

RAMBUS INC
Form 10-Q
August 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 000-22339

RAMBUS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3112828
(I.R.S. Employer
Identification No.)

1050 Enterprise Way, Suite 700, Sunnyvale, CA 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 No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share, was 114,403,839 as of June 30, 2011.

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RAMBUS INC.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Success in the markets of our or our licensees' products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in renewing license agreements;
- Technology product development;
- Acquisitions, mergers or strategic transactions and our related integration efforts;
- Pricing policies of our licensees;
- Engineering, marketing and general and administration expenses;
- Contract revenue;

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- Operating results;
- International licenses and operations, and the operations of our licensees in Japan;
- Issuances of our securities, which could involve restrictive covenants or be dilutive to our existing stockholders;
- Interest and other income, net;
- Effects of changes in the economy and credit market on our industry and business;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Ability to identify, attract, motivate and retain qualified personnel;
- Restructuring activities;
- 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;

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- Repurchases of our Common Stock pursuant to share repurchase programs, contingently redeemable Common Stock (which we are required contractually to repurchase) or other repurchases;
- Trading price of our Common Stock;
- Internal control environment;
- Corporate governance;
- Consequences of the lawsuits related to the stock option investigation;
- The level and terms of our outstanding debt;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation;
- Resolution of the governmental agency matters involving us;
- Litigation expenses;
- Protection of intellectual property;
- Terms of our licenses;
- Amounts owed under licensing agreements;

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- Indemnification and technical support obligations; and
- Likelihood of paying dividends or repurchasing stock.

You can identify these and other forward-looking statements by the use of words such as may, future, shall, should, expects, plans, anticipate, believes, estimates, predicts, intends, potential, continue, or the negative of such 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.

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RAMBUS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2011	December 31, 2010
	(In thousands, except shares and par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 179,804	\$ 215,262
Marketable securities	179,550	296,747
Accounts receivable	1,354	2,600
Prepaid expenses and other current assets	10,448	10,898
Deferred taxes	2,420	2,420
Total current assets	373,576	527,927
Deferred taxes, long term	3,023	2,974
Intangible assets, net	194,205	40,986
Goodwill	115,148	18,154
Property, plant and equipment, net	71,187	67,770
Other assets	6,038	5,361
Total assets	\$ 763,177	\$ 663,172
LIABILITIES, CONTINGENTLY REDEEMABLE COMMON STOCK & STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 11,896	\$ 5,952
Accrued salaries and benefits	15,175	31,634
Accrued litigation expenses	7,635	4,060
Deferred revenue	9,574	2,482
Other accrued liabilities	6,966	11,683
Total current liabilities	51,246	55,811
Convertible notes, long-term	127,258	121,500
Long-term imputed financing obligation	34,596	27,899
Long-term income taxes payable	4,633	4,577
Other long-term liabilities	5,251	5,102
Total liabilities	222,984	214,889
Commitments and contingencies		
Contingently redeemable common stock:		
Issued and outstanding: 4,788,125 shares at June 30, 2011 and December 31, 2010	113,500	113,500
Stockholders equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at June 30, 2011 and December 31, 2010		
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 109,615,714 shares at June 30, 2011 and 102,676,544 shares at December 31, 2010	110	103

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Additional paid-in capital	1,018,317	911,632
Accumulated deficit	(591,405)	(576,590)
Accumulated other comprehensive loss, net	(329)	(362)
Total stockholders' equity	426,693	334,783
Total liabilities, contingently redeemable common stock and stockholders' equity	\$ 763,177	\$ 663,172

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Revenue:				
Royalties	\$ 60,970	\$ 38,192	\$ 120,205	\$ 198,734
Contract revenue	5,244	670	8,536	1,992
Total revenue	66,214	38,862	128,741	200,726
Operating costs and expenses:				
Cost of revenue*	6,058	1,804	9,207	3,658
Research and development*	24,220	22,985	47,537	44,676
Marketing, general and administrative*	37,732	29,408	70,464	60,935
Costs of restatement and related legal activities	712	1,638	1,871	2,164
Gain from settlement		(10,300)	(6,200)	(106,200)
Total operating costs and expenses	68,722	45,535	122,879	5,233
Operating income (loss)	(2,508)	(6,673)	5,862	195,493
Interest income and other income (expense), net	(777)	316	(1,429)	741
Interest expense on convertible notes	(5,212)	(3,740)	(10,384)	(9,756)
Interest and other income (expense), net	(5,989)	(3,424)	(11,813)	(9,015)
Income (loss) before income taxes	(8,497)	(10,097)	(5,951)	186,478
Provision for income taxes	2,088	2,393	8,864	48,069
Net income (loss)	\$ (10,585)	\$ (12,490)	\$ (14,815)	\$ 138,409
Net income (loss) per share:				
Basic	\$ (0.10)	\$ (0.11)	\$ (0.14)	\$ 1.22
Diluted	\$ (0.10)	\$ (0.11)	\$ (0.14)	\$ 1.18
Weighted average shares used in per share calculation:				
Basic	109,992	113,321	108,809	113,227
Diluted	109,992	113,321	108,809	117,434

* Includes stock-based compensation:

Cost of revenue	\$ 286	\$ 29	\$ 409	\$ 129
Research and development	\$ 2,490	\$ 2,703	\$ 5,002	\$ 5,272
Marketing, general and administrative	\$ 4,253	\$ 5,199	\$ 8,908	\$ 10,364

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (14,815)	\$ 138,409
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	14,319	15,765
Depreciation	5,471	4,859
Amortization of intangible assets	5,981	2,288
Non-cash interest expense and amortization of convertible debt issuance costs	6,072	5,444
Deferred tax benefit	(49)	(49)
Loss on sale of marketable security		72
Change in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	2,386	705
Prepaid expenses and other assets	2,485	(1,877)
Accounts payable	6,185	(325)
Accrued salaries and benefits and other accrued liabilities	(22,235)	12,645
Accrued litigation expenses	3,575	(2,115)
Income taxes payable	(1,020)	432
Deferred revenue	7,092	187
Net cash provided by operating activities	15,447	176,440
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(167,381)	(2,000)
Purchases of marketable securities	(94,172)	(189,610)
Maturities of marketable securities	208,003	95,806
Proceeds from sale of marketable security	11	1,518
Purchases of property and equipment	(11,015)	(2,543)
Acquisition of intangible assets		(2,250)
Net cash used in investing activities	(64,554)	(99,079)
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	7,953	9,487
Proceeds from landlord for tenant improvements	6,997	
Payments under installment payment arrangement	(861)	(1,150)
Principal payments against lease financing obligation	(440)	
Proceeds received from issuance of contingently redeemable common stock and common stock pursuant to the settlement agreement with Samsung		192,000
Repayment of convertible senior notes		(136,950)
Repurchase and retirement of common stock		(95,285)
Net cash provided by (used in) financing activities	13,649	(31,898)
Net increase (decrease) in cash and cash equivalents	(35,458)	45,463
Cash and cash equivalents at beginning of period	215,262	289,073
Cash and cash equivalents at end of period	\$ 179,804	\$ 334,536
Non-cash investing and financing activities:		
Common stock issued pursuant to acquisition	\$ 88,438	\$

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Property, plant and equipment received and accrued in accounts payable and other accrued liabilities	\$	540	\$	1,700
Non-cash obligation for property, plant and equipment	\$		\$	800
Intangible assets acquired under installment payment arrangement	\$		\$	731

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Rambus Inc. (Rambus or the Company) and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements. 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, 2010.

2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. The amendment becomes effective retrospectively for the Company's interim period ending March 31, 2012. Early adoption is permitted. The Company does not expect that this guidance will have an impact on its financial position, results of operations or cash flows as it is disclosure-only in nature.

In May 2011, the FASB amended its guidance to converge fair value measurement and disclosure guidance about fair value measurement under U.S. GAAP with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The amendment changes the wording used to describe many of the requirements in U.S. GAAP for

measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendment to result in a change in the application of the requirements in the current authoritative guidance. The amendment becomes effective prospectively for the Company's interim period ending March 31, 2012. Early adoption is not permitted. The Company does not expect the amendment to have a material impact on its financial position, results of operations or cash flows.

3. Settlement Agreement with Samsung

On January 19, 2010, the Company, Samsung and certain related entities of Samsung entered into a Settlement Agreement (the Settlement Agreement) to release all claims against each other with respect to all outstanding litigation between them and certain other potential claims. Pursuant to the Settlement Agreement, the Company and Samsung entered into a Semiconductor Patent License Agreement on January 19, 2010 (the License Agreement), under which Samsung licenses from the Company non-exclusive rights to certain Rambus patents over the next five years. In addition, as part of the Settlement Agreement, Samsung purchased approximately 9.6 million shares of common stock of Rambus for cash pursuant to the terms of a Stock Purchase Agreement dated January 19, 2010 (the Stock Purchase Agreement). See Note 8, Stockholders Equity and Contingently Redeemable Common Stock, for further discussion. Finally, pursuant to the Settlement Agreement, the Company and Samsung signed a non-binding memorandum of understanding relating to discussions around a new generation of memory technologies.

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The Samsung Settlement is a multiple element arrangement for accounting purposes. For the multiple element arrangement, the Company identified each element of the arrangement and determined when those elements should be recognized. Using the accounting guidance from multiple element revenue arrangements, the Company allocated the consideration to each element using the estimated fair value of the elements. The Company considered several factors in determining the accounting fair value of the elements of the Samsung Settlement which included a third party valuation using an income approach, the Black-Scholes option pricing model and a residual approach (collectively the Fair Value). The inputs and assumptions used in this valuation were from a market participant perspective and included projected 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 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 had a substantial impact on the Fair Value as assigned to each element. These inputs and assumptions represent management's best estimates at the time of the transaction.

During the first two quarters of 2011, the Company received cash consideration of \$50.0 million from Samsung. The amount was allocated between revenue (\$43.8 million) and gain from settlement (\$6.2 million) based on the estimated Fair Value for the remaining elements.

The remaining \$350.0 million is expected to be paid in successive quarterly payments of approximately \$25.0 million (subject to adjustments per the terms of the License Agreement), concluding in the last quarter of 2014.

The cash receipts through June 30, 2011 and the remaining future cash receipts from the agreements with Samsung are expected to be recognized as follows assuming no adjustments to the payments under the terms of the agreements:

(in millions)	Received in 2010	Six months Ended June 30, 2011	Remainder of 2011	2012	2013	2014	Estimated Fair Value
Revenue	\$ 181.2	\$ 43.8	\$ 50.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 575.0
Gain from settlement	126.8	6.2					133.0
Purchase of Rambus Common Stock	192.0						192.0
Total	\$ 500.0	\$ 50.0	\$ 50.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 900.0

4. Comprehensive Income (Loss)

Rambus' comprehensive income (loss) consists of its net income (loss) plus other comprehensive income (loss) consisting of unrealized gains (losses), net, on marketable securities, net of taxes.

The components of comprehensive income (loss), net of tax, are as follows:

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(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income (loss)	\$ (10,585)	\$ (12,490)	\$ (14,815)	\$ 138,409
Other comprehensive income (loss):				
Unrealized gain (loss), net, on marketable securities, net of tax	34	64	33	(261)
Total comprehensive income (loss)	\$ (10,551)	\$ (12,426)	\$ (14,782)	\$ 138,148

5. Equity Incentive Plans and Stock-Based Compensation

Stock Option Plans

As of June 30, 2011, 3,522,722 shares of the 14,900,000 shares approved under the 2006 Plan remain available for grant. The 2006 Plan is now the Company's only plan for providing stock-based incentive compensation to eligible employees, executive officers, non-employee directors and consultants.

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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, 2010	5,348,162
Stock options granted	(1,712,211)
Stock options forfeited	447,417
Stock options expired under former plans	(262,716)
Nonvested equity stock and stock units granted (1)	(320,331)
Nonvested equity stock and stock units forfeited (1)	22,401
Total available for grant as of June 30, 2011	3,522,722

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

General Stock Option Information

The following table summarizes stock option activity under the 1997, 1999 and 2006 Plans for the six months ended June 30, 2011 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of June 30, 2011.

	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term(in years)	Aggregate Intrinsic Value
	Number of Shares	(Dollars in thousands, except per share amounts)		
Outstanding as of December 31, 2010	13,969,383	\$ 18.85		
Options granted	1,712,211	20.71		
Options exercised	(478,974)	10.29		
Options forfeited	(447,417)	11.48		
Outstanding as of June 30, 2011	14,755,203	19.57	5.61	\$ 14,793
Vested or expected to vest at June 30, 2011	14,209,999			