

Cost of revenue	0.0 %	0.0 %	0.0 %	0.0 %
Research and development	2.7 %	3.4 %	2.6 %	2.5 %
Sales, general and administrative	3.3 %	2.9 %	3.0 %	2.5 %

(Dollars in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Change in Percentage	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Change in Percentage
Total Revenue						
Royalties	$62.4	$69.7	(10.5)%	$129.4	$143.4	(9.8)%
Contract and other revenue	10.4	6.8	53.8 %	16.3	11.4	43.3 %
Total revenue	$72.8	$76.5	(4.8)%	$145.7	$154.8	(5.9)%

Royalty Revenue

Patent Licenses

Our patent royalties decreased approximately $8.3 million to $59.4 million for the three months ended June 30, 2015 from $67.7 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from NVIDIA, Qualcomm and STMicroelectronics, offset by higher royalty revenue from IBM. Of the $59.4 million patent royalties for the three months ended June 30, 2015, $21.5 million is related to royalty revenue from settlement of past legal proceedings with SK Hynix and Micron.

Our patent royalties decreased approximately $13.7 million to $124.4 million for the six months ended June 30, 2015 from $138.1 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from

Nanya, NVIDIA and STMicroelectronics, offset by higher royalty revenue from IBM. Of the $124.4 million patent royalties for the six months

31

---

ended June 30, 2015, $43.0 million is related to royalty revenue from settlement of past legal proceedings with SK Hynix and Micron.

We are continuously in negotiations for licenses with prospective customers. We expect patent royalties will continue to vary from period to period based on our success in adding new customers, renewing or extending existing agreements, as well as the level of variation in our customers' reported shipment volumes, sales price and mix, offset in part by the proportion of customer payments that are fixed or hybrid in nature.

Technology Licenses

Royalties from technology licenses increased approximately $1.0 million to $3.0 million for the three months ended June 30, 2015 from $2.0 million for the same period in 2014. The increase was primarily due to higher security and lighting technology license revenue offset by lower royalties reported from decreased shipments of the Sony PlayStation®3 product, DDR2 technology products and Serial Link products.

Royalties from technology licenses decreased approximately $0.3 million to $4.9 million for the six months ended June 30, 2015 from $5.2 million for the same period in 2014. The decrease was primarily due to lower royalties reported from decreased shipments of the Sony PlayStation®3 product, DDR2 technology products and Serial Link products, offset by an increase in security and lighting technology license revenue.

We expect future technology licensing royalties from the Sony PlayStation®3 product to continue to decrease. In the future, we expect technology royalties will continue to vary from period to period based on our customers’ shipment volumes, sales prices, and product mix.

Royalty Revenue by Reportable Segments

Royalty revenue from the MID reportable segment, which includes patent and technology license royalties, decreased approximately $3.1 million to $53.6 million for the three months ended June 30, 2015 from $56.7 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from NVIDIA, Qualcomm and STMicroelectronics, offset by higher royalty revenue from IBM.

Royalty revenue from the MID reportable segment decreased approximately $10.3 million to $107.7 million for the six months ended June 30, 2015 from $118.0 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from Nanya, NVIDIA and STMicroelectronics offset by higher royalty revenue from IBM.

Royalty revenue from the CRD reportable segment, which includes patent and technology license royalties, decreased approximately $4.6 million to $7.9 million for the three months ended June 30, 2015 from $12.5 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from Qualcomm and STMicroelectronics.

Royalty revenue from the CRD reportable segment decreased $4.6 million to $20.3 million for the six months ended June 30, 2015 from $24.9 million for the same period in 2014. The decrease was primarily due to lower royalty revenue from a smartphone and tablet manufacturer and STMicroelectronics.

Royalty revenue from the Other segment was immaterial for both the three months ended June 30, 2015 and 2014, and increased period over period.

Royalty revenue from the Other segment was immaterial for both the six months ended June 30, 2015 and 2014, and increased period over period.

Contract and Other Revenue

Contract and other revenue consists of revenue from technology development and sale of security and lighting products. Contract and other revenue increased approximately $3.6 million to $10.4 million for the three months ended June 30, 2015 from $6.8 million for the same period in 2014. The increase was primarily due to increased revenue from security technology development projects and products as well as lighting technology development projects and sales of light guides.

Contract and other revenue increased approximately $5.0 million to $16.4 million for the six months ended June 30, 2015 from $11.4 million for the same period in 2014. The increase was primarily due to increased revenue from security technology development projects and products as well as lighting technology development projects and sales of light guides.

We believe that contract and other revenue will fluctuate over time based on our ongoing technology development contractual requirements, the amount of work performed, the timing of completing engineering deliverables, and the changes to work required, as well as new technology development contracts booked in the future.

Table of Contents

Contract and Other Revenue by Reportable Segments

Contract and other revenue from the MID reportable segment decreased $0.9 million to $1.0 million for the three months ended June 30, 2015 from $1.9 million as compared to the same period in 2014, primarily due to lower revenue from development projects.

Contract and other revenue from the MID reportable segment decreased $0.3 million to $1.6 million for the six months ended June 30, 2015 from $1.9 million as compared to the same period in 2014, primarily due to lower revenue from development projects.

Contract and other revenue from the CRD reportable segment increased approximately $3.6 million to $3.9 million for the three months ended June 30, 2015 from $0.3 million for the same period in 2014, primarily due to higher revenue from security products.

Contract and other revenue from the CRD reportable segment increased approximately $3.5 million to $4.3 million for the six months ended June 30, 2015 from $0.8 million for the same period in 2014, primarily due to higher revenue from security products.

Contract and other revenue from the Other segment increased approximately $1.0 million to $5.6 million for the three months ended June 30, 2015 from $4.6 million for the same period in 2014. The increase was primarily due to increased lighting technology development projects and sales of light guides.

Contract and other revenue from the Other segment increased approximately $1.7 million to $10.5 million for the six months ended June 30, 2015 from $8.8 million for the same period in 2014. The increase was primarily due to increased lighting technology development projects and sales of light guides.

Engineering costs:

(Dollars in millions)	Three Months Ended June 30, 2015	2014	Change in Percentage	Six Months Ended June 30, 2015	2014	Change in Percentage
Engineering costs						
Cost of revenue	$6.4	$4.9	30.3 %	$11.5	$9.2	24.4 %
Amortization of intangible assets	5.7	5.7	— %	11.4	11.4	— %
Stock-based compensation	0.0	0.0	— %	0.0	0.0	— %
Total cost of revenue	12.1	10.6	14.1 %	22.9	20.6	10.8 %
Research and development	27.2	25.1	8.6 %	53.9	50.7	6.6 %
Stock-based compensation	2.0	2.6	(24.0)%	3.8	3.9	(4.4)%
Total research and development	29.2	27.7	5.5 %	57.7	54.6	5.8 %
Total engineering costs	$41.3	$38.3	7.9 %	$80.6	$75.2	7.2 %

Total engineering costs increased $3.0 million for the three months ended June 30, 2015 as compared to the same period in 2014 primarily due to increased prototyping costs of $1.6 million, increased expenses related to software design tools of $1.2 million, increased headcount related expenses of $0.6 million, increased cost of sales associated with sales of light guides and security products and engineering services of $1.5 million offset by decreased accrual of retention bonuses of $0.9 million, decreased stock-based compensation expense of $0.6 million and decreased amortization costs of 0.4 million.

Total engineering costs increased $5.4 million for the six months ended June 30, 2015 as compared to the same period in 2014 primarily due to increased expenses related to software design tools of $2.2 million, increased prototyping costs of $2.0 million, increased headcount related expenses of $1.8 million, increased bonus accrual expense of $1.1 million and increased cost of sales associated with sales of light guides and security products and engineering services of $2.7 million offset by decreased accrual of retention bonuses of $2.1 million and decreased amortization costs of $0.8 million.

In the future, engineering costs may be higher as we continue to make investments in the infrastructure and technologies required to maintain our product innovation in semiconductor, lighting, security and other technologies. However, in the near term, we expect engineering costs to remain relatively flat.

Table of Contents

Sales, general and administrative costs:

(Dollars in millions)	Three Months Ended June 30, 2015	2014	Change in Percentage	Six Months Ended June 30, 2015	2014	Change in Percentage
Sales, general and administrative costs						
Sales, general and administrative costs	$14.9	$16.4	(8.9)%	$31.4	$33.6	(6.5)%
Stock-based compensation	2.4	2.2	7.9 %	4.4	3.8	15.3 %
Total sales, general and administrative costs	$17.3	$18.6	(6.9)%	$35.8	$37.4	(4.3)%

Total sales, general and administrative costs decreased $1.3 million for the three months ended June 30, 2015 as compared to the same period in 2014 primarily due to decreased consulting costs of $0.7 million, decreased litigation costs of $0.4 million, decreased depreciation expense of $0.4 million, decreased general legal costs of $0.3 million and decreased sales and marketing costs of $0.2 million offset by increased headcount related expenses of $1.0 million.

Total sales, general and administrative costs decreased $1.6 million for the six months ended June 30, 2015 as compared to the same period in 2014 primarily due to decreased consulting costs of $1.6 million, decreased depreciation expense of $0.8 million, decreased litigation costs of $0.6 million, decreased software and equipment maintenance costs of $0.6 million and decreased accrual of retention bonuses of $0.3 million offset by increased headcount related expenses of $1.9 million and increased stock-based compensation expense of $0.6 million.

In the future, sales, general and administrative costs will vary from period to period based on the trade shows, advertising, legal, acquisition and other sales, marketing and administrative activities undertaken, and the change in sales, marketing and administrative headcount in any given period. In the near term, we expect our sales, general and administrative costs to remain relatively flat.

Gain from sale of intellectual property:

(Dollars in millions)	Three Months Ended June 30, 2015	2014	Change in Percentage	Six Months Ended June 30, 2015	2014	Change in Percentage
Gain from sale of intellectual property	$0.9	$—	100.0 %	$3.2	$0.2	NM*

*NM — percentage is not meaningful

During 2013, we sold portfolios of our patent assets covering lighting technologies. As part of these transactions, we received an initial upfront payment and expect to receive subsequent payments if and when the purchaser of the patents is successful in licensing that portfolio. During the first half of 2015, we received $3.2 million from the purchaser of the patents related to this transaction which was recorded as gain from sale of intellectual property.

During the first half of 2014, we sold portfolios of our patent assets covering wireless and other technologies.

Gain from settlement:

(Dollars in millions)	Three Months Ended June 30, 2015	2014	Change in Percentage	Six Months Ended June 30, 2015	2014	Change in Percentage
Gain from settlement	$0.5	$0.5	— %	$1.0	$1.0	— %

The settlements with SK hynix and Micron are multiple element arrangements for accounting purposes. For a multiple element arrangement, we are required to determine the fair value of the elements. We considered several factors in determining the accounting fair value of the elements of the settlement with SK hynix and the settlement with Micron which included a third party valuation using an income approach (the “SK hynix Fair Value” and "Micron Fair Value",

respectively). The total gain from settlement related to the settlements with SK hynix and Micron was $1.9 million and $3.3 million, respectively. During the three months ended June 30, 2015 and 2014, we recognized $0.5 million in each period as gain from settlement, which

Table of Contents

represents the portion of the SK hynix Fair Value and Micron Fair Value of the cash consideration allocated to the resolution of the antitrust litigation settlements. During the six months ended June 30, 2015 and 2014, we recognized $1.0 million in each period as gain from settlement. Refer to Note 14, “Agreements with SK hynix and Micron,” of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

Interest and other income (expense), net:

(Dollars in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Change in Percentage	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Change in Percentage
Interest income and other income (expense), net	$0.2	$0.1	95.2 %	$0.3	$0.1	NM*
Interest expense	(3.1)	(8.8)	(64.8)%	(6.1)	(18.7)	(67.0)%
Interest and other income (expense), net	$(2.9)	$(8.7)	(66.7)%	$(5.8)	$(18.6)	(68.6)%

*NM — percentage is not meaningful

Interest income and other income (expense), net, consists primarily of interest income generated from investments in high quality fixed income securities.

Interest expense consists of interest expense associated with our imputed facility lease obligations on the Sunnyvale and Ohio facilities and non-cash interest expense related to the amortization of the debt discount and issuance costs on the 5% convertible senior notes due 2014 (the “2014 Notes”) and 1.125% convertible senior notes due 2018 (the “2018 Notes”) as well as the coupon interest related to the notes. Interest expense decreased for the three and six months ended June 30, 2015 as compared to the same periods in 2014 primarily due to the repayment of the 2014 Notes in second quarter of 2014. We expect our non-cash interest expense to increase steadily as the 2018 Notes reach maturity.

Provision for income taxes:

(Dollars in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Change in Percentage	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Change in Percentage
Provision for income taxes	$5.8	$6.4	(9.2)%	$11.2	$11.9	(5.2)%
Effective tax rate	45.8 %	55.9 %		40.7 %	48.0 %	

Our effective tax rates for the three and six months ended June 30, 2015 was different from the U.S. statutory tax rate applied to our pretax income primarily due to a full valuation allowance on our U.S. deferred tax assets, foreign withholding and income taxes, and state income taxes. The effective tax rate decreased for the three and six months ended June 30, 2015 as compared to the three and six months ended June 30, 2014, despite a relatively consistent provision for income taxes, due to higher quarterly pre-tax book income.

During the three and six months ended June 30, 2015, we paid withholding taxes of $4.8 million and $9.6 million, respectively. During the three and six months ended June 30, 2014, we paid withholding taxes of $4.8 million and $9.8 million, respectively. We recorded a provision for income taxes of $5.8 million and $11.2 million for the three and six months ended June 30, 2015, respectively which is primarily comprised withholding taxes, other foreign taxes and state income taxes.

Our effective tax rate for the three and six months ended June 30, 2014 was different from the U.S. statutory tax rate applied to our pretax income primarily due to a full valuation allowance on our U.S. deferred tax assets, foreign withholding and foreign income taxes, and state income taxes.

We periodically evaluate the realizability of our net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. We weighed both positive and negative evidence and determined that there is a continued need for a full valuation allowance on our deferred tax assets in the United States as of June 30, 2015. We emerged from a cumulative loss position over the previous three

years during the first quarter of 2015. However, given economic uncertainties and the uncertainty of commercializing new business arrangements and new product acceptances, we currently believe there is not sufficient positive evidence of sustained future profitability to change our judgment regarding the need for a full valuation allowance on our deferred tax assets in the United States. The continued

Table of Contents

improvement in our operating results, along with successfully commercializing new business arrangements, signing new or renewing existing license agreements and managing costs would provide additional positive evidence in determining the need for the valuation allowance and could lead to reversal of substantially all of our valuation allowance on our deferred tax assets in the United States. Until such time, consumption of tax attributes to offset profits will reduce the overall level of deferred tax assets subject to valuation allowance. Should we determine that we would be able to realize our remaining deferred tax assets in the foreseeable future, an adjustment to our remaining deferred tax assets would cause a material increase to net income in the period such determination is made.

Liquidity and Capital Resources

	As of June 30, 2015	December 31, 2014
	(In millions)	
Cash and cash equivalents	$201.5	$154.1
Marketable securities	146.6	146.0
Total cash, cash equivalents, and marketable securities	$348.1	$300.1

	Six Months Ended June 30, 2015	2014
	(In millions)	