

RAMBUS INC  
Form 10-Q  
October 24, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2014

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

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RAMBUS INC.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)  
1050 Enterprise Way, Suite 700  
Sunnyvale, California  
(Address of principal executive offices)

94-3112828  
(I.R.S. Employer Identification No.)  
94089  
(ZIP Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share, was 114,753,168 as of September 30, 2014.



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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 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 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, marketing and general and administration expenses;
- Contract revenue;
- Operating results;
- International licenses and operations;
- Effects of changes in the economy and credit market on our industry and business;
- Ability to identify, attract, motivate and retain qualified personnel;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
  - Realization of deferred tax assets/release of deferred tax valuation allowance;
- Trading price of our common stock;
- Internal control environment;
- The level and terms of our outstanding debt;
- Litigation expenses;
- Protection of intellectual property;
- Indemnification and technical support obligations;
- Issuances of our securities, which could involve restrictive covenants or be dilutive to our existing stockholders;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation; and
- Likelihood of paying dividends or repurchasing securities.

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

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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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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## RAMBUS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2014	December 31, 2013
	(In thousands, except shares and par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$125,686	\$338,696
Marketable securities	145,440	48,966
Accounts receivable	5,099	2,251
Prepays and other current assets	7,959	8,253
Deferred taxes	1,379	205
Total current assets	285,563	398,371
Intangible assets, net	95,694	117,172
Goodwill	116,899	116,899
Property, plant and equipment, net	65,899	72,642
Deferred taxes, long-term	560	4,797
Other assets	2,542	3,498
Total assets	\$567,157	\$713,379
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$5,697	\$7,001
Accrued salaries and benefits	11,840	33,448
Convertible notes, short-term	—	164,047
Other current liabilities	8,739	8,346
Total current liabilities	26,276	212,842
Convertible notes, long-term	113,692	109,629
Long-term imputed financing obligation	39,148	39,349
Long-term income taxes payable	1,800	6,561
Other long-term liabilities	8,641	4,769
Total liabilities	189,557	373,150
Commitments and contingencies (Notes 9 and 14)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at September 30, 2014 and December 31, 2013	—	—
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 114,753,168 shares at September 30, 2014 and 113,459,390 shares at December 31, 2013	115	113
Additional paid-in capital	1,147,196	1,128,148
Accumulated deficit	(769,367	) (787,727 )
Accumulated other comprehensive loss	(344	) (305 )
Total stockholders' equity	377,600	340,229
Total liabilities and stockholders' equity	\$567,157	\$713,379

See Notes to Unaudited Condensed Consolidated Financial Statements

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RAMBUS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Revenue:				
Royalties	\$64,009	\$71,013	\$207,387	\$194,244
Contract and other revenue	5,703	2,281	17,131	3,835
Total revenue	69,712	73,294	224,518	198,079
Operating costs and expenses:				
Cost of revenue*	10,540	8,958	31,199	22,857
Research and development*	27,014	27,553	81,580	91,178
Marketing, general and administrative*	18,200	18,698	55,639	57,956
Gain from sale of intellectual property	—	—	(170	) (1,388
Restructuring charges	—	1,129	39	3,335
Impairment of goodwill and long-lived assets	—	8,070	—	8,070
Gain from settlement	(510	) (179	) (1,530	) (179
Total operating costs and expenses	55,244	64,229	166,757	181,829
Operating income	14,468	9,065	57,761	16,250
Interest income and other income (expense), net	(549	) 66	(432	) (1,373
Interest expense	(3,059	) (8,552	) (21,755	) (23,290
Interest and other income (expense), net	(3,608	) (8,486	) (22,187	) (24,663
Income (loss) before income taxes	10,860	579	35,574	(8,413
Provision for income taxes	5,347	6,304	17,214	15,558
Net income (loss)	\$5,513	\$(5,725	) \$18,360	\$(23,971
Net income (loss) per share:				
Basic	\$0.05	\$(0.05	) \$0.16	\$(0.21
Diluted	\$0.05	\$(0.05	) \$0.16	\$(0.21
Weighted average shares used in per share calculation:				
Basic	114,523	112,640	114,080	112,144
Diluted	118,206	112,640	117,540	112,144

\* Includes stock-based compensation:

Cost of revenue	\$12	\$7	\$34	\$12
Research and development	\$1,648	\$1,630	\$5,574	\$5,166
Marketing, general and administrative	\$1,781	\$1,726	\$5,587	\$6,707

See Notes to Unaudited Condensed Consolidated Financial Statements



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RAMBUS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$5,513	\$(5,725)	) \$18,360	\$(23,971 )
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities, net of tax	12	(4	) (39	) —
Total comprehensive income (loss)	\$5,525	\$(5,729)	) \$18,321	\$(23,971 )

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$18,360	\$(23,971 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	11,195	11,885
Depreciation	10,350	11,566
Amortization of intangible assets	20,295	21,420
Non-cash interest expense and amortization of convertible debt issuance costs	13,226	13,369
Impairment of investment in non-marketable equity security	600	1,400
Impairment of goodwill and long-lived assets	—	8,070
Deferred income taxes	6,475	605
Non-cash restructuring	—	653
Gain from sale of intellectual property	(170 )	(1,388 )
Change in operating assets and liabilities:		
Accounts receivable	(2,848 )	(1,068 )
Prepaid expenses and other assets	(1,714 )	5,898
Accounts payable	425	(399 )
Accrued salaries and benefits and other liabilities	(21,780 )	(17,589 )
Income taxes payable	(3,999 )	380
Net cash provided by operating activities	50,415	30,831
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,593 )	(5,942 )
Acquisition of intangible assets	—	(2,500 )
Purchases of marketable securities	(200,211 )	(101,596 )
Maturities of marketable securities	86,636	97,300
Proceeds from sale of marketable securities	17,689	—
Proceeds from sale of intellectual property	2,500	2,250
Net cash used in investing activities	(98,979 )	(10,488 )
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	8,336	4,610
Principal payments against lease financing obligation	(226 )	(119 )
Payments under installment payment arrangement	(56 )	(84 )
Repayment of convertible senior notes	(172,500 )	—
Proceeds from issuance of convertible senior notes	—	138,000
Issuance costs related to the issuance of convertible senior notes	—	(3,603 )
Net cash provided by (used in) financing activities	(164,446 )	138,804
Effect of exchange rate changes on cash and cash equivalents	—	(170 )
Net increase (decrease) in cash and cash equivalents	(213,010 )	158,977
Cash and cash equivalents at beginning of period	338,696	148,984
Cash and cash equivalents at end of period	\$125,686	\$307,961
Non-cash investing and financing activities during the period:		
	\$762	\$252

Property, plant and equipment received and accrued in accounts payable and other liabilities

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, 2013.

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. During the third quarter of 2014, the Company renamed its Chief Technology Office organization as the Emerging Solutions Division ("ESD"). 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 Inc. ("CRI"), which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; (3) 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 nine months ended September 30, 2014 and 2013, only MID, CRI and ESD 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 loss for any of the periods presented.

2. Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

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 does not expect that this guidance will

have an impact on its financial

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position, results of operations or cash flows as the Company does not currently have any outstanding awards with a performance target that could be achieved after the requisite service period.

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, 2017. The Company is currently evaluating the impact that this guidance will have on its financial condition and results of operations.

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The new accounting standards update becomes effective for the Company on January 1, 2015. Early adoption is permitted for new disposals (or new classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not expect that this guidance will have an impact on its financial position, results of operations or cash flows as the Company does not currently have discontinued operations.

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 provides guidance on the presentation of unrecognized tax benefits. ASU 2013-11 requires presenting an unrecognized tax benefit or a portion of an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carry forward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This accounting standards update became effective for the Company on January 1, 2014 and was applied prospectively to unrecognized tax benefits that existed at the effective date with retrospective application permitted. Upon adoption of this guidance in the first quarter of 2014, the Company reclassified \$4.7 million from a long-term tax liability to a reduction of a deferred tax asset.

### 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.

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The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Net income (loss) per share:	(In thousands, except per share amounts)			
Numerator:				
Net income (loss)	\$5,513	\$(5,725 )	\$18,360	\$(23,971 )
Denominator:				
Weighted-average shares outstanding - basic	114,523	112,640	114,080	112,144
Effect of potential dilutive common shares	3,683	—	3,460	—
Weighted-average shares outstanding - diluted	118,206	112,640	117,540	112,144
Basic net income (loss) per share	\$0.05	\$(0.05 )	\$0.16	\$(0.21 )
Diluted net income (loss) per share	\$0.05	\$(0.05 )	\$0.16	\$(0.21 )

For the three months ended September 30, 2014 and 2013, options to purchase approximately 3.9 million and 5.9 million shares, respectively, and for the nine months ended September 30, 2014 and 2013, options to purchase approximately 5.7 million and 10.2 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. For the three months ended September 30, 2013, an additional 3.4 million potentially dilutive shares, and for the nine months ended September 30, 2013, an additional 3.7 million potentially dilutive shares have been excluded from the weighted average dilutive shares because there were net losses for the periods.

## 4. Intangible Assets and Goodwill

## Goodwill

The following tables present goodwill information for each of the reportable segments for the nine months ended September 30, 2014:

Reportable Segment:	As of December 31, 2013	Additions to Goodwill	Impairment Charge of Goodwill	As of September 30, 2014
	(In thousands)			
MID	\$19,905	\$—	\$—	\$19,905
CRI	96,994	—	—	96,994
ESD	—	—	—	—
Other	—	—	—	—
Total	\$116,899	\$—	\$—	\$116,899

Reportable Segment:	As of September 30, 2014 Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount
	(In thousands)		
MID	\$19,905	\$—	\$19,905
CRI	96,994	—	96,994
ESD	8,070	(8,070 )	—
Other	13,700	(13,700 )	—
Total	\$138,669	\$(21,770 )	\$116,899

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## Intangible Assets

The components of the Company's intangible assets as of September 30, 2014 and December 31, 2013 were as follows:

	Useful Life	As of September 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In thousands)				
Existing technology	3 to 10 years	\$ 185,321	\$(98,721)	) \$ 86,600
Customer contracts and contractual relationships	1 to 10 years	31,093	(21,999)	) 9,094
Non-compete agreements	3 years	300	(300)	) —
Total intangible assets		\$216,714	\$(121,020)	) \$ 95,694
As of December 31, 2013				
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In thousands)				
Existing technology	3 to 10 years	\$ 186,202	\$(80,961)	) \$ 105,241
Customer contracts and contractual relationships	1 to 10 years	31,093	(19,204)	) 11,889
Non-compete agreements	3 years	300	(258)	) 42
Total intangible assets		\$217,595	\$(100,423)	) \$ 117,172

During the three and nine months ended September 30, 2014, the Company did not purchase any intangible assets. During the nine months ended September 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 the favorable contract intangible asset. For the three months ended September 30, 2014 and 2013, the Company received zero and \$0.9 million related to the favorable contracts, respectively. For the nine months ended September 30, 2014 and 2013, the Company received \$0.9 million and \$2.2 million related to the favorable contracts, respectively. As of September 30, 2014 and December 31, 2013, the net balance of the favorable contract intangible assets was \$0.1 million and \$1.0 million, respectively.

Amortization expense for intangible assets for the three and nine months ended September 30, 2014 was \$6.7 million and \$20.3 million, respectively. Amortization expense for intangible assets for the three and nine months ended September 30, 2013 was \$7.4 million and \$21.4 million, respectively. The estimated future amortization expense of intangible assets as of September 30, 2014 was as follows (amounts in thousands):

Years Ending December 31:	Amount
2014 (remaining 3 months)	\$6,322
2015	25,098
2016	24,318
2017	23,709
2018	10,827
Thereafter	5,420
	\$95,694

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

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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 nine months ended September 30, 2014 and 2013, MID, CRI and ESD were reportable segments as each of them met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining operating segment were shown under "Other."

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 marketing, 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 marketing, general and administrative expenses as well as corporate level expenses. The presentation of the three and nine months ended September 30, 2013 segment data has been updated accordingly to conform with the 2014 segment operating income (loss) definition.

The tables below present reported segment operating income (loss) for the three and nine months ended September 30, 2014 and 2013, respectively.

	For the Three Months Ended September 30, 2014					For the Nine Months Ended September 30, 2014				
	MID	CRI	ESD	Other	Total	MID	CRI	ESD	Other	Total
Revenues	\$52,495	\$11,255	\$—	\$5,962	\$69,712	\$172,314	\$36,929	\$—	\$15,275	\$224,518
Segment operating expenses	10,783	8,548	4,948	4,845	29,124	30,220	24,466	13,737	13,903	82,326
Segment operating income (loss)	\$41,712	\$2,707	\$(4,948)	\$1,117	\$40,588	\$142,094	\$12,463	\$(13,737)	\$1,372	\$142,192
Reconciling items					(26,120 )					(84,431 )
Operating income					\$14,468					\$57,761
Interest and other income (expense), net					(3,608 )					(22,187 )
Income before income taxes					\$10,860					\$35,574
	For the Three Months Ended September 30, 2013					For the Nine Months Ended September 30, 2013				
	MID	CRI	ESD	Other	Total	MID	CRI	ESD	Other	Total
	(In thousands)									
Revenues	\$66,103	\$5,134	\$—	\$2,057	\$73,294	\$175,233	\$19,931	\$—	\$2,915	\$198,079
Segment operating expenses	8,306	6,021	6,024	5,205	25,556	28,534	16,981	19,542	13,742	78,799
Segment operating	\$57,797	\$(887 )	\$(6,024)	\$(3,148)	\$47,738	\$146,699	\$2,950	\$(19,542)	\$(10,827)	\$119,280

income (loss)		
Reconciling items	(38,673 )	(103,030 )
Operating income	\$9,065	\$16,250
Interest and other income (expense), net	(8,486 )	(24,663 )
Income (loss) before income taxes	\$579	\$(8,413 )

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.

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Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable at September 30, 2014 and December 31, 2013, respectively, was as follows:

Customer	As of	
	September 30, 2014	December 31, 2013
Customer 1 (Other reportable segment)	88%	74%

Revenue from the Company's major customers representing 10% or more of total revenue for the three and nine months ended September 30, 2014 and 2013, respectively, was as follows:

Customer	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Customer A (MID and CRI reportable segments)	22	% 31	% 20	% 34	%
Customer B (MID reportable segment)	17	% 16	% 16	% *	
Customer C (MID reportable segment)	14	% 10	% 13	% *	

\* Customer accounted for less than 10% of total revenue in the period

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
South Korea	\$26,821	\$34,343	\$80,620	\$78,871
USA	24,950	15,880	81,522	56,555
Japan	6,497	15,943	23,140	42,812
Europe	4,238	4,098	17,077	11,658
Canada	1,754	2,280	5,365	5,928
Asia-Other	5,452	750	16,794	2,255
Total	\$69,712	\$73,294	\$224,518	\$198,079

## 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 September 30, 2014 and December 31, 2013, all of the Company's cash equivalents and marketable securities had a remaining maturity of less than one year.

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

(In thousands)	As of September 30, 2014					Weighted Rate of Return	
	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			
Money market funds	\$96,032	\$96,032	\$ —	\$ —		0.01	%
Corporate notes, bonds and commercial paper	145,440	145,495	3	(58 )		0.20	%
Total cash equivalents and marketable securities	241,472	241,527	3	(58 )			
Cash	29,654	29,654	—	—			
Total cash, cash equivalents and marketable securities	\$271,126	\$271,181	\$ 3	\$ (58 )			
(In thousands)	As of December 31, 2013					Weighted Rate of Return	
	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			
Money market funds	\$300,605	\$300,605	\$ —	\$ —		0.01	%
Corporate notes, bonds and commercial paper	58,492	58,507	—	(15 )		0.15	%
Total cash equivalents and marketable securities	359,097	359,112	—	(15 )			
Cash	28,565	28,565	—	—			
Total cash, cash equivalents and marketable securities	\$387,662	\$387,677	\$ —	\$ (15 )			

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

	As of	
	September 30, 2014	December 31, 2013
	(In thousands)	
Cash equivalents	\$96,032	\$310,131
Short term marketable securities	145,440	48,966
Total cash equivalents and marketable securities	241,472	359,097
Cash	29,654	28,565
Total cash, cash equivalents and marketable securities	\$271,126	\$387,662

The Company continues to invest in highly rated quality, highly liquid debt securities. As of September 30, 2014, 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 September 30, 2014 and December 31, 2013 are as follows:

	Fair Value		Gross Unrealized Loss	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(In thousands)			
Less than one year				
Corporate notes, bonds and commercial paper	\$120,606	\$53,491	\$(58 )	\$(15 )

The gross unrealized loss at September 30, 2014 and December 31, 2013 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. The Company has no intent to sell, 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

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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 September 30, 2014 and December 31, 2013:

	As of September 30, 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	\$96,032	\$96,032	\$—	\$—
Corporate notes, bonds and commercial paper	145,440	—	145,440	—
Total available-for-sale securities	\$241,472	\$96,032	\$145,440	\$—
	As of December 31, 2013			
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	\$300,605	\$300,605	\$—	\$—
Corporate notes, bonds and commercial paper	58,492	—	58,492	—
Total available-for-sale securities	\$359,097	\$300,605	\$58,492	\$—

The following table presents the financial instruments that are measured on a nonrecurring basis as of September 30, 2014:

	As of September 30, 2014				
(in thousands)	Carrying Value	Quoted market prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impairment charges for the nine months ended September 30, 2014
Investment in non-marketable security	\$—	\$—	\$—	\$—	\$600

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. During the third quarter of 2014, as part of its periodic evaluation of the fair value of the investment in the non-marketable equity security, and based on the information provided by the private company at that time, the Company determined that there was a



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decrease in the security's fair value. The fair value of the non-marketable equity security was determined based on qualitative factors and an income approach, using level 3 fair value inputs, as it was deemed to be the most indicative of the security's fair value. Accordingly, the Company recorded an impairment charge for the entire remaining amount of \$0.6 million within interest income and other income (expense), net, in the consolidated statements of operations in the third quarter of 2014.

For the three and nine months ended September 30, 2014 and 2013, 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 September 30, 2014 and December 31, 2013:

(In thousands)	As of September 30, 2014			As of December 31, 2013		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
5% Convertible Senior Notes due 2014 (the "2014 Notes")	\$—	\$—	\$—	\$172,500	\$164,047	\$175,821
1.125% Convertible Senior Notes due 2018 (the "2018 Notes")	\$138,000	\$113,692	\$168,120	\$138,000	\$109,629	\$142,427

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 September 30, 2014, 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 September 30, 2014	As of December 31, 2013
1.125% Convertible Senior Notes due 2018	\$138,000	\$138,000
5% Convertible Senior Notes due 2014	—	172,500
Total principal amount of convertible notes	\$138,000	\$310,500
Unamortized discount - 2018 Notes	\$(24,308)	\$(28,371)
Unamortized discount - 2014 Notes	—	(8,453)
Total unamortized discount	\$(24,308)	\$(36,824)
Total convertible notes	\$113,692	\$273,676
Less current portion	—	164,047
Total long-term convertible notes	\$113,692	\$109,629

During the second quarter of 2014, the Company paid upon maturity the entire \$172.5 million in aggregate principal amount of the 2014 Notes.

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Interest expense related to the notes for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
	(In thousands)			
2014 Notes coupon interest at a rate of 5%	\$—	\$2,156	\$3,929	\$6,469
2014 Notes amortization of discount and debt issuance costs at an additional effective interest rate of 11.7%	—	4,416	8,744	12,650
2018 Notes coupon interest at a rate of 1.125%	403	194	1,179	194
2018 Notes amortization of discount and debt issuance costs at an additional effective interest rate of 5.5%	1,515	719	4,482	719
Total interest expense on convertible notes	\$1,918	\$7,485	\$18,334	\$20,032

## 9. Commitments and Contingencies

As of September 30, 2014, the Company's material contractual obligations were as follows (in thousands):

	Total	Remainder of 2014	2015	2016	2017	2018	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$35,873	\$ 1,486	\$6,011	\$6,156	\$6,302	\$6,447	\$9,471
Leases and other contractual obligations	10,809	3,659	3,740	1,727	1,343	340	—
Software licenses (3)	10,209	2,845	5,616	1,748	—	—	—
Acquisition retention bonuses (4)	70	—	70	—	—	—	—
Convertible notes	138,000	—	—	—	—	138,000	—
Interest payments related to convertible notes	6,211	—	1,553	1,553	1,553	1,552	—
Total	\$201,172	\$ 7,990	\$16,990	\$11,184	\$9,198	\$146,339	\$9,471

The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$19.7 million including \$17.9 million recorded as a reduction of long-term deferred tax assets and \$1.8 million in (1) long-term income taxes payable as of September 30, 2014. As noted below in Note 13, "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.

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 (2) 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 Sunnysvale lease.

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

In connection with acquisitions, the Company is obligated to pay retention bonuses to certain employees and (4) contractors, subject to certain eligibility and acceleration provisions including the condition of employment. For the retention bonuses related to CRI, the last payment of \$1.5 million was paid in cash during the third quarter of 2014 to a designated charitable organization as a result of forfeitures by employees.

Building lease expense was approximately \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2014, respectively. Building lease expense was approximately \$0.6 million and \$2.4 million for the three and nine months ended September 30, 2013, respectively. Deferred rent of \$1.2 million and \$1.4 million as of September 30, 2014 and December 31, 2013, respectively, was included primarily in other long-term liabilities.



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## 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 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 September 30, 2014, 10,839,423 shares of the 31,400,000 shares approved under the 2006 Equity Incentive Plan (the "2006 Plan") remain available for grant which included an increase of 10,000,000 shares approved by stockholders on April 24, 2014. The 2006 Plan is now the Company's only plan for providing stock-based incentive awards to eligible employees, executive officers, non-employee directors and consultants; however, the 1997 Stock Option Plan (the "1997 Plan") will continue 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, 2013	2,527,428
Increase in shares approved for issuance	10,000,000
Stock options granted	(2,168,309 )
Stock options forfeited	994,532
Stock options expired under former plans	(157,000 )
Nonvested equity stock and stock units granted (1)	(421,908 )
Nonvested equity stock and stock units forfeited (1)	64,680
Total available for grant as of September 30, 2014	10,839,423

For purposes of determining the number of shares available for grant under the 2006 Plan against the maximum (1) 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.

## General Stock Option Information

The following table summarizes stock option activity under the 1997 Plan and 2006 Plan for the nine months ended September 30, 2014 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2014.

	Options Outstanding		Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
	Number of Shares	Weighted Average Exercise Price Per Share		
(In thousands, except per share amounts)				
Outstanding as of December 31, 2013	11,377,146	\$ 11.32		
Options granted	2,168,309	\$ 9.43		
Options exercised	(808,643 )	\$ 7.02		
Options forfeited	(994,532 )	\$ 15.92		
Outstanding as of September 30, 2014	11,742,280	\$ 10.88	6.09	\$47,629
Vested or expected to vest at September 30, 2014	11,076,127	\$ 11.06	5.94	\$44,436
Options exercisable at September 30, 2014	6,135,339	\$ 14.14	4.17	\$17,678



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No stock options that contain a market condition were granted during the three and nine months ended September 30, 2014. As of both September 30, 2014 and December 31, 2013, 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 September 30, 2014, based on the \$12.48 closing stock price of Rambus' common stock on September 30, 2014 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 September 30, 2014 was 8,436,927 and 3,064,424, respectively.

**Employee Stock Purchase Plan**

Under the 2006 Employee Stock Purchase Plan ("ESPP"), the Company issued 374,588 shares at a price of \$7.42 per share during the nine months ended September 30, 2014. The Company issued 652,272 shares at a price of \$4.28 per share during the nine months ended September 30, 2013. As of September 30, 2014, 1,144,644 shares under the ESPP remain available for issuance. On September 27, 2013, the Company filed a Registration Statement on Form S-8, registering 1,500,000 additional shares under the ESPP in connection with the commencement of the next subscription period under the ESPP. On April 24, 2014, the Company held its 2014 Annual Meeting of Stockholders where an amendment to the ESPP to increase the number of shares of common stock reserved for issuance under the ESPP by 1,500,000 shares was approved.

**Stock-Based Compensation**

For the nine months ended September 30, 2014 and 2013, 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 an 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 and nine months ended September 30, 2014, the Company granted 252,232 and 2,168,309 stock options, respectively, with an estimated total grant-date fair value of \$1.5 million and \$9.1 million, respectively. During the three and nine months ended September 30, 2014, the Company recorded stock-based compensation expense related to stock options of \$2.4 million and \$6.9 million, respectively.

During the three and nine months ended September 30, 2013, the Company granted 141,575 and 1,897,887 stock options, respectively, with an estimated total grant-date fair value of \$0.6 million and \$4.7 million, respectively. During the three and nine months ended September 30, 2013, the Company recorded stock-based compensation expense related to stock options of \$2.5 million and \$8.1 million, respectively.

As of September 30, 2014, there was \$15.8 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 2.1 years. The total fair value of shares vested as of September 30, 2014 was \$57.7 million.

The total intrinsic value of options exercised was \$1.7 million and \$3.9 million for the three and nine months ended September 30, 2014, respectively. The total intrinsic value of options exercised was \$0.6 million and \$0.7 million for the three and nine months ended September 30, 2013, 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 nine months ended September 30, 2014, net proceeds from employee stock option exercises totaled approximately \$5.7 million.

**Employee Stock Purchase Plan**

For the three and nine months ended September 30, 2014, the Company recorded compensation expense related to the ESPP of \$0.4 million and \$2.2 million, respectively. The compensation expense related to the ESPP for the nine

months ended September 30, 2014 included a one-time catch-up compensation expense related to the increase in shares available for the ESPP which was approved by shareholders during the 2014 Annual Meeting of Stockholders. For the three and nine months ended September 30, 2013, the Company recorded compensation expense related to the ESPP of \$0.4 million and \$1.4 million,

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respectively. As of September 30, 2014, there was \$0.1 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over one month.

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 nine months ended September 30, 2014 and 2013 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock Option Plans				
Expected stock price volatility	44	% 45	% 40-44%	45-47%
Risk free interest rate	2.1	% 1.5	% 2.1-2.2%	0.8-1.5%
Expected term (in years)	6.0	5.5	6.0-6.1	5.4-5.5
Weighted-average fair value of stock options granted to employees	\$5.81	\$4.00	\$4.20	\$2.48
			Employee Stock Purchase Plan	
			Nine Months Ended	
			September 30,	
			2014	2013
Employee Stock Purchase Plan				
Expected stock price volatility			39-44%	48 %
Risk free interest rate			0.0-0.1%	0.1 %
Expected term (in years)			0.02-0.5	0.5
Weighted-average fair value of purchase rights granted under the purchase plan			\$3.91	\$1.94

No shares were issued under the Employee Stock Purchase Plan during the three months ended September 30, 2014 and 2013.

Nonvested Equity Stock and Stock Units

The Company grants nonvested equity stock units to officers, employees and directors. During the three and nine months ended September 30, 2014, the Company granted nonvested equity stock units totaling 52,596 and 281,272 shares under the 2006 Plan, respectively. During the three and nine months ended September 30, 2013, the Company granted nonvested equity stock units totaling 44,944 and 349,896 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 nine months ended September 30, 2014, the nonvested equity stock units were valued at the date of grant giving them a fair value of approximately \$0.7 million and \$2.8 million, respectively. For the three and nine months ended September 30, 2013, the nonvested equity stock units were valued at the date of grant giving them a fair value of approximately \$0.4 million and \$2.1 million, respectively. In prior years, the Company granted nonvested equity stock units to its employees with vesting subject to the achievement of certain performance conditions. During the three and nine months ended September 30, 2014, the Company did not record any stock-based compensation expense related to these performance stock units as they have been forfeited. During the three and nine months ended September 30, 2013, the achievement of certain performance conditions for certain performance equity stock units was considered probable, and as a result, the Company recognized an



immaterial amount of stock-based compensation expense related to these performance stock units for these periods.

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For the three and nine months ended September 30, 2014, the Company recorded stock-based compensation expense of approximately \$0.7 million and \$2.1 million, respectively, related to all outstanding nonvested equity stock grants. For the three and nine months ended September 30, 2013, the Company recorded stock-based compensation expense of approximately \$0.5 million and \$2.4 million, respectively, 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 \$3.7 million at September 30, 2014. This amount is expected to be recognized over a weighted average period of 2.6 years.

The following table reflects the activity related to nonvested equity stock and stock units for the nine months ended September 30, 2014:

Nonvested Equity Stock and Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2013	629,649	\$8.56
Granted	281,272	\$9.83
Vested	(168,915)	) \$10.01
Forfeited	(43,113)	) \$7.37
Nonvested at September 30, 2014	698,893	\$8.79

## 11. Stockholders' Equity

## Share Repurchase Program

During the nine months ended September 30, 2014, the Company did not repurchase any shares of its common stock under its share repurchase program. As of September 30, 2014, the Company had repurchased a cumulative total of approximately 26.3 million shares of its common stock with an aggregate price of approximately \$428.9 million since the commencement of the program in 2001. As of September 30, 2014, there remained an outstanding authorization to repurchase approximately 5.2 million shares of the Company's outstanding common stock.

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. Restructuring Charges

## The 2013 Plan

During 2013, the Company initiated a restructuring program related primarily to its LDT group as a result of the change in its business strategy to reduce its focus on the lower margin bulb products. Additionally, the Company curtailed its immersive media platform spending (the "2013 Plan"). In connection with this restructuring program, the Company estimated that it would incur aggregate costs of approximately \$3.0 million to \$4.0 million. During the three months ended September 30, 2014, the Company did not incur any restructuring charges. During the nine months ended September 30, 2014, the Company incurred an immaterial amount of restructuring charges related primarily to the reduction in workforce, which was related to the ESD reportable segment. The 2013 Plan has been completed as of June 30, 2014.

The following table summarizes the 2013 Plan restructuring activities during the nine months ended September 30, 2014:

	Employee Severance and Related Benefits (In thousands)	Facilities	Total
Balance at December 31, 2013	\$1,732	\$133	\$1,865

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Charges	39	—	39	
Payments	(1,771	) (133	) (1,904	)
Balance at September 30, 2014	\$—	\$—	\$—	

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## 13. Income Taxes

The Company recorded a provision for income taxes of \$5.3 million and \$6.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$17.2 million and \$15.6 million for the nine months ended September 30, 2014 and 2013, respectively. The provision for income taxes for the three and nine months ended September 30, 2014 and 2013 is primarily comprised of withholding taxes, state taxes and other foreign taxes based upon income earned during the period.

During the three and nine months ended September 30, 2014, the Company paid withholding taxes of \$4.8 million and \$14.6 million, respectively. During the three and nine months ended September 30, 2013, the Company paid withholding taxes of \$5.8 million and \$13.4 million, respectively.

As of September 30, 2014, the Company's condensed consolidated balance sheets included net deferred tax assets, before valuation allowance, of approximately \$191.0 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 debt instruments. As of September 30, 2014, 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 valuation allowance as the Company is in a cumulative loss position over the previous three years, which is considered significant negative evidence. Although the weight of negative evidence related to cumulative losses has decreased as the Company has settled outstanding litigation, the Company believes that this objectively measured negative evidence outweighs the subjectively determined positive evidence of future profitability and, as such, the Company has not changed its judgment regarding the need for a full valuation allowance on its deferred tax assets in the United States as of September 30, 2014. However, continued improvement in the Company's operating results, conditioned on its MID, CRI or LDT reporting units successfully commercializing new business arrangements, signing new or renewing existing license agreements and managing costs, could lead to reversal of almost all of the Company's valuation allowance. 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 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 September 30, 2014, the Company had approximately \$19.7 million of unrecognized tax benefits, including \$17.9 million recorded as a reduction of long-term deferred tax assets and \$1.8 million in long-term income taxes payable. If recognized, approximately \$1.8 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, 2013, the Company had \$18.8 million of unrecognized tax benefits, including \$12.6 million recorded as a reduction of long-term deferred tax assets and \$6.2 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 September 30, 2014 and December 31, 2013, 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 and by India for fiscal years ended March 2009 and 2010. 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. In January 2014, an Internal Revenue Service examination covering the 2010 through 2011 tax years was completed with no audit adjustments.

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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.

14. 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.

15. 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. 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 each of the three completed quarters of 2014, the Company received cash consideration of \$12.0 million from SK hynix. For each quarter, 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.

The remaining \$180.0 million is expected to be paid in successive quarterly payments of \$12.0 million, concluding in the second quarter of 2018.

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The cumulative cash receipts through September 30, 2014 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 September 30, 2014	Estimated to Be Received in					Total Estimated Cash Receipts
		Remainder of 2014	2015	2016	2017	2018	
(in millions)							
Royalty revenue	\$59.1	\$11.8	\$47.3	\$47.9	\$48.0	\$24.0	\$238.1
Gain from settlement	0.9	0.2	0.7	0.1	—	—	1.9
Total	\$60.0	\$12.0	\$48.0	\$48.0	\$48.0	\$24.0	\$240.0

**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 each of the three completed quarters of 2014, the Company received cash consideration of \$10.0 million from Micron. For each quarter, the amount was allocated between royalty revenue (\$9.7 million) and gain from settlement (\$0.3 million) based on the elements’ Micron Fair Value.

The remaining \$244.5 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 September 30, 2014 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 September 30, 2014	Estimated to Be Received in					Total Estimated Cash Receipts
		Remainder of 2014	2015	2016	2017	2018	

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(in millions)

Royalty revenue	\$34.3	\$9.7	\$38.7	\$39.5	\$40.0	\$40.0	\$74.5	\$276.7
Gain from settlement	1.2	0.3	1.3	0.5	—	—	—	3.3
Total	\$35.5	\$10.0	\$40.0	\$40.0	\$40.0	\$40.0	\$74.5	\$280.0

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## 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,” “continues” 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
Double Data Rate	DDR
Dynamic Random Access Memory	DRAM
Light Emitting Diodes	LED
Rambus Dynamic Random Access Memory	RDRAM™
Single Data Rate	SDR
Synchronous Dynamic Random Access Memory	SDRAM
eXtreme Data Rate	XDR™

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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
Cooper Lighting, LLC	Cooper Lighting
Cryptography Research, Inc.	CRI
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
Joint Electronic Device Engineering Councils	JEDEC
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
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

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### 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. Key to our efforts will be hiring and retaining world-class inventors, scientists and engineers to lead the development of inventions and technology solutions for our fields of focus, and the management and business support personnel necessary to execute our plans and strategies.

During the third quarter of 2014, we renamed our Chief Technology Office, or CTO, organization as the Emerging Solutions Division, or ESD. 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, Inc., or CRI, which focuses on the design, development and licensing of technologies for chip and system security and anti-counterfeiting; (3) 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 September 30, 2014, MID, CRI and ESD were considered reportable segments as they met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining operating segment 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 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. 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 September 30, 2014, our semiconductor, lighting, security and other technologies are covered by 1,783 U.S. and foreign patents. Additionally, we have 754 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.

Our inventions and technology solutions are offered to our customers through either a patent license or a solutions license. Today, a majority of our revenues are derived from patent licenses, through which we provide our customers a license to use a 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 up to ten years. Leading consumer product, semiconductor and system companies such as AMD, Broadcom, Freescale, Fujitsu, GE, 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 record the related proceeds as revenue.

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We also offer our customers solutions licenses to support the implementation and adoption of our technology in their products or services. Our customers include leading companies such as Cooper Lighting, GE, IBM, Panasonic, Qualcomm, Samsung, Sony and Toshiba. Our solutions 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 solutions licenses which can include know-how and technology transfer, product design and development, system integration, and other services. These solutions license agreements may have both a fixed price (non-recurring) component and ongoing royalties. Further, under solutions 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 product sales and 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, marketing, 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.

## Executive Summary

During the third quarter of 2014, our CRI group introduced a family of DPA resistant cryptographic cores. As part of our overall IP cores program, these ready-to-use IP cores offer chipmakers an easy-to-integrate security solution with built-in side channel resistance for cryptographic functions across a wide range of connected devices. Leading with high-performance AES cryptographic cores, these DPA resistant solutions provide system on a chip ("SoC") manufacturers with a seamless solution that enables them to devote resources to differentiating features and reduce implementation time. Additionally, Northwest Logic, an intellectual property core designer and developer, has validated interoperability of the Rambus R+™ DDR4/3 PHY with the Northwest Logic DDR4/3 SDRAM Controller Core. The combined solution provides customers with a differentiated memory subsystem that brings together the superior signal integrity offered by the Rambus R+ PHY along with the robust Northwest Logic controller core for a proven and easy-to-integrate solution.

Research and development continues to play a key role in our efforts to maintain product innovations. Our engineering expenses for the three months ended September 30, 2014 increased \$1.0 million as compared to the same period in 2013 primarily due to an increase in cost of sales associated with sales of light guides of \$1.2 million, increased headcount related expenses of \$0.9 million, increased bonus expense of \$0.8 million and increased expenses related to software design tools of \$0.8 million, offset by decreased accrual of retention bonuses of \$1.9 million and decreased amortization expense of \$0.6 million. Our engineering expenses for the nine months ended September 30, 2014 decreased \$1.2 million as compared to the same period in 2013 primarily due to decreased accrual of retention bonuses of \$5.9 million as a result of the payouts of retention bonuses, decreased information technology costs of \$0.8 million, decreased amortization expense of \$1.1 million and decreased prototyping costs of \$0.5 million, offset by an increase in cost of sales associated with sales of light guides of \$6.0 million and increased expenses related to software design tools of \$0.9 million.

Marketing, general and administrative expenses for the three months ended September 30, 2014 remained relatively flat as compared to the same period in 2013 primarily due to decreased litigation costs of \$0.7 million and decreased consulting costs of \$0.4 million, offset by increased bonus expense of \$0.5 million. Marketing, general and administrative costs for the nine months ended September 30, 2014 decreased \$2.3 million as compared to the same period in 2013 primarily due to decreased consulting costs of \$2.5 million, decreased headcount related costs of \$1.3 million, decreased stock-based compensation expenses of \$1.1 million, decreased facilities costs of \$0.8 million, decreased accrual of retention bonuses of \$0.6 million, offset by a one-time reversal of accrued SK hynix related litigation costs of \$8.5 million in the same period of 2013.

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, with our top five customers representing approximately 67% and 62% of our revenue for the three and nine months ended September 30, 2014, respectively, as compared to 69% and 61% for the three

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and nine months ended September 30, 2013, respectively. As a result of renewing with Samsung in 2013 and settling with SK hynix and Micron in 2013, Samsung, SK hynix and Micron are expected to account for a significant portion of our ongoing licensing revenue. For the three and nine months ended September 30, 2014, revenue from Micron, Samsung and SK hynix each accounted for 10% or more of our total revenue. For the three months ended September 30, 2013, revenue from Micron, Samsung and SK hynix each accounted for 10% or more of our total revenue. For the nine months ended September 30, 2013, revenue from Samsung accounted for 10% or more of our total revenue. We expect to continue to experience significant revenue concentration for the foreseeable future.

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.

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.

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 to Acacia where Acacia can proceed independently with a licensing program. We have a net proceeds-sharing program in place with Acacia 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.

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 CRI group is primarily focused on positioning its DPA countermeasures and CryptoFirewall™ technology solutions to capitalize on these trends and growing adoption among technology partners and customers.

Our revenue from companies headquartered outside of the United States accounted for approximately 64% of our total revenue for both the three and nine months ended September 30, 2014 as compared to 78% and 71% for the three and nine months ended September 30, 2013, 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 September 30, 2014 as compared to the same period in the prior year. Engineering costs in the aggregate and as a percentage of revenue decreased



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for the nine months ended September 30, 2014 as compared to the same period in the prior year. In the near term, we expect engineering costs in the aggregate to be higher as we intend to continue to make investments in the infrastructure and technologies required to maintain our product innovation in semiconductor, lighting, security and other technologies.

Marketing, general and administrative expenses in the aggregate decreased and as a percentage of revenue increased for the three months ended September 30, 2014 as compared to the same period in the prior year. Marketing, general and administrative expenses in the aggregate and as a percentage of revenue decreased for the nine months ended September 30, 2014 as compared to the same period in the prior year. In the past, our litigation expenses have been high and difficult to predict due to litigation stemming from the use of our inventions. Because we have successfully negotiated settlements and license agreements with SK hynix, Micron and Nanya, we have settled all outstanding litigation and should no longer have material litigation expenses related to these matters. In the near term, we expect our marketing, general and administrative costs in the aggregate to be higher due to increase in spending on marketing activities.

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.

## 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 September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Revenue:					
Royalties	91.8	% 96.9	% 92.4	% 98.1	%
Contract and other revenue	8.2	% 3.1	% 7.6	% 1.9	%
Total revenue	100.0	% 100.0	% 100.0	% 100.0	%
Operating costs and expenses:					
Cost of revenue*	15.1	% 12.2	% 13.9	% 11.5	%
Research and development*	38.8	% 37.6	% 36.3	% 46.0	%
Marketing, general and administrative*	26.1	% 25.5	% 24.8	% 29.2	%
Gain from sale of intellectual property	—	% 0.0	% (0.1)	)% (0.7)	)%
Restructuring charges	—	% 1.5	% 0.0	% 1.7	%
Impairment of goodwill and long-lived assets	—	% 11.0	% —	% 4.1	%
Gain from settlement	(0.7)	)% (0.2)	)% (0.7)	)% (0.1)	)%
Total operating costs and expenses	79.3	% 87.6	% 74.2	% 91.7	%
Operating income (loss)	20.7	% 12.4	% 25.8	% 8.3	%
Interest income and other income (expense), net	(0.8)	)% 0.1	% (0.2)	)% (0.7)	)%
Interest expense	(4.4)	)% (11.7)	)% (9.7)	)% (11.8)	)%
Interest and other income (expense), net	(5.2)	)% (11.6)	)% (9.9)	)% (12.5)	)%
Income (loss) before income taxes	15.5	% 0.8	% 15.9	% (4.2)	)%
Provision for income taxes	7.7	% 8.6	% 7.7	% 7.9	%
Net income (loss)	7.8	% (7.8)	)% 8.2	% (12.1)	)%

\* Includes stock-based compensation:

Cost of revenue	0.0	% 0.0	% 0.0	% 0.0	%
Research and development	2.4	% 2.2	% 2.5	% 2.6	%
Marketing, general and administrative	2.6	% 2.4	% 2.5	% 3.4	%



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(Dollars in millions)	Three Months		Change in Percentage	Nine Months		Change in Percentage
	Ended September 30, 2014	2013		Ended September 30, 2014	2013	
Total Revenue						
Royalties	\$64.0	\$71.0	(9.9 )%	\$207.4	\$194.2	6.8 %
Contract and other revenue	5.7	2.3	NM*	17.1	3.9	NM*
Total revenue	\$69.7	\$73.3	(4.9 )%	\$224.5	\$198.1	13.3 %

\*NM — percentage is not meaningful

**Royalty Revenue****Patent Licenses**

Our patent royalties decreased approximately \$5.8 million to \$61.8 million for the three months ended September 30, 2014 from \$67.6 million for the same period in 2013. The decrease was primarily due to lower royalty revenue from Samsung and NVIDIA, offset by higher royalty revenue recognized from the agreements signed with Micron, Nanya and Qualcomm. For the three months ended September 30, 2014, patent royalties from DRAM customers accounted for \$37.2 million as compared to \$41.4 million for the same period in 2013, due to the change in payments driven by the Samsung renewal, offset by higher royalty revenue recognized from the agreements signed with Micron and Nanya. Of the \$61.8 million patent royalties for the three months ended September 30, 2014, \$21.5 million is related to royalty revenue from settlement of past infringements with SK hynix and Micron.

Our patent royalties increased approximately \$16.2 million to \$199.9 million for the nine months ended September 30, 2014 from \$183.7 million for the same period in 2013. The increase was primarily due to royalty revenue recognized from the agreements signed with Micron, Nanya, Qualcomm and SK hynix, offset by lower royalty revenue from Samsung and NVIDIA and recognition of a one-time royalty revenue during the first quarter of 2013 from LSI. Of the \$199.9 million patent royalties for the nine months ended September 30, 2014, \$64.5 million is related to royalty revenue from settlement of past infringements 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, 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.

**Solutions Licenses**

Royalties from solutions licenses decreased approximately \$1.2 million to \$2.2 million for the three months ended September 30, 2014 from \$3.4 million for the same period in 2013. The decrease was primarily due to lower royalties reported from decreased shipments of the Sony PlayStation®3 product.

Royalties from solutions licenses decreased approximately \$3.0 million to \$7.5 million for the nine months ended September 30, 2014 from \$10.5 million for the same period in 2013. The decrease was primarily due to lower royalties reported from decreased shipments of the Sony PlayStation®3 product.

In the future, we expect solutions 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 solutions license royalties, decreased approximately \$13.6 million to \$52.5 million for the three months ended September 30, 2014 from \$66.1 million for the same period in 2013. The decrease was primarily due to lower royalty revenue from Samsung and NVIDIA, offset by higher royalty revenue recognized from the agreements signed with Micron, Nanya and Qualcomm. Royalty revenue from the MID reportable segment decreased approximately \$4.7 million to \$170.5 million for the nine months ended September 30, 2014 from \$175.2 million for the same period in 2013. The decrease was primarily due to lower royalty revenue from Samsung and NVIDIA and recognition of one-time royalty revenue during the first quarter of 2013 from LSI, offset by higher royalty revenue recognized from the agreements signed with Micron, Nanya, Qualcomm and SK hynix.

Royalty revenue from the CRI reportable segment increased approximately \$6.0 million to \$10.9 million for the three months ended September 30, 2014 from \$4.9 million for the same period in 2013. The increase was primarily due to royalty

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revenue recognized from the license agreements signed with Qualcomm during 2014 and Samsung during 2013. Royalty revenue from the CRI reportable segment increased approximately \$16.8 million to \$35.8 million for the nine months ended September 30, 2014 from \$19.0 million for the same period in 2013. The increase was primarily due to royalty revenue recognized from the license agreements signed with Qualcomm during 2014 and Samsung during 2013.

Royalty revenue from the Other reportable segment was immaterial for both the three and nine months ended September 30, 2014 and 2013, and remained relatively flat period over period.

**Contract and Other Revenue**

Contract and other revenue consist of revenue from technology development, sale of LED edge-lit products as well as sale of selected intellectual property developed by our MID business unit. Contract and other revenue increased approximately \$3.4 million to \$5.7 million for the three months ended September 30, 2014 from \$2.3 million for the same period in 2013. The increase was primarily due to increased lighting technology development projects and sales of light guides. Contract and other revenue increased approximately \$13.2 million to \$17.1 million for the nine months ended September 30, 2014 from \$3.9 million for the same period in 2013. The increase was primarily due to increased lighting technology development projects, sales of light guides and sale of selected intellectual property developed by our MID business unit.

We believe that contract and other revenue will increase over time as we continue to roll out new LDT products to the market. Revenue from technology development contracts will continue to fluctuate over time based on our ongoing 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.

**Contract and Other Revenue by Reportable Segments**

Contract and other revenue from the MID reportable segment was immaterial for both the three months ended September 30, 2014 and 2013, and remained relatively flat period over period. Contract and other revenue from the MID reportable segment increased approximately \$1.8 million to \$1.9 million for the nine months ended September 30, 2014 from \$0.1 million for the same period in 2013, primarily due to sale of selected intellectual property developed by our MID business unit.

Contract and other revenue from the CRI reportable segment was immaterial for both the three months ended September 30, 2014 and 2013, and remained relatively flat period over period. Contract and other revenue from the CRI reportable segment increased approximately \$0.2 million to \$1.1 million for the nine months ended September 30, 2014 from \$0.9 million for the same period in 2013, primarily due to increased number of new evaluation and test equipment contracts in 2014.

Contract and other revenue from the Other reportable segment increased approximately \$3.3 million to \$5.4 million for the three months ended September 30, 2014 from \$2.1 million for the same period in 2013. The increase was primarily due to increased lighting technology development projects and sales of light guides. Contract and other revenue from the Other reportable segment increased approximately \$11.4 million to \$14.2 million for the nine months ended September 30, 2014 from \$2.8 million for the same period in 2013. The increase was primarily due to the same reasons discussed above.

**Engineering costs:**

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage	
	September 30, 2014	2013		September 30, 2014	2013		
Engineering costs							
Cost of revenue	\$4.8	\$2.3	NM*	\$14.1	\$3.4	NM*	
Amortization of intangible assets	5.7	6.7	(15.4)	)% 17.1	19.5	(12.0)	)%
Stock-based compensation	0.0	0.0	—	% 0.0	0.0	—	%
Total cost of revenue	10.5	9.0	17.7	% 31.2	22.9	36.5	%
Research and development	25.4	25.9	(2.1)	)% 76.0	86.0	(11.6)	)%
Stock-based compensation	1.6	1.6	1.1	% 5.6	5.1	7.9	%

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Total research and development	27.0	27.5	(2.0	)% 81.6	91.1	(10.5	)%
Total engineering costs	\$37.5	\$36.5	2.9	% \$112.8	\$114.0	(1.1	)%

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\*NM — percentage is not meaningful

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Total engineering costs increased \$1.0 million for the three months ended September 30, 2014 as compared to the same period in 2013 primarily due to an increase in cost of sales associated with sales of light guides of \$1.2 million, increased headcount related expenses of \$0.9 million, increased bonus expense of \$0.8 million and increased expenses related to software design tools of \$0.8 million, offset by decreased accrual of retention bonuses of \$1.9 million and decreased amortization expense of \$0.6 million.

Total engineering costs decreased \$1.2 million for the nine months ended September 30, 2014 as compared to the same period in 2013 primarily due to decreased accrual of retention bonuses of \$5.9 million as a result of the payouts of retention bonuses, decreased information technology costs of \$0.8 million, decreased amortization expense of \$1.1 million and decreased prototyping costs of \$0.5 million, offset by an increase in cost of sales associated with sales of light guides of \$6.0 million and increased expenses related to software design tools of \$0.9 million.

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

Marketing, general and administrative costs:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage		
	September 30, 2014	2013		September 30, 2014	2013			
Marketing, general and administrative costs								
Marketing, general and administrative costs	\$16.4	\$17.0	(3.3)	)%	\$50.0	\$51.2	(2.3)	)%
Stock-based compensation	1.8	1.7	3.2	%	5.6	6.7	(16.7)	)%
Total marketing, general and administrative costs	\$18.2	\$18.7	(2.7)	)%	\$55.6	\$57.9	(4.0)	)%

Total marketing, general and administrative costs remained relatively flat for the three months ended September 30, 2014 as compared to the same period in 2013 primarily due to decreased litigation costs of \$0.7 million and decreased consulting costs of \$0.4 million, offset by increased bonus expense of \$0.5 million.

Total marketing, general and administrative costs decreased \$2.3 million for the nine months ended September 30, 2014 as compared to the same period in 2013 primarily due to decreased consulting costs of \$2.5 million, decreased headcount related costs of \$1.3 million, decreased stock-based compensation expenses of \$1.1 million, decreased facilities costs of \$0.8 million, decreased accrual of retention bonuses of \$0.6 million, offset by a one-time reversal of accrued SK hynix related litigation costs of \$8.5 million in the same period of 2013.

In the future, marketing, general and administrative costs will vary from period to period based on the trade shows, advertising, legal, acquisition and other 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 marketing, general and administrative costs to be higher due to increase in spending on marketing activities.

Gain from sale of intellectual property:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage	
	September 30, 2014	2013		September 30, 2014	2013		
Gain from sale of intellectual property	\$—	\$—	N/A*	\$0.2	\$1.4	(87.8)	)%

\*N/A — not applicable

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

During the first half of 2013, we sold portfolios of our patent assets covering lighting technologies. As part of the transactions, we received an initial upfront payment and expect to receive subsequent payments if and when our partner is successful in licensing that portfolio.





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## Gain from settlement:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2014	2013		September 30, 2014	2013	
Gain from settlement	\$0.5	\$0.2	NM*	\$1.5	\$0.2	NM*

\*NM — percentage is not meaningful

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 and nine months ended September 30, 2014, we recognized \$0.5 million and \$1.5 million, respectively, as gain from settlement, which 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. Refer to Note 15, "Agreements with SK hynix and Micron," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

## Restructuring charges:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2014	2013		September 30, 2014	2013	
Restructuring charges	\$—	\$1.1	N/A*	\$0.0	\$3.3	(98.8)%

\*N/A — not applicable

During 2013, we initiated a restructuring program related primarily to our LDT group as a result of the change in our business strategy to reduce our focus on the lower margin bulb products. Additionally, we curtailed our immersive media platform spending. We recorded an immaterial charge related to this plan during the first half of 2014. The restructuring plan has been completed as of June 30, 2014.

Refer to Note 12, "Restructuring Charges," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.

## Impairment of goodwill and long-lived assets:

(Dollars in millions)	Three Months Ended		Change in Percentage	Nine Months Ended		Change in Percentage
	September 30, 2014	2013		September 30, 2014	2013	
Impairment of goodwill and long-lived assets	\$—	\$8.1	N/A*	\$—	\$8.1	N/A*

\*N/A — not applicable

For the three months ended September 30, 2013, we recorded a non-cash charge for the impairment of goodwill within our MTD reporting unit (which is part of our legacy CTO reportable segment) of approximately \$8.1 million. During the third quarter of 2013, we curtailed our immersive media platform spending and redirected some of our resources to other strategic programs. Under generally accepted accounting principles, when indicators of potential impairment are identified, companies are required to conduct a review of the carrying amounts of goodwill and other long-lived assets to determine if impairment exists. We conducted this impairment review as a result of the change of our strategy related to our immersive media platform.

Refer to Note 4, "Intangible Assets and Goodwill," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for further discussion.



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Interest and other income (expense), net:

(Dollars in millions)	Three Months			Nine Months		
	Ended September 30, 2014	2013	Change in Percentage	Ended September 30, 2014	2013	Change in Percentage
Interest income and other income (expense), net	\$ (0.5 )	\$ 0.1	NM*	\$ (0.4 )	\$ (1.4 )	(68.5 )%
Interest expense	(3.1 )	(8.6 )	(64.2 )%	(21.8 )	(23.3 )	(6.6 )%
Interest and other income (expense), net	\$ (3.6 )	\$ (8.5 )	(57.5 )%	\$ (22.2 )	\$ (24.7 )	(10.0 )%

\*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. Additionally, for the three months ended September 30, 2014, during our review of the fair value of our \$0.6 million investment in a non-marketable equity security of a private company, based on the information provided by the private company, we determined that there was a decrease in the security's fair value. The fair value of the non-marketable equity security was determined based on qualitative factors and an income approach, using level 3 fair value inputs, as it was deemed to be the most indicative of the security's fair value. Accordingly, we recorded an impairment charge for the entire remaining amount of \$0.6 million related to our investment in the non-marketable equity security for the three and nine months ended September 30, 2014.

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 nine months ended September 30, 2014 as compared to the same period in 2013 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			Nine Months Ended		
	September 30, 2014	2013	Change in Percentage	September 30, 2014	2013	Change in Percentage
Provision for income taxes	\$ 5.3	\$ 6.3	(15.2 )%	\$ 17.2	\$ 15.6	10.6 %
Effective tax rate	49.2 %	1,088.8 %		48.4 %	(184.9 )%	

Our effective tax rates for the three and nine months ended September 30, 2014 were 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. The effective tax rate decreased from the three months ended September 30, 2013 to the three months ended September 30, 2014 due to an increase in quarterly pre-tax book income. The effective tax rate increased from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 due to the change of net loss position in 2013 to net income position in 2014. During the three and nine months ended September 30, 2014, we paid withholding taxes of \$4.8 million and \$14.6 million, respectively. We recorded a provision for income taxes of \$5.3 million and \$17.2 million for the three and nine months ended September 30, 2014, respectively, which is primarily comprised of withholding taxes, other foreign taxes and state income taxes.

Our effective tax rates for the three and nine months ended September 30, 2013 were different from the U.S. statutory tax rate applied to our pretax loss due to a full valuation allowance on our U.S. net deferred tax assets, losses in jurisdictions where no tax benefits are recognized, and foreign withholding and income taxes. During the quarter ended September 30, 2013, we calculated our interim tax provision to record taxes incurred by the U.S. entity on a discrete basis because we were projecting losses in which a tax benefit cannot be recognized.

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 valuation allowance as we are in a cumulative loss position over

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the previous three years, which is considered significant negative evidence. Although the weight of negative evidence related to cumulative losses has decreased as we have settled outstanding litigation, we believe that this objectively measured negative evidence outweighs the subjectively determined positive evidence of future profitability and, as such, we have not changed our judgment regarding the need for a full valuation allowance on our deferred tax assets in the United States as of September 30, 2014. However, continued improvement in our operating results, conditioned on our MID, CRI or LDT reporting units successfully commercializing new business arrangements, signing new or renewing existing license agreements and managing costs, could lead to reversal of almost all of our valuation allowance. 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 income in the period such determination is made.

## Liquidity and Capital Resources

	As of	
	September 30, 2014	December 31, 2013
	(In millions)	
Cash and cash equivalents	\$125.7	\$338.7
Marketable securities	145.4	49.0
Total cash, cash equivalents, and marketable securities	\$271.1	\$387.7
	Nine Months Ended	
	September 30, 2014	2013
	(In millions)	
Net cash provided by operating activities	\$50.4	\$30.8
Net cash used in investing activities	\$(99.0)	\$(10.5)
Net cash provided by (used in) financing activities	\$(164.4)	\$138.8

## Liquidity

We currently anticipate that existing cash, cash equivalents and marketable securities balances and cash flows from operations will be adequate to meet our cash needs for at least the next 12 months. Additionally, substantially all of our cash and cash equivalents are in the United States. Our cash needs for the nine months ended September 30, 2014 were funded primarily from cash collected from our customers and, with respect to the repayment of the 2014 Notes, in part from our prior issuance of the 2018 Notes.

We do not anticipate any liquidity constraints as a result of either the current credit environment or investment fair value fluctuations. Additionally, we have the intent and ability to hold our debt investments that have unrealized losses in accumulated other comprehensive loss for a sufficient period of time to allow for recovery of the principal amounts invested. Additionally, we have no significant exposure to European sovereign debt. We continually monitor the credit risk in our portfolio and mitigate our credit risk exposures in accordance with our policies.

## Operating Activities

Cash provided by operating activities of \$50.4 million for the nine months ended September 30, 2014 was primarily attributable to the cash generated from customer licensing. Changes in operating assets and liabilities for the nine months ended September 30, 2014 primarily included a decrease in accrued salaries and benefits and other liabilities primarily due to the payment of retention bonuses, a decrease in income taxes payable and an increase in accounts receivable.

Cash provided by operating activities of \$30.8 million for the nine months ended September 30, 2013 was primarily attributable to the cash generated from customer licensing. Changes in operating assets and liabilities for the nine months ended September 30, 2013 primarily included a decrease in accrued salaries and benefits and other accrued liabilities primarily due to the payment of retention bonuses and a decrease in accrued litigation expenses primarily

due to a one-time reversal of accrued SK hynix related litigation costs.

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## Investing Activities

Cash used in investing activities of \$99.0 million for the nine months ended September 30, 2014 primarily consisted of cash paid for purchases of available-for-sale marketable securities of \$200.2 million, offset by proceeds from the maturities and sales of available-for-sale marketable securities of \$86.6 million and \$17.7 million, respectively. In addition, we paid \$5.6 million to acquire property, plant and equipment. We also received \$2.5 million from the sale of intellectual property.

Cash used in investing activities of \$10.5 million for the nine months ended September 30, 2013 primarily consisted of cash paid for purchases of available-for-sale marketable securities of \$101.6 million, offset by proceeds from the maturities of available-for-sale marketable securities of \$97.3 million. In addition, we paid \$5.9 million to acquire property, plant and equipment and \$2.5 million for intangible assets. We also received \$2.3 million from the sale of intellectual property.

## Financing Activities

Cash used in financing activities was \$164.4 million for the nine months ended September 30, 2014. We repaid the principal amount of the 2014 Notes amounting to \$172.5 million, which became due in June 2014. We also received proceeds of \$8.3 million from the issuance of common stock under equity incentive plans and paid \$0.2 million due to payments under installment payment arrangements for fixed assets and principal payments against the lease financing obligation.

Cash provided by financing activities was \$138.8 million for the nine months ended September 30, 2013. We received net proceeds of \$134.4 million from the issuance of the 2018 Notes. Additionally, we received proceeds of \$4.6 million from the issuance of common stock under equity incentive plans.

## Contractual Obligations

As of September 30, 2014, our material contractual obligations were (in thousands):

	Total	Remainder of 2014	2015	2016	2017	2018	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$35,873	\$ 1,486	\$6,011	\$6,156	\$6,302	\$6,447	\$9,471
Leases and other contractual obligations	10,809	3,659	3,740	1,727	1,343	340	—
Software licenses (3)	10,209	2,845	5,616	1,748	—	—	—
Acquisition retention bonuses (4)	70	—	70	—	—	—	—
Convertible notes	138,000	—	—	—	—	138,000	—
Interest payments related to convertible notes	6,211	—	1,553	1,553	1,553	1,552	—
Total	\$201,172	\$ 7,990	\$16,990	\$11,184	\$9,198	\$146,339	\$9,471

The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$19.7 million including \$17.9 million recorded as a reduction of long-term deferred tax assets and \$1.8 million in long-term income taxes payable as of September 30, 2014. As noted in Note 13, "Income Taxes," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q, although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, we cannot reasonably estimate the outcome at this time.

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.

We have commitments with various software vendors for non-cancellable agreements generally having terms longer than one year.

In connection with acquisitions, we are obligated to pay retention bonuses to certain employees and contractors, subject to certain eligibility and acceleration provisions including the condition of employment. For the retention

bonuses related to CRI, the last payment of \$1.5 million was paid in cash during the third quarter of 2014 to a designated charitable organization as a result of forfeitures by employees.



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### Share Repurchase Program

During the nine months ended September 30, 2014, we did not repurchase any shares of our common stock. As of September 30, 2014, we had repurchased a cumulative total of approximately 26.3 million shares of our common stock with an aggregate price of approximately \$428.9 million since the commencement of the program in 2001. As of September 30, 2014, there remained an outstanding authorization to repurchase approximately 5.2 million shares of our outstanding common stock.

We record stock repurchases as a reduction to stockholders' equity. We record 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.

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, expense accrual, investments, income taxes, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting estimates include those regarding (1) revenue recognition, (2) goodwill and intangible assets, (3) income taxes and (4) stock-based compensation. For a discussion of our critical accounting estimates, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Recent Accounting Pronouncements

See Note 2, "Recent Accounting Pronouncements," of Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q for discussion of recent accounting pronouncements including the respective expected dates of adoption.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks, primarily arising from the effect of interest rate fluctuations on our investment portfolio. Interest rate fluctuation may arise from changes in the market's view of the quality of the security issuer, the overall economic outlook, and the time to maturity of our portfolio. We mitigate this risk by investing only in high quality, highly liquid instruments. Securities with original maturities of one year or less must be rated by two of the three industry standard rating agencies as follows: A1 by Standard & Poor's, P1 by Moody's and/or F-1 by Fitch. Securities with original maturities of greater than one year must be rated by two of the following industry standard rating agencies as follows: AA- by Standard & Poor's, Aa3 by Moody's and/or AA- by Fitch. By corporate investment policy, we limit the amount of exposure to \$15.0 million or 10% of the portfolio, whichever is lower, for any single non-U.S. Government issuer. A single U.S. Agency can represent up to 25% of the portfolio. No more than 20% of the total portfolio may be invested in the securities of an industry sector, with money market fund investments evaluated separately. Our policy requires that at least 10% of the portfolio be in securities with a maturity of 90 days or less. We may make investments in U.S. Treasuries, U.S. Agencies, corporate bonds and municipal bonds and notes with maturities up to 36 months. However, the bias of our investment portfolio is shorter maturities. All investments must be U.S. dollar denominated. Additionally, we have no significant exposure to European sovereign debt. We invest our cash equivalents and marketable securities in a variety of U.S. dollar financial instruments such as U.S. Treasuries, U.S. Government Agencies, commercial paper and corporate notes. Our policy specifically prohibits trading securities for the sole purposes of realizing trading profits. However, we may liquidate a portion of our portfolio if we experience unforeseen liquidity requirements. In such a case, if the environment has been one of rising

interest rates we may experience a realized loss, similarly, if the environment has been one of declining interest rates we may experience a realized gain. As of September 30, 2014, we had an investment portfolio of fixed income marketable securities of \$241.5 million including cash equivalents. If market interest rates were to increase immediately and uniformly by 1.0% from the levels as of September 30, 2014, the fair value of the portfolio would decline by approximately \$0.6 million. Actual results may differ materially from this sensitivity analysis. The fair value of our convertible notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the convertible notes will generally increase as interest rates fall and decrease as interest rates rise. In

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addition, the fair value of the convertible notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of our convertible notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation.

We invoice our customers in U.S. dollars. Although the fluctuation of currency exchange rates may impact our customers, and thus indirectly impact us, we do not attempt to hedge this indirect and speculative risk. Our overseas operations consist primarily of design centers in India and France and small business development offices in Japan, Korea and Taiwan. We monitor our foreign currency exposure; however, as of September 30, 2014, we believe our foreign currency exposure is not material enough to warrant foreign currency hedging.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Securities and Exchange Act of 1934 as amended (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any material pending legal proceeding; however, from time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe 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 us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. See also “Note Regarding Forward-Looking Statements” at the beginning of this report.

Risks Associated With Our Business, Industry and Market Conditions

The success of our business depends on sustaining or growing our licensing revenue and the failure to achieve such revenue would lead to a material decline in our results of operations.

Our revenue consists mainly of patent and technology license fees paid for access to our patents, developed technology and development and support services provided to our customers. Our ability to secure the licenses from which our revenues are derived depends on our customers adopting our technology and using it in the products they sell. Once secured, license revenue may be negatively affected by factors within and outside our control, including reductions in our customers’ sales prices, sales volumes, and our failure to timely complete engineering deliverables. If we do not achieve our revenue goals, our results of operations could decline.

We have traditionally operated in industries that are highly cyclical and competitive.

Our target customers are companies that develop and market high volume business and consumer products in semiconductors, computing, tablets, handheld devices, mobile applications, gaming and graphics, high-definition televisions and displays, general lighting, cryptography and data security. The electronics industry is intensely competitive and has been impacted by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. We are subject to many risks beyond our control that influence whether or not we are successful in winning target customers or retaining existing customers, including, primarily, competition in a particular industry, market acceptance of such customers' products and the financial resources of such customers. In particular, DRAM manufacturers, which make up many of our historic customers, have suffered material losses and other adverse effects to their businesses, leading to industry consolidation that may result in loss of revenues under our existing license agreements or loss of target customers. As a result of ongoing competition in the industries in which we operate and the recent economic downturn and continued slow pace of economic recovery, we may achieve a reduced number of licenses or experience tightening of customers' operating budgets, difficulty or inability of our customers to pay our licensing fees, lengthening of the approval process for new licenses and consolidation among our customers, all of which may adversely affect the demand for our technology and may cause us to experience substantial fluctuations in our operating results.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.

If new competitors, technological advances by existing competitors, and/or development of new technologies or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses could increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results could decline. We expect these expenses to increase in the foreseeable future as our technology development efforts continue.



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Our revenue is concentrated in a few customers, and if we lose any of these customers through contract terminations or acquisitions, our revenue may decrease substantially.

We have a high degree of revenue concentration. Our top five customers for each reporting period represented approximately 62% and 61% of our revenues for the nine months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014, revenues from Micron, Samsung and SK hynix each accounted for 10% or more of our total revenue. For the nine months ended September 30, 2013, revenue from Samsung accounted for 10% or more of our total revenue. We extended our license agreement with Samsung in December 2013 for ten years, and we expect Samsung to continue to account for a significant portion of our licensing revenue. We also entered into settlement agreements with each of SK hynix and Micron (which included Elpida, which Micron had acquired in July 2013) in June 2013 and December 2013, respectively. As a result of the renewal and such settlements, we expect each of Samsung, SK hynix and Micron to account for a significant portion of our licensing revenue in the future. We expect to continue to experience significant revenue concentration for the foreseeable future.

In addition, our license agreements are complex and some contain terms that require us to provide certain customers with the lowest royalty rate that we provide to other customers for similar technologies, volumes and schedules. These clauses may limit our ability to effectively price differently among our customers, to respond quickly to market forces, or otherwise to compete on the basis of price. These clauses may also require us to reduce royalties payable by existing customers when we enter into or amend agreements with other customers. Any adjustment that reduces royalties from current customers or licensees may have a material adverse effect on our operating results and financial condition.

We continue to be in negotiations with customers and prospective customers to enter into license agreements. Any future agreement may trigger our obligation to offer comparable terms or modifications to agreements with our existing customers, which may be less favorable to us than the existing license terms. We expect licensing fees will continue to vary based on our success in renewing existing license agreements and adding new customers, 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. In particular, under our license agreement with Samsung, the license fees payable by Samsung are subject to certain adjustments and conditions, and we therefore cannot provide assurances that the revenues generated by this license will not decline in the future. In addition, some of our material license agreements may contain rights by the customer to terminate for convenience, or upon certain other events, such as change of control, material breach, insolvency or bankruptcy proceedings. If we are unsuccessful in entering into license agreements with new customers or renewing license agreements with existing customers, on favorable terms or at all, or if they are terminated, our results of operations may decline significantly.

If our counterparties are unable to fulfill their financial and other obligations to us, our business and results of operations may be affected adversely.

Any downturn in economic conditions or other business factors could threaten the financial health of our counterparties, including companies with whom we have entered into licensing and/or settlement agreements, and their ability to fulfill their financial and other obligations to us. Such financial pressures on our counterparties may eventually lead to bankruptcy proceedings or other attempts to avoid financial obligations that are due to us. Because bankruptcy courts have the power to modify or cancel contracts of the petitioner which remain subject to future performance and alter or discharge payment obligations related to pre-petition debts, we may receive less than all of the payments that we would otherwise be entitled to receive from any such counterparty as a result of bankruptcy proceedings.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. While we have not identified any material incidents of unauthorized access to date, the theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other

strategic initiatives or otherwise adversely affect our business. To the extent that any future security breach results in inappropriate disclosure of our customers' confidential information, we may incur liability.

Failures in our products and services or in the products of our customers, including those resulting from security vulnerabilities, defects or errors, could harm our business.

Because the techniques used by hackers to access or sabotage secure chip and other technologies change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and may not address them in our data security technologies. Furthermore, our data security technologies may fail to detect or prevent security breaches due to a number of reasons such as the evolving nature of such threats and the continual emergence of new

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threats. An actual or perceived security breach of our customers or their end-customers, regardless of whether the breach is attributable to the failure of our data security technologies, could adversely affect the market's perception of our security technologies. We may not be able to correct any security flaws or vulnerabilities promptly, or at all. Any breaches, defects, errors or vulnerabilities in our data security technologies could result in:

- expenditure of significant financial and research and development resources in efforts to analyze, correct, eliminate or work-around breaches, errors or defects or to address and eliminate vulnerabilities;
- financial liability to customers for breach of certain contract provisions;
- loss of existing or potential customers;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- negative publicity, which would harm our reputation; and
- litigation, regulatory inquiries or investigations that would be costly and harm our reputation.

Some of our revenue is subject to the pricing policies of our customers over whom we have no control.

We have no control over our customers' pricing of their products and there can be no assurance that licensed products will be competitively priced or will sell in significant volumes. Any premium charged by our customers in the price of memory and controller chips over alternatives must be reasonable. If the benefits of our technology do not match the price premium charged by our customers, the resulting decline in sales of products incorporating our technology could harm our operating results.

Our licensing cycle is lengthy and costly, and our marketing and licensing efforts may be unsuccessful.

The process of persuading customers to adopt and license our chip interface, lighting, data security, and other technologies can be lengthy. Even if successful, there can be no assurance that our technologies will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to us. We generally incur significant marketing and sales expenses prior to entering into our license agreements, generating a license fee and establishing a royalty stream from each customer. The length of time it takes to establish a new licensing relationship can take many months or even years. We may incur costs in any particular period before any associated revenue stream begins, if at all. If our marketing and sales efforts are very lengthy or unsuccessful, then we may face a material adverse effect on our business and results of operations as a result of failure to obtain or an undue delay in obtaining royalties.

Future revenue is difficult to predict for several reasons, and our failure to predict revenue accurately may result in our stock price declining.

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 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.

Furthermore, a portion of our revenue comes from development and support services provided to our customers. Depending upon the nature of the services, a portion of the related revenue may be recognized ratably over the support period, or may be recognized according to contract revenue accounting. Contract revenue accounting may result in deferral of the service fees to the completion of the contract, or may result in the recognition of service fees over the period in which services are performed on a percentage-of-completion basis.

We may fail to meet our publicly announced guidance or other expectations about our business, which would likely cause our stock price to decline.

We provide guidance regarding our expected financial and business performance including our anticipated future revenues and operating expenses. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process.

Such guidance may not always be accurate or may vary from actual results due to our inability to meet our assumptions and the impact on our financial performance that could occur as a result of the various risks and uncertainties to our business as set forth in these risk factors. We offer no assurance that such guidance will ultimately



be accurate, and investors should treat any such guidance with appropriate caution. If we fail to meet our guidance or if we find it necessary to revise such guidance, even if such failure or revision is seemingly insignificant, investors and analysts may lose confidence in us and the market value of our common stock could be materially adversely affected.

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We have in the past made and may in the future make acquisitions or enter into mergers, strategic investments, sales of assets or other arrangements that may not produce expected operating and financial results.

From time to time, we engage in acquisitions, strategic transactions and strategic investments. We completed a number of acquisitions from 2009 to 2012, including the acquisition of CRI in 2011, our largest acquisition to date. Many of our acquisitions or strategic investments entail a high degree of risk, and such investments may not become liquid for several years after the date of the investment, if at all. Our acquisitions or strategic investments may not generate the financial returns we expect, and we may be subject to liabilities that either are not covered by indemnification protection we may obtain or become subject to litigation. Achieving the anticipated benefits of business acquisitions depends in part upon our ability to integrate the acquired businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, including, among others: retaining key employees; successfully integrating new employees, business systems and technology; retaining customers of the acquired business; minimizing the diversion of management's attention from ongoing business matters; coordinating geographically separate organizations; consolidating research and development operations; and consolidating corporate and administrative infrastructures.

Our strategic investments in new areas of technology may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital, and unidentified issues not discovered in due diligence. These investments are inherently risky and may not be successful.

In addition, we may record impairment charges related to our acquisitions or strategic investments. For example, in the third quarter of 2013, we recorded an impairment of goodwill related to our MTD reporting unit. Any losses or impairment charges that we incur related to acquisitions, strategic investments or sales of assets will have a negative impact on our financial results, and we may continue to incur new or additional losses related to acquisitions or strategic investments.

We may have to incur debt or issue equity securities to pay for any future acquisition, which debt could involve restrictive covenants or which equity security issuance could be dilutive to our existing stockholders.

From time to time, we may also divest certain assets, where we may be required to provide certain representations, warranties and covenants to their buyers. While we would seek to ensure the accuracy of such representations and warranties and fulfillment of any ongoing obligations, we may not be completely successful and consequently may be subject to claims by a purchaser of such assets.

A substantial portion of our revenue is derived from sources outside of the United States and this revenue and our business generally are subject to risks related to international operations that are often beyond our control.

For the nine months ended September 30, 2014 and 2013, revenues received from our international customers constituted approximately 64% and 71%, respectively, of our total revenue. We expect that future revenue derived from international sources will continue to represent a significant portion of our total revenue.

To date, all of the revenue from international customers has been denominated in U.S. dollars. However, to the extent that such customers' sales are not denominated in U.S. dollars, any royalties which are based on a percentage of the customers' sales 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 royalties. We do not use financial instruments to hedge foreign exchange rate risk.

We currently have international design operations in India and France and business development operations in Japan, Korea and Taiwan. Our international operations and revenue are subject to a variety of risks which are beyond our control, including:

- hiring, maintaining and managing a workforce and facilities remotely and under various legal systems;
- natural disasters, acts of war, terrorism, widespread illness or security breaches;
- export controls, tariffs, import and licensing restrictions and other trade barriers;
- profits, if any, earned abroad being subject to local tax laws and not being repatriated to the United States or, if repatriation is possible, limited in amount;
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adverse tax treatment of revenue from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions;

- unanticipated changes in foreign government laws and regulations;
- lack of protection of our intellectual property and other contract rights by jurisdictions in which we may do business to the same extent as the laws of the United States;

social, political and economic instability;

geopolitical issues, including changes in diplomatic and trade relationships; and

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cultural differences in the conduct of business both with customers and in conducting business in our international facilities and international sales offices.

We and our customers are subject to many of the risks described above with respect to companies which are located in different countries. There can be no assurance that one or more of the risks associated with our international operations will not result in a material adverse effect on our business, financial condition or results of operations.

Weak global economic conditions may adversely affect demand for the products and services of our customers.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values, which could have a material negative effect on the demand for the products of our customers in the foreseeable future. If our customers experience reduced demand for their products as a result of economic conditions or otherwise, this could result in reduced royalty revenue and our business and results of operations could be harmed.

If we are unable to attract and retain qualified personnel, our business and operations could suffer.

Our success is dependent upon our ability to identify, attract, compensate, motivate and retain qualified personnel, especially engineers, senior management and other key personnel. Our employee turnover accelerated after our reduction-in-force efforts in 2012 and 2013 and subsequent voluntary and involuntary separations. The loss of the services of any key employees could be disruptive to our development efforts or business relationships and could cause our business and operations to suffer.

We are subject to various government restrictions and regulations, including on the sale of products and services that use encryption technology and those related to privacy and other consumer protection matters.

Various countries have adopted controls, license requirements and restrictions on the export, import and use of products or services that contain encryption technology. In addition, governmental agencies have proposed additional requirements for encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. Restrictions on the sale or distribution of products or services containing encryption technology may impact the ability of CRI to license its data security technologies to the manufacturers and providers of such products and services in certain markets or may require CRI or its customers to make changes to the licensed data security technology that is embedded in such products to comply with such restrictions. Government restrictions, or changes to the products or services of CRI's customers to comply with such restrictions, could delay or prevent the acceptance and use of such customers' products and services. In addition, the United States and other countries have imposed export controls that prohibit the export of encryption technology to certain countries, entities and individuals. Our failure to comply with export and use regulations concerning encryption technology of CRI could subject us to sanctions and penalties, including fines, and suspension or revocation of export or import privileges.

We are subject to a variety of laws and regulations in the United States, the European Union and other countries that involve, for example, user privacy, data protection and security, content and consumer protection. A number of proposals are pending before federal, state, and foreign legislative and regulatory bodies that could significantly affect our business. Existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs and subject us to claims or other remedies.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established new disclosure and reporting requirements for those companies who use "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. While these new requirements continue to be the subject of ongoing litigation and, as a result, uncertainty, we submitted a conflicts minerals report on Form SD with the SEC on May 30, 2014. These new requirements could affect the sourcing and availability of minerals that are used in the manufacture of our products. We have to date incurred costs and could incur additional costs associated with complying with the disclosure requirements, including for example, due diligence in regard to the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. Additionally, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence

procedures that we implement. We may also face challenges with government regulators and our customers and suppliers if we are unable to sufficiently verify that the metals used in our products are conflict free. We expect that there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products.

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Our operations are subject to risks of natural disasters, acts of war, terrorism, widespread illness or security breach at our domestic and international locations, any one of which could result in a business stoppage and negatively affect our operating results.

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel, which are primarily located in the San Francisco Bay Area and Bangalore, India. The San Francisco Bay Area is in close proximity to known earthquake fault zones. Our facilities and transportation for our employees are susceptible to damage from earthquakes and other natural disasters such as fires, floods and similar events. Should a catastrophe disable our facilities, we do not have readily available alternative facilities from which we could conduct our business, so any resultant work stoppage could have a negative effect on our operating results. We also rely on our network infrastructure and technology systems for operational support and business activities, which are subject to damage from malicious code and other related vulnerabilities common to networks and computer systems, including acts of vandalism and potential security breach by third parties. Acts of terrorism, widespread illness, war and any event that causes failures or interruption in our network infrastructure and technology systems could have a negative effect at our international and domestic facilities and could harm our business, financial condition, and operating results.

We do not have extensive experience in manufacturing and marketing products, and as a result, will rely on manufacturing supply chain partners and/or sales and distribution channels for certain products. If we are unable to secure manufacturing supply chain partners and/or sales and distribution channels, or if we do not manage them successfully, our operating results could be adversely affected.

In order to grow and in some cases maintain our business, we need to work with various partners to enable them to manufacture and/or sell our solutions. We may be unable to successfully establish and expand the effectiveness of our manufacturing supply chain partners and/or distribution channels. If our partners do not effectively manufacture and/or sell our solutions or if they fail to meet the needs of our customers, our ability to grow our business and our operating results may be adversely affected.

Our business and operating results could be harmed if we undertake any restructuring activities.

From time to time, we may undertake restructurings of our business. There are several factors that could cause restructurings to have adverse effects on our business, financial condition and results of operations. These include potential disruption of our operations, the development of our technology, the deliveries to our customers and other aspects of our business. Loss of sales, service and engineering talent, in particular, could damage our business. Any restructuring would require substantial management time and attention and may divert management from other important work. Employee reductions or other restructuring activities also would cause us to incur restructuring and related expenses such as severance expenses. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense.

### Risks Related to Capitalization Matters and Corporate Governance

The price of our common stock may continue to fluctuate.

Our common stock is listed on The NASDAQ Global Select Market under the symbol "RMBS." The trading price of our common stock has at times experienced price volatility and may continue to fluctuate significantly in response to various factors, some of which are beyond our control. These factors include:

any progress, or lack of progress, real or perceived, in the development of products that incorporate our innovations and technology companies' acceptance of our products, including the results of our efforts to expand into new target markets;

our signing or not signing new licenses and the loss of strategic relationships with any customer;

announcements of technological innovations or new products by us, our customers or our competitors;

changes in our strategies, including changes in our licensing focus and/or acquisitions of companies with business models or target markets different from our own;

positive or negative reports by securities analysts as to our expected financial results and business developments;

developments with respect to patents or proprietary rights and other events or factors;

new litigation and the unpredictability of litigation results or settlements; and

issuance of additional securities by us, including in acquisitions.

In addition, the stock market in general, and prices for companies in our industry in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

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We have outstanding senior convertible notes in an aggregate principal amount totaling \$138.0 million. Because these notes are convertible into shares of our common stock, volatility or depressed prices of our common stock could have a similar effect on the trading price of such notes. In addition, the existence of these notes may encourage short selling in our common stock by market participants because the conversion of the notes could depress the price of our common stock.

We have been party to, and may in the future be subject to, lawsuits relating to securities law matters which may result in unfavorable outcomes and significant judgments, settlements and legal expenses which could cause our business, financial condition and results of operations to suffer.

We and certain of our current and former officers and directors, as well as our current auditors, were subject to several stockholder derivative actions, securities fraud class actions and/or individual lawsuits filed in federal court against us and certain of our current and former officers and directors. The complaints generally alleged that the defendants violated the federal and state securities laws and stated state law claims for fraud and breach of fiduciary duty.

Although to date these complaints have either been settled or dismissed, the amount of time to resolve any future lawsuits is uncertain, and these matters could require significant management and financial resources. Unfavorable outcomes and significant judgments, settlements and legal expenses in litigation related to any future securities law claims could have material adverse impacts on our business, financial condition, results of operations, cash flows and the trading price of our common stock.

We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future research and development needs, to protect and enforce our intellectual property, and to meet other needs.

We have material indebtedness. In August 2013, we issued \$138.0 million aggregate principal amount of our 2018 Notes which remain outstanding. The degree to which we are leveraged could have negative consequences, including, but not limited to, the following:

- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, litigation, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations in the future may be required for the payment of the principal amount of our existing indebtedness when it becomes due at maturity in August 2018; and
- we may be required to make cash payments upon any conversion of the 2018 Notes, which would reduce our cash on hand.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of all of our outstanding 2018 Notes. Any required repurchase of the 2018 Notes as a result of a fundamental change or acceleration of the 2018 Notes would reduce our cash on hand such that we would not have those funds available for use in our business.

If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure have historically created uncertainty for companies such as ours. Any new or changed laws, regulations and standards are subject to varying interpretations due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.





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Our certificate of incorporation and bylaws, Delaware law and our outstanding convertible notes contain provisions that could discourage transactions resulting in a change in control, which may negatively affect the market price of our common stock.

Our certificate of incorporation, our bylaws and Delaware law contain provisions that might enable our management to discourage, delay or prevent a change in control. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our common stock. Pursuant to such provisions:

our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as “blank check” preferred stock, with rights senior to those of common stock, which means that a stockholder rights plan could be implemented by our board;

our board of directors is staggered into two classes, only one of which is elected at each annual meeting;

stockholder action by written consent is prohibited;

nominations for election to our board of directors and the submission of matters to be acted upon by stockholders at a meeting are subject to advance notice requirements;

certain provisions in our bylaws and certificate of incorporation such as notice to stockholders, the ability to call a stockholder meeting, advance notice requirements and action of stockholders by written consent may only be amended with the approval of stockholders holding 66 2/3% of our outstanding voting stock;

our stockholders have no authority to call special meetings of stockholders; and

our board of directors is expressly authorized to make, alter or repeal our bylaws.

We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our outstanding voting stock, the person is an “interested stockholder” and may not engage in any “business combination” with us for a period of three years from the time the person acquired 15% or more of our outstanding voting stock.

Certain provisions of our outstanding Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of such Notes will have the right, at their option, to require us to repurchase, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest on such Notes, all or a portion of their Notes. We may also be required to increase the conversion rate of such Notes in the event of certain fundamental changes.

Warranty and product liability claims brought against us could cause us to incur significant costs and adversely affect our operating results as well as our reputation and relationships with customers.

We may from time to time be subject to warranty and product liability claims with regard to product performance and effects of our lighting solutions. We could incur losses as a result of repair and replacement costs in response to customer complaints or in connection with the resolution of contemplated or actual legal proceedings relating to such claims. In addition to potential losses arising from claims and related legal proceedings, product liability claims could affect our reputation and our relationship with customers.

Unanticipated changes in our tax rates or in the tax laws and regulations could expose us to additional income tax liabilities which could affect our operating results and financial condition.

We are subject to income taxes in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations as well as other factors. Our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision, and we are currently undergoing such audits of certain of our tax returns. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions which could affect our operating results.

Litigation, Regulation and Business Risks Related to our Intellectual Property

We face potential adverse determinations in litigation stemming from our efforts to protect and enforce our patents and intellectual property and make other claims, which could broadly impact our intellectual property rights, distract our management and cause substantial expenses and declines in our revenue and stock price.

We seek to diligently protect our intellectual property rights. In connection with the extension of our licensing program to SDR SDRAM-compatible and DDR SDRAM-compatible products, we became involved in litigation related to such efforts

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against different parties in multiple jurisdictions. In each of these cases, we claimed infringement of certain of our patents, while the manufacturers of such products generally sought damages and a determination that the patents in suit are invalid, unenforceable and not infringed. Among other things, the opposing parties alleged that certain of our patents are unenforceable because we engaged in document spoliation, litigation misconduct and/or acted improperly during our 1991 to 1995 participation in the JEDEC standard setting organization (including allegations of antitrust violations and unfair competition). We have also become involved in litigation related to infringement of our patents related to products having certain peripheral interfaces. In addition, we did not prevail at jury trial in our antitrust suit against certain memory manufacturers in November 2011, which caused the market price of our stock to drop significantly. We have now settled and dismissed all patent lawsuits against all parties. We have also dismissed the antitrust suit against all parties.

Any future intellectual property litigation, whether or not determined in our favor or settled by us, is costly, may cause delays (including delays in negotiating licenses with other actual or potential customers), will tend to discourage future design partners, will tend to impair adoption of our existing technologies and divert the efforts and attention of our management and technical personnel from other business operations. In addition, we may be unsuccessful in any litigation if we have difficulty obtaining the cooperation of former employees and agents who were involved in our business during the relevant periods related to our litigation and are now needed to assist in cases or testify on our behalf. Furthermore, any adverse determination or other resolution in litigation could result in our losing certain rights beyond the rights at issue in a particular case, including, among other things: our being effectively barred from suing others for violating certain or all of our intellectual property rights; our patents being held invalid or unenforceable or not infringed; our being subjected to significant liabilities; our being required to seek licenses from third parties; our being prevented from licensing our patented technology; or our being required to renegotiate with current customers on a temporary or permanent basis.

From time to time, we are subject to proceedings by government agencies that may result in adverse determinations against us and could cause our revenue to decline substantially.

An adverse resolution by or with a governmental agency could result in severe limitations on our ability to protect and license our intellectual property, and could cause our revenue to decline substantially. Third parties have and may attempt to use adverse findings by a government agency to limit our ability to enforce or license our patents in private litigations, to challenge or otherwise act against us with respect to such government agency proceedings.

Further, third parties have sought and may seek review and reconsideration of the patentability of inventions claimed in certain of our patents by the U.S. Patent and Trademark Office (“PTO”) and/or the European Patent Office (the “EPO”). Any re-examination proceedings may be reviewed by the PTO's Board of Patent Appeals and Interferences (“BPAI”).

The BPAI has previously issued decisions in a few cases, finding the challenged claims of Rambus' patents to be invalid. Decisions of the BPAI are subject to further PTO proceedings and/or appeal to the Court of Appeals for the Federal Circuit. A final adverse decision, not subject to further review and/or appeal, could invalidate some or all of the challenged patent claims and could also result in additional adverse consequences affecting other related U.S. or European patents, including in any intellectual property litigation. If a sufficient number of such patents are impaired, our ability to enforce or license our intellectual property would be significantly weakened and could cause our revenue to decline substantially.

The pendency of any governmental agency acting as described above may impair our ability to enforce or license our patents or collect royalties from existing or potential customers, as any litigation opponents may attempt to use such proceedings to delay or otherwise impair any pending cases and our existing or potential customers may await the final outcome of any proceedings before agreeing to new licenses or to paying royalties.

Litigation or other third-party claims of intellectual property infringement could require us to expend substantial resources and could prevent us from developing or licensing our technology on a cost-effective basis.

Our research and development programs are in highly competitive fields in which numerous third parties have issued patents and patent applications with claims closely related to the subject matter of our programs. We have also been named in the past, and may in the future be named, as a defendant in lawsuits claiming that our technology infringes upon the intellectual property rights of third parties. As we develop additional products and technology, we may face claims of infringement of various patents and other intellectual property rights by third parties. In the event of a

third-party claim or a successful infringement action against us, we may be required to pay substantial damages, to stop developing and licensing our infringing technology, to develop non-infringing technology, and to obtain licenses, which could result in our paying substantial royalties or our granting of cross licenses to our technologies. We may not be able to obtain licenses from other parties at a reasonable cost, or at all, which could cause us to expend substantial resources, or result in delays in, or the cancellation of, new products.

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If we are unable to protect our inventions successfully through the issuance and enforcement of patents, our operating results could be adversely affected.

We have an active program to protect our proprietary inventions through the filing of patents. There can be no assurance, however, that:

- any current or future U.S. or foreign patent applications will be approved and not be challenged by third parties;
- our issued patents will protect our intellectual property and not be challenged by third parties;
- the validity of our patents will be upheld;
- our patents will not be declared unenforceable;
- the patents of others will not have an adverse effect on our ability to do business;
- Congress or the U.S. courts or foreign countries will not change the nature or scope of rights afforded patents or patent owners or alter in an adverse way the process for seeking or enforcing patents;
- changes in law will not be implemented, or changes in interpretation of such laws will occur, that will affect our ability to protect and enforce our patents and other intellectual property, including as a result of the passage of the America Invents Act of 2011 (which codifies several significant changes to the U.S. patent laws, including changing from a “first to invent” to a “first inventor to file” system, limiting where a patentee may file a patent suit, requiring the apportionment of patent damages, replacing interference proceedings with derivation actions, and creating a post-grant opposition process to challenge patents after they have issued);
- new legal theories and strategies utilized by our competitors will not be successful;
- others will not independently develop similar or competing chip interfaces or design around any patents that may be issued to us; or
- factors such as difficulty in obtaining cooperation from inventors, pre-existing challenges or litigation, or license or other contract issues will not present additional challenges in securing protection with respect to patents and other intellectual property that we acquire.

If any of the above were to occur, our operating results could be adversely affected.

Furthermore, policymakers, including the President, as well as certain industry stakeholders, have proposed reforming U.S. patent laws and regulations to address perceived issues surrounding patent litigation initiated by non-practicing entities. The U.S. International Trade Commission has also recently taken certain actions that have been viewed as unfavorable to patentees seeking recourse in this forum. While we cannot predict what form any new patent reform laws or regulations may ultimately take, or what impact they may have on our business, any laws or regulations that restrict our ability to enforce our patent rights against third parties could have a material adverse effect on our business.

In addition, our patents will continue to expire according to their terms, with expiration dates ranging from 2014 to 2038. Our failure to continuously develop or acquire successful innovations and obtain patents on those innovations could significantly harm our business, financial condition, results of operations, or cash flows.

Our inability to protect and own the intellectual property we create would cause our business to suffer.

We rely primarily on a combination of license, development and nondisclosure agreements, trademark, trade secret and copyright law and contractual provisions to protect our non-patentable intellectual property rights. If we fail to protect these intellectual property rights, our customers and others may seek to use our technology without the payment of license fees and royalties, which could weaken our competitive position, reduce our operating results and increase the likelihood of costly litigation. The growth of our business depends in large part on the use of our intellectual property in the products of third party manufacturers, and our ability to enforce intellectual property rights against them to obtain appropriate compensation. In addition, effective trade secret protection may be unavailable or limited in certain foreign countries. Although we intend to protect our rights vigorously, if we fail to do so, our business will suffer.

We rely upon the accuracy of our customers' recordkeeping, and any inaccuracies or payment disputes for amounts owed to us under our licensing agreements may harm our results of operations.

Many of our license agreements require our customers to document the manufacture and sale of products that incorporate our technology and report this data to us on a quarterly basis. While licenses with such terms give us the

right to audit books and records of our customers to verify this information, audits rarely are undertaken because they can be expensive, time consuming, and potentially detrimental to our ongoing business relationship with our customers. Therefore, we typically rely on the accuracy of the reports from customers without independently verifying the information in them. Our failure to audit our customers' books and records may result in our receiving more or less royalty revenue than we are entitled to under the terms of our license agreements. If we conduct royalty audits in the future, such audits may trigger disagreements over contract terms with our customers and such disagreements could hamper customer relations, divert the efforts and attention of our management from normal operations and impact our business operations and financial condition.

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Any dispute regarding our intellectual property may require us to indemnify certain customers, the cost of which could severely hamper our business operations and financial condition.

In any potential dispute involving our patents or other intellectual property, our customers could also become the target of litigation. While we generally do not indemnify our customers, some of our license agreements provide limited indemnities, and some require us to provide technical support and information to a customer that is involved in litigation involving use of our technology. In addition, we may agree to indemnify others in the future. Any of these indemnification and support obligations could result in substantial expenses. In addition to the time and expense required for us to indemnify or supply such support to our customers, a customer's development, marketing and sales of licensed semiconductors, lighting, mobile communications and data security technologies could be severely disrupted or shut down as a result of litigation, which in turn could severely hamper our business operations and financial condition as a result of lower or no royalty payments.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

A list of exhibits to this Quarterly Report on Form 10-Q is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.



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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAMBUS INC.

Date: October 24, 2014

By: /s/ Satish Rishi  
Satish Rishi  
Senior Vice President, Finance and Chief Financial  
Officer  
(Principal Financial Officer and Duly Authorized  
Officer)

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## INDEX TO EXHIBITS

Exhibit Number	Description of Document
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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The certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. \*Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.