

RAMBUS INC  
Form 10-Q  
July 28, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-22339

---

RAMBUS INC.

(Exact name of registrant as specified in its charter)

---

Delaware

(State or other jurisdiction of incorporation or organization) 94-3112828 (I.R.S. Employer Identification No.)

1050 Enterprise Way, Suite 700

94089

Sunnyvale, California

(Address of principal executive offices) (ZIP Code)

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

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

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



Table of Contents

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 109,277,223 as of June 30, 2017.

---

Table of Contents

RAMBUS INC.  
TABLE OF CONTENTS

	PAGE
<u>Note Regarding Forward-Looking Statements</u>	<u>4</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>6</u>
<u>Item 1. Financial Statements (Unaudited):</u>	<u>6</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	<u>6</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	<u>9</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>39</u>
<u>Item 4. Controls and Procedures</u>	<u>40</u>
<u>PART II. OTHER INFORMATION</u>	<u>41</u>
<u>Item 1. Legal Proceedings</u>	<u>41</u>
<u>Item 1A. Risk Factors</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>54</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>54</u>
<u>Item 5. Other Information</u>	<u>54</u>
<u>Item 6. Exhibits</u>	<u>55</u>
<u>Signature</u>	<u>56</u>
<u>Exhibit Index</u>	<u>57</u>

Table of Contents

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements include, without limitation, predictions regarding the following aspects of our future:

- Success in the markets of our products and services or our customers’ products;
- Sources of competition;
- Research and development costs and improvements in technology;
- Sources, amounts and concentration of revenue, including royalties;
- Success in signing and renewing license agreements;
- Terms of our licenses and amounts owed under license agreements;
- Technology product development;
- Dispositions, acquisitions, mergers or strategic transactions and our related integration efforts, including our acquisitions of Smart Card Software Ltd., the assets of Semtech Corporation’s Snowbush IP group and Inphi Corporation’s Memory Interconnect Business;
- Impairment of goodwill and long-lived assets;
- Pricing policies of our customers;
- Changes in our strategy and business model, including the expansion of our portfolio of inventions, products, software, services and solutions to address additional markets in lighting, memory, chip, mobile payments, smart ticketing and security;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- Effects of security breaches or failures in our or our customers’ products and services on our business;
- Engineering, sales and general and administration expenses;
- Contract revenue;
- Operating results;
- International licenses, operations and expansion;
- Effects of changes in the economy and credit market on our industry and business;
- Ability to identify, attract, motivate and retain qualified personnel;
- Effects of government regulations on our industry and business;
- Manufacturing, shipping and supply partners and/or sale and distribution channels;
- Growth in our business;
- Methods, estimates and judgments in accounting policies;
- Adoption of new accounting pronouncements;
- Effective tax rates;
- Restructurings and plans of termination;
  - Realization of deferred tax assets/release of deferred tax valuation allowance;
- Trading price of our common stock;
- Internal control environment;
- The level and terms of our outstanding debt and the repayment or financing of such debt;
- Protection of intellectual property;
- Any changes in laws, agency actions and judicial rulings that may impact the ability to enforce intellectual property rights;
- Indemnification and technical support obligations;
- Equity repurchase plans;

Table of Contents

• Issuances of debt or equity securities, which could involve restrictive covenants or be dilutive to our existing stockholders;

• Effects of fluctuations in currency exchange rates;

• Outcome and effect of potential future intellectual property litigation and other significant litigation; and

• Likelihood of paying dividends.

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

Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Part II: Item 1A, “Risk Factors.” All forward-looking statements included in this document are based on our assessment of information available to us at this time. We assume no obligation to update any forward-looking statements.

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## RAMBUS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	December 31, 2016
	(In thousands, except shares and par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 167,207	\$ 135,294
Marketable securities	746	36,888
Accounts receivable	36,788	21,099
Inventories	5,328	5,633
Prepays and other current assets	12,255	17,867
Total current assets	222,324	216,781
Intangible assets, net	111,875	132,388
Goodwill	207,959	204,794
Property, plant and equipment, net	54,305	58,442
Deferred tax assets	204,267	168,342
Other assets	2,564	2,749
Total assets	\$ 803,294	\$ 783,496
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,099	\$ 9,793
Accrued salaries and benefits	14,076	14,177
Deferred revenue	21,327	16,932
Other current liabilities	6,615	10,399
Total current liabilities	51,117	51,301
Convertible notes, long-term	129,690	126,167
Long-term imputed financing obligation	37,677	38,029
Other long-term liabilities	14,592	15,217
Total liabilities	233,076	230,714
Commitments and contingencies (Notes 9 and 13)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares at June 30, 2017 and December 31, 2016	—	—
Common stock, \$.001 par value:		
Authorized: 500,000,000 shares		
Issued and outstanding: 109,277,223 shares at June 30 2017 and 111,053,734 shares at December 31, 2016	109	111
Additional paid-in capital	1,179,283	1,181,230
Accumulated deficit	(600,557)	(615,051)
Accumulated other comprehensive loss	(8,617)	(13,508)
Total stockholders' equity	570,218	552,782
Total liabilities and stockholders' equity	\$ 803,294	\$ 783,496
See Notes to Unaudited Condensed Consolidated Financial Statements		





Table of Contents

RAMBUS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Revenue:				
Royalties	\$69,990	\$62,835	\$138,946	\$125,712
Product revenue	8,401	3,902	19,305	7,214
Contract and other revenue	16,329	9,764	33,820	16,257
Total revenue	94,720	76,501	192,071	149,183
Operating costs and expenses:				
Cost of product revenue*	7,480	3,016	12,730	5,550
Cost of contract and other revenue	14,337	11,073	28,818	20,746
Research and development*	37,522	28,753	73,522	57,280
Sales, general and administrative*	27,137	21,789	55,323	44,884
Gain from settlement	—	(138)	—	(579)
Total operating costs and expenses	86,476	64,493	170,393	127,881
Operating income	8,244	12,008	21,678	21,302
Interest income and other income (expense), net	129	1,138	283	1,380
Interest expense	(3,261)	(3,163)	(6,467)	(6,304)
Interest and other income (expense), net	(3,132)	(2,025)	(6,184)	(4,924)
Income before income taxes	5,112	9,983	15,494	16,378
Provision for income taxes	2,507	6,107	9,883	10,624
Net income	\$2,605	\$3,876	\$5,611	\$5,754
Net income per share:				
Basic	\$0.02	\$0.04	\$0.05	\$0.05
Diluted	\$0.02	\$0.03	\$0.05	\$0.05
Weighted average shares used in per share calculation:				
Basic	110,060	109,904	110,758	109,818
Diluted	112,565	112,061	114,091	112,202

\* Includes stock-based compensation:

Cost of product revenue	\$19	\$14	\$33	\$28
Research and development	\$3,067	\$2,109	\$6,079	\$4,189
Sales, general and administrative	\$3,523	\$2,926	\$7,093	\$5,696

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

RAMBUS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net income	\$ 2,605	\$ 3,876	\$ 5,611	\$ 5,754
Other comprehensive income (loss):				
Foreign currency translation adjustment	3,597	(5,559 )	4,596	(6,199 )
Unrealized gain (loss) on marketable securities, net of tax	55	(188 )	295	(371 )
Total comprehensive income (loss)	\$ 6,257	\$ (1,871 )	\$ 10,502	\$ (816 )

See Notes to Unaudited Condensed Consolidated Financial Statements

8

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	\$5,611	\$5,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	13,205	9,913
Depreciation	6,722	5,965
Amortization of intangible assets	20,938	15,871
Non-cash interest expense and amortization of convertible debt issuance costs	3,523	3,326
Deferred income taxes	514	2,816
Excess tax benefits from stock-based compensation	—	(591 )
(Gain) loss from disposal of property, plant and equipment	180	(37 )
Effect of exchange rate on assumed cash liability from acquisition	—	(624 )
Change in operating assets and liabilities, net of impact of acquisitions:		
Accounts receivable	(13,152 )	14,809
Prepaid expenses and other assets	5,116	(1,319 )
Inventories	304	(537 )
Accounts payable	(396 )	2,167
Accrued salaries and benefits and other liabilities	(4,122 )	(9,046 )
Deferred revenue	4,090	1,794
Net cash provided by operating activities	42,533	50,261
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,482 )	(3,557 )
Purchases of marketable securities	—	(54,869 )
Maturities of marketable securities	32,048	81,971
Proceeds from sale of marketable securities	4,450	44,546
Proceeds from sale of property, plant and equipment	17	—
Acquisitions of businesses, net of cash acquired	—	(80,523 )
Net cash provided by (used in) investing activities	33,033	(12,432 )
Cash flows from financing activities:		
Proceeds received from issuance of common stock under employee stock plans	8,345	8,259
Principal payments against lease financing obligation	(395 )	(295 )
Payments of taxes on restricted stock units	(2,824 )	(1,572 )
Repurchase and retirement of common stock, including prepayment under accelerated share repurchase program	(50,036 )	—
Excess tax benefits from stock-based compensation	—	591
Net cash provided by (used in) financing activities	(44,910 )	6,983
Effect of exchange rate changes on cash and cash equivalents	1,257	(565 )
Net increase in cash and cash equivalents	31,913	44,247
Cash and cash equivalents at beginning of period	135,294	143,764
Cash and cash equivalents at end of period	\$167,207	\$188,011
Non-cash investing activities during the period:		
Property, plant and equipment received and accrued in accounts payable and other liabilities	\$176	\$246

Non-cash financing activities during the period:

Additional purchase consideration from acquisition

\$—

\$11,476

See Notes to Unaudited Condensed Consolidated Financial Statements

9

---

Table of Contents

RAMBUS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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, 2016.

Operating Segment Definitions

Operating segments are based upon Rambus' internal organization structure, the manner in which its operations are managed, the criteria used by its Chief Operating Decision Maker ("CODM") to evaluate segment performance and availability of separate financial information regularly reviewed for resource allocation and performance assessment. The Company determined its CODM to be the Chief Executive Officer and determined its operating segments to be: (1) Memory and Interfaces Division ("MID"), which focuses on the design, development, manufacturing through partnerships and licensing of technology and solutions that is related to memory and interfaces; (2) Rambus Security Division ("RSD"), which focuses on the design, development, deployment and licensing of technologies for chip, system and in-field application security, anti-counterfeiting, smart ticketing and mobile payments; (3) Emerging Solutions Division ("ESD"), which includes the Rambus Labs team, the computational sensing and imaging group as well as the development efforts in the area of emerging technologies; and (4) Rambus Lighting Division ("RLD"), which focuses on the design, development and licensing of technologies for advanced LED-based lighting solutions. For the three and six months ended June 30, 2017, only MID and RSD were reportable segments as each of them met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining other operating segments were shown under "Other."

Reclassifications

Certain prior periods' amounts were reclassified to conform to the current year's presentation. None of these reclassifications had an impact on reported net income for any of the periods presented. Product revenue and related cost of product revenue were reclassified from contract and other revenue and cost of contract and other revenue, respectively. Refer to the Unaudited Condensed Consolidated Statements of Operations.

2. Recent Accounting Pronouncements

In July 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)." The amendments in Part I of this ASU change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded

conversion options that have down round features are now subject to the specialized guidance for contingent beneficial

10

---

Table of Contents

conversion features (in Subtopic 470-20, Debt-Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this ASU recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the FASB codification, to a scope exception. Those amendments do not have an accounting effect. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements. In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities," which amends the amortization period for certain purchased callable debt securities held at a premium. This ASU will shorten the amortization period for the premium to be amortized to the earliest call date. This ASU does not apply to securities held at a discount, which will continue to be amortized to maturity. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendment seeks to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective dates. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017 and is applied retrospectively. Early adoption is permitted including adoption in an interim period. The Company is currently evaluating the impact that this guidance will have on its financial condition and results of operations.

In June 2016, the FASB issued ASU No. 2016-13. The purpose of this ASU is to require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact that this guidance will have on its financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU simplifies the accounting for share-based payment transactions including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The updated standard no longer requires cash flows related to excess tax benefits to be presented as a financing activity separate from other income tax cash flows. The update also allows entities to repurchase more of an employee's shares for tax

withholding purposes without triggering liability accounting, clarifies that all cash payments to taxing authorities made on an employee's behalf for withheld shares should be presented as a financing activity on the statement of cash flows, and provides for an accounting policy election to account for forfeitures as they occur. The Company adopted this ASU on January 1, 2017. The impact of the adoption is as follows:

- This ASU requires excess tax benefits to be recognized regardless of whether the benefit reduces taxes payable. The adoption of this guidance on a modified retrospective basis resulted in the recognition of a cumulative-effect adjustment of \$38.2 million that reduced the Company's accumulated deficit and increased its deferred tax assets as of January 1, 2017. The previously unrecognized California excess tax effects were recorded as a deferred tax asset net of a valuation allowance.



Table of Contents

- The Company has elected to continue to estimate forfeitures expected to occur to determine the amount of stock-based compensation cost to be recognized in each period. As such, the guidance relating to forfeitures did not have an impact on its accumulated deficit as of January 1, 2017.

- Additionally, the Company anticipates the potential for increased periodic volatility in future effective tax rates as a result of the continued application of ASU No. 2016-09.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This ASU requires lessees to recognize right-of-use assets and liabilities for operating leases, initially measured at the present value of the lease payments, on the balance sheet. In addition, it requires lessees to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This ASU will become effective for the Company in the first quarter of fiscal year 2019, and requires adoption using a modified retrospective approach. The Company is evaluating the impact of adopting this new accounting standard update on its consolidated financial statements and related disclosures and anticipates this new guidance will materially impact the Company's financial statements given the Company has a significant number of operating leases.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out ("LIFO"). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company adopted this ASU on January 1, 2017. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("Standard"). The core principle of the Standard is for a company to recognize revenue for goods or services transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. To do so, a company will be required to exercise more judgment and make more estimates than under current guidance, including in identifying the performance obligations included in the arrangement, estimating and revising the variable consideration, if any, to be included in the transaction price and allocating the transaction price to distinct performance obligations. The FASB further clarified the Standard by issuing ASU No. 2016-10 (Identifying Performance Obligations and Licensing); ASU No. 2016-12 (Narrow-Scope Improvements and Practical Expedients); and ASU No. 2016-20 (Technical Corrections and Improvements).

The Standard may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (the modified retrospective method). The Standard, as amended, is effective for the company on January 1, 2018. As of June 30, 2017, the Company is determining which method to adopt, although the Company believes it will adopt the Standard using the full retrospective method which requires that the Standard be applied retrospectively to each prior period presented. The Company is currently finalizing its assessment of the impact the Standard will have on its consolidated financial statements, including disclosures, and expects that the Standard will materially impact the timing of revenue recognition for fixed or guaranteed minimums intellectual property ("IP") licensing arrangements as revenue could be recognized at a point in time, as opposed to when payments are due and payable under current guidance; the Company will also be required to compute and recognize interest income over time as control over the IP generally transfers significantly in advance of cash being received from customers. The Company will be required to recognize revenue on the basis of sales or usage based royalty estimates, with a true-up recorded in subsequent periods when licensees report actual sales or usage, as applicable.

As part of the Company's assessment and implementation plan, the Company is evaluating and implementing changes to its policies, procedures and controls.

### 3. Earnings Per Share

Basic earnings per share is calculated by dividing the net income 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 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.

Table of Contents

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

	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
Net income per share:	(In thousands, except per share amounts)			
Numerator:				
Net income	\$2,605	\$3,876	\$5,611	\$5,754
Denominator:				
Weighted-average shares outstanding - basic	110,060	109,904	110,758	109,818
Effect of potential dilutive common shares	2,505	2,157	3,333	2,384
Weighted-average shares outstanding - diluted	112,565	112,061	114,091	112,202
Basic net income per share	\$0.02	\$0.04	\$0.05	\$0.05
Diluted net income per share	\$0.02	\$0.03	\$0.05	\$0.05

For the three months ended June 30, 2017 and 2016, options to purchase approximately 2.0 million and 2.3 million shares, respectively, and for the six months ended June 30, 2017 and 2016, options to purchase approximately 2.0 million and 2.3 million shares, respectively, were excluded from the calculation because they were anti-dilutive after considering proceeds from exercise and related unrecognized stock-based compensation expense.

#### 4. Intangible Assets and Goodwill

##### Goodwill

The following tables present goodwill information for each of the reportable segments for the six months ended June 30, 2017:

Reportable Segment:	As of December 31, 2016	Additions to Goodwill (1)	Impairment of Goodwill	Effect of Exchange Rates (2)	As of June 30, 2017
	(In thousands)				
MID	\$66,643	\$ —	\$ —	—\$ —	\$66,643
RSD	138,151	803	—	2,362	141,316
Total	\$204,794	\$ 803	\$ —	—\$ 2,362	\$207,959

(1) During the first quarter of 2017, the Company corrected an immaterial error related to an overstatement in prepaids and other current assets that originated in 2016.

(2) Effect of exchange rates relates to foreign currency translation adjustments for the period.

Reportable Segment:	As of June 30, 2017	Gross Carrying Amount	Accumulated Net Impairment Losses	Net Carrying Amount
	(In thousands)			
MID	\$66,643	\$ —	—	\$66,643
RSD	141,316	—	—	141,316
Other	21,770	(21,770)	) —	—
Total	\$229,729	\$ (21,770)	) —	\$207,959

Table of Contents

## Intangible Assets

The components of the Company's intangible assets as of June 30, 2017 and December 31, 2016 were as follows:

		As of June 30, 2017		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(1)		
		(In thousands)		
Existing technology	3 to 10 years	\$257,911	\$ (174,539 )	\$ 83,372
Customer contracts and contractual relationships	1 to 10 years	67,236	(43,833 )	23,403
Non-compete agreements and trademarks	3 years	300	(300 )	—
In-process research and development	Not applicable	5,100	—	5,100
Total intangible assets		\$330,547	\$ (218,672 )	\$ 111,875

(1) The change in gross carrying amount reflects the effects of exchange rates during the period.

		As of December 31, 2016		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)		
Existing technology	3 to 10 years	\$256,656	\$ (156,577 )	\$ 100,079
Customer contracts and contractual relationships	1 to 10 years	65,109	(37,900 )	27,209
Non-compete agreements and trademarks	3 years	300	(300 )	—
In-process research and development	Not applicable	5,100	—	5,100
Total intangible assets		\$327,165	\$ (194,777 )	\$ 132,388

During the three and six months ended June 30, 2017, the Company did not purchase or sell any intangible assets.

During the three and six months ended June 30, 2016, the Company did not sell any intangible assets.

Included in customer contracts and contractual relationships are favorable contracts which are acquired software and service 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 June 30, 2017 and 2016, the Company received \$1.2 million and \$2.4 million, respectively, related to the favorable contracts. For the six months ended June 30, 2017 and 2016, the Company received \$2.4 million and \$4.1 million, respectively, related to the favorable contracts. As of June 30, 2017 and December 31, 2016, the net balance of the favorable contract intangible assets was \$2.2 million and \$3.6 million, respectively.

Amortization expense for intangible assets for the three and six months ended June 30, 2017 was \$10.5 million and \$20.9 million, respectively. Amortization expense for intangible assets for the three and six months ended June 30, 2016, was \$8.2 million and \$15.9 million, respectively. The estimated future amortization of intangible assets as of June 30, 2017 was as follows (amounts in thousands):

Years Ending December 31:	Amount
2017 (remaining 6 months)	\$22,174
2018	29,338
2019	19,594
2020	18,876

2021	12,500
Thereafter	9,393
	\$111,875

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

Table of Contents

results. If the Company determines that its goodwill or long-lived assets are impaired, it would be required to record a non-cash charge that could have a material adverse effect on its results of operations and financial position.

### 5. Segments and Major Customers

For the three and six months ended June 30, 2017, MID and RSD were reportable segments as each of them met the quantitative thresholds for disclosure as a reportable segment. The results of the remaining operating segments were shown under "Other."

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

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

The tables below present reported segment operating income (loss) for the three and six months ended June 30, 2017 and 2016, respectively.

	For the Three Months Ended June 30, 2017				For the Six Months Ended June 30, 2017			
	MID	RSD	Other	Total	MID	RSD	Other	Total
	(In thousands)				(In thousands)			
Revenues	\$67,402	\$23,366	\$3,952	\$94,720	\$137,997	\$46,571	\$7,503	\$192,071
Segment operating expenses	23,801	12,214	8,654	44,669	44,056	24,613	17,389	86,058
Segment operating income (loss)	\$43,601	\$11,152	\$(4,702)	\$50,051	\$93,941	\$21,958	\$(9,886)	\$106,013
Reconciling items				(41,807)				(84,335)
Operating income				\$8,244				\$21,678
Interest and other income (expense), net				(3,132)				(6,184)
Income before income taxes				\$5,112				\$15,494

	For the Three Months Ended June 30, 2016				For the Six Months Ended June 30, 2016			
	MID	RSD	Other	Total	MID	RSD	Other	Total
	(In thousands)				(In thousands)			
Revenues	\$54,467	\$16,407	\$5,627	\$76,501	\$108,012	\$30,508	\$10,663	\$149,183
Segment operating expenses	13,229	13,105	7,092	33,426	25,272	25,015	14,218	64,505
Segment operating income (loss)	\$41,238	\$3,302	\$(1,465)	\$43,075	\$82,740	\$5,493	\$(3,555)	\$84,678
Reconciling items				(31,067)				(63,376)
Operating income				\$12,008				\$21,302
Interest and other income (expense), net				(2,025)				(4,924)
Income before income taxes				\$9,983				\$16,378

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.

Table of Contents

Accounts receivable from the Company's major customers representing 10% or more of total accounts receivable at June 30, 2017 and December 31, 2016, respectively, was as follows:

Customer	As of	
	June 30, 2017	December 31, 2016
Customer 1 (RSD reportable segment)	* 17 %	
Customer 2 (Other segment)	* 12 %	
Customer 3 (MID reportable segment)	20 %	13 %
Customer 4 (MID reportable segment)	25 %	*

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

Revenue from the Company's major customers representing 10% or more of total revenue for the three and six months ended June 30, 2017 and 2016, respectively, was as follows:

Customer	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Customer A (MID and RSD reportable segments)	17 %	20 %	17 %	21 %
Customer B (MID reportable segment)	13 %	21 %	13 %	21 %
Customer C (MID reportable segment)	14 %	13 %	14 %	13 %

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
South Korea	\$ 28,291	\$ 31,632	\$ 57,260	\$ 63,086
USA	41,155	26,532	79,593	51,776
Japan	7,057	5,911	13,575	10,898
Europe	4,243	4,377	8,681	8,189
Canada	1,352	1,168	2,420	1,382
Singapore	4,889	4,526	12,636	9,145
Asia-Other	7,733	2,355	17,906	4,707
Total	\$ 94,720	\$ 76,501	\$ 192,071	\$ 149,183

## 6. Marketable Securities

Rambus invests its excess cash and cash equivalents primarily in U.S. government-sponsored obligations, commercial paper, corporate notes and bonds, money market funds and municipal notes and bonds that mature within three years. As of June 30, 2017 and December 31, 2016, all of the Company's cash equivalents and marketable securities had a remaining maturity of less than one year.

Table of Contents

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 June 30, 2017				
	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return
Money market funds	\$15,460	\$15,460	\$ —	\$ —	0.83 %
U.S. Government bonds and notes	63,612	63,610	2	—	0.83 %
Corporate notes, bonds, commercial paper and other	37,754	37,758	—	(4 )	0.97 %
Total cash equivalents and marketable securities	116,826	116,828	2	(4 )	
Cash	51,127	51,127	—	—	
Total cash, cash equivalents and marketable securities	\$167,953	\$167,955	\$ 2	\$ (4 )	
(In thousands)	As of December 31, 2016				
	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Weighted Rate of Return
Money market funds	\$10,681	\$10,681	\$ —	\$ —	0.41 %
U.S. Government bonds and notes	48,292	48,291	1	—	0.39 %
Corporate notes, bonds, commercial paper and other	62,178	62,199	—	(21 )	0.66 %
Total cash equivalents and marketable securities	121,151	121,171	1	(21 )	
Cash	51,031	51,031	—	—	
Total cash, cash equivalents and marketable securities	\$172,182	\$172,202	\$ 1	\$ (21 )	

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

	As of	
	June 30, 2017	December 31, 2016
	(In thousands)	
Cash equivalents	\$116,080	\$84,263
Short term marketable securities	746	36,888
Total cash equivalents and marketable securities	116,826	121,151
Cash	51,127	51,031
Total cash, cash equivalents and marketable securities	\$167,953	\$172,182

The Company continues to invest in highly rated quality, highly liquid debt securities. As of June 30, 2017, these securities have a remaining maturity of less than one year. The Company holds all of its marketable securities as available-for-sale, marks them to market, and regularly reviews its portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis, proper valuation, and unrealized losses that may be other than temporary.

The estimated fair value of cash equivalents and marketable securities classified by the length of time that the securities have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016 are as follows:

	Fair Value		Gross Unrealized Loss	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	(In thousands)			
Less than one year				
U.S. Government bonds and notes	\$8,997	\$18,395	\$ —	\$ —
Corporate notes, bonds and commercial paper	33,668	54,377	(4 )	(21 )



Edgar Filing: RAMBUS INC - Form 10-Q

Total Corporate notes, bonds, and commercial paper and U.S. Government bonds and notes	\$42,665	\$ 72,772	\$ (4 )	\$ (21 )
---	----------	-----------	---------	----------

17

---

Table of Contents

The gross unrealized loss at June 30, 2017 and December 31, 2016 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 U.S. government-sponsored obligations and corporate notes and bonds. There is no need to sell these investments, and the Company believes that it can recover the amortized cost of these investments. The Company has found no evidence of impairment due to credit losses in its portfolio.

Therefore, these unrealized losses were recorded in other comprehensive income. However, the Company cannot provide any assurance that its portfolio of cash, cash equivalents and marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company in the future to record an impairment charge for credit losses which could adversely impact its financial results.

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

## 7. Fair Value of Financial Instruments

The Company reviews the pricing inputs by obtaining prices from a different source for the same security on a sample of its portfolio. The Company has not adjusted the pricing inputs it has obtained. The following table presents the financial instruments that are carried at fair value and summarizes the valuation of its cash equivalents and marketable securities by the above pricing levels as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017			
	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	\$15,460	\$15,460	\$ —	\$ —
U.S. Government bonds and notes	63,612	—	63,612	—
Corporate notes, bonds, commercial paper and other	37,754	746	37,008	—
Total available-for-sale securities	\$116,826	\$16,206	\$100,620	\$ —
	As of December 31, 2016			
	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	\$10,681	\$10,681	\$ —	\$ —
U.S. Government bonds and notes	48,292	—	48,292	—
Corporate notes, bonds, commercial paper and other	62,178	303	61,875	—
Total available-for-sale securities	\$121,151	\$10,984	\$110,167	\$ —

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

For the three and six months ended June 30, 2017 and 2016, there were no transfers of financial instruments between different categories of fair value.

18

---

Table of Contents

The following table presents the financial instruments that are not carried at fair value but require fair value disclosure as of June 30, 2017 and December 31, 2016:

(In thousands)	As of June 30, 2017			As of December 31, 2016		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
1.125% Convertible Senior Notes due 2018 (the "2018 Notes")	\$138,000	\$129,690	\$151,386	\$138,000	\$126,167	\$173,961

The fair value of the convertible notes at each balance sheet date is determined based on recent quoted market prices for these notes which is a level 2 measurement. As discussed in Note 8, "Convertible Notes," as of June 30, 2017, the 2018 Notes are carried at their face value of \$138.0 million, less any unamortized debt discount and unamortized debt issuance costs. The carrying value of other financial instruments, including accounts receivable, accounts payable and other liabilities, approximates fair value due to their short maturities.

## 8. Convertible Notes

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

(In thousands)	As of June 30, 2017	As of December 31, 2016
1.125% Convertible Senior Notes due 2018	\$138,000	\$138,000
Unamortized discount	(7,673 )	(10,913 )
Unamortized debt issuance costs	(637 )	(920 )
Total convertible notes	\$129,690	\$126,167
Less current portion	—	—
Total long-term convertible notes	\$129,690	\$126,167

Interest expense related to the notes for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In thousands)			
2018 Notes coupon interest at a rate of 1.125%	\$388	\$388	776	776
2018 Notes amortization of discount and debt issuance costs at an additional effective interest rate of 5.5%	1,774	1,675	3,523	3,326
Total interest expense on convertible notes	\$2,162	\$2,063	\$4,299	\$4,102

Table of Contents

## 9. Commitments and Contingencies

As of June 30, 2017, the Company's material contractual obligations were as follows (in thousands):

	Total	Remainder of 2017	2018	2019	2020	2021	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$19,103	\$ 3,185	\$6,447	\$6,602	\$2,869	\$—	\$ —
Leases and other contractual obligations	18,784	4,213	4,569	3,514	2,549	2,646	1,293
Software licenses (3)	18,557	4,849	10,176	3,532	—	—	—
Convertible notes	138,000	—	138,000	—	—	—	—
Interest payments related to convertible notes	2,328	776	1,552	—	—	—	—
Total	\$196,772	\$ 13,023	\$160,744	\$13,648	\$5,418	\$2,646	\$ 1,293

The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$22.9 million including \$20.7 million recorded as a reduction of long-term deferred tax assets and \$2.2 million in (1) long-term income taxes payable as of June 30, 2017. As noted below in Note 12, "Income Taxes," although it is possible that some of the unrecognized tax benefits could be settled within the next 12 months, the Company cannot reasonably estimate the outcome at this time.

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 unaudited condensed consolidated (2) balance sheets are the interest on the imputed financing obligation and the estimated common area expenses over the future periods. The amount includes the amended Ohio lease and the amended Sunnyvale lease.

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

Building lease expense was approximately \$1.1 million and \$2.1 million for the three and six months ended June 30, 2017, respectively. Building lease expense was approximately \$0.9 million and \$1.7 million for the three and six months ended June 30, 2016, respectively. Deferred rent of \$0.3 million and \$0.5 million as of June 30, 2017 and December 31, 2016, respectively, was included primarily in other current liabilities.

## Indemnification

From time to time, the Company indemnifies certain customers as 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 or liability that the Company could be exposed to under these agreements, however, this is not always possible. The fair value of the liability as of June 30, 2017 and December 31, 2016 is not material.

## 10. Equity Incentive Plans and Stock-Based Compensation

As of June 30, 2017, 5,440,093 shares of the 35,400,000 cumulative shares approved under both the current 2015 Equity Incentive Plan (the "2015 Plan") and past 2006 Equity Incentive Plan (the "2006 Plan") remain available for grant, which included an increase of 4,000,000 shares approved under the 2015 Plan. On April 23, 2015, the Company's stockholders approved the 2015 Plan, which authorizes 4,000,000 shares for future issuance plus the number of shares that remained available for grant under the 2006 Plan as of the effective date of the 2015 Plan. The 2015 Plan became effective and replaced the 2006 Plan on April 23, 2015. The 2015 Plan was the Company's only plan for providing stock-based incentive awards to eligible employees, executive officers, non-employee directors and consultants as of June 30, 2017. No further awards will be made under the 2006 Plan, but the 2006 Plan will continue to govern awards previously granted under it. In addition, any shares subject to stock options or other awards granted under the 2006 Plan that on or after the effective date of the 2015 Plan are forfeited, cancelled, exchanged or surrendered or terminate under the 2006 Plan will become available for grant under the 2015 Plan.

Table of Contents

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, 2016	7,305,368
Stock options granted	(498,426 )
Stock options forfeited	1,472,366
Nonvested equity stock and stock units granted (1) (2)	(3,553,590 )
Nonvested equity stock and stock units forfeited (1)	714,375
Total available for grant as of June 30, 2017	5,440,093

For purposes of determining the number of shares available for grant under the 2015 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.

Amount includes 266,847 shares that have been reserved for potential future issuance related to certain (2) performance unit awards granted in the first quarter of 2017 and discussed under the section titled "Nonvested Equity Stock and Stock Units" below.

#### General Stock Option Information

The following table summarizes stock option activity under the 2006 Plan and 2015 Plan for the six months ended June 30, 2017 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of June 30, 2017.

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
(In thousands, except per share amounts)				
Outstanding as of December 31, 2016	7,008,833	\$ 9.34		
Options granted	498,426	\$ 12.74		
Options exercised	(654,388 )	\$ 7.04		
Options forfeited	(1,472,366)	\$ 10.95		
Outstanding as of June 30, 2017	5,380,505	\$ 9.49	5.48	\$ 16,061
Vested or expected to vest at June 30, 2017	5,297,443	\$ 9.45	5.43	\$ 16,037
Options exercisable at June 30, 2017	3,874,169	\$ 9.20	4.58	\$ 13,287

No stock options that contain a market condition were granted during the three and six months ended June 30, 2017. As of June 30, 2017 and December 31, 2016, there were 320,000 and 1,135,000, respectively, stock options outstanding that require the Company to achieve minimum market conditions in order for the options to become exercisable. The fair values of the options granted with a market condition were calculated, on their respective grant dates, using a binomial valuation model, which estimates the potential outcome of reaching the market condition based on simulated future stock prices.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at June 30, 2017, based on the \$11.43 closing stock price of Rambus' common stock on June 30, 2017 on the NASDAQ Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of June 30, 2017 was 3,703,530 and 3,063,509, respectively.

#### Employee Stock Purchase Plan

Under the 2015 Employee Stock Purchase Plan ("2015 ESPP"), the Company issued 361,994 shares at a price of \$10.33 per share during the six months ended June 30, 2017. Under the 2015 ESPP, the Company issued 340,349

shares at a price of \$8.96 per share during the six months ended June 30, 2016. As of June 30, 2017, 1,089,649 shares under the 2015 ESPP remain available for issuance.

Table of Contents

Stock-Based Compensation

For the six months ended June 30, 2017 and 2016, the Company maintained stock plans covering a broad range of potential equity grants including stock options, nonvested equity stock and equity stock units and performance based instruments. In addition, the Company sponsors the 2015 ESPP, whereby eligible employees are entitled to purchase common stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the common stock as of specific dates.

Stock Options

During the three months ended June 30, 2017, the Company granted 40,000 stock options with an estimated total grant-date fair value of \$0.2 million. During the six months ended June 30, 2017, the Company granted 498,426 stock options with an estimated total grant-date fair value of \$2.1 million. During the three and six months ended June 30, 2017, the Company recorded stock-based compensation expense related to stock options of \$0.7 million and \$1.4 million, respectively.

During the three months ended June 30, 2016, the Company did not grant any stock options. During the six months ended June 30, 2016, the Company granted 440,000 stock options with an estimated total grant-date fair value of \$2.1 million. During the three and six months ended June 30, 2016, the Company recorded stock-based compensation expense related to stock options of \$1.1 million and \$2.3 million, respectively.

As of June 30, 2017, there was \$4.9 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 2.0 years. The total fair value of shares vested as of June 30, 2017 was \$20.7 million.

The total intrinsic value of options exercised was \$1.8 million and \$3.8 million for the three and six months ended June 30, 2017, respectively. The total intrinsic value of options exercised was \$0.9 million and \$4.0 million for the three and six months ended June 30, 2016, respectively. Intrinsic value is the total value of exercised shares based on the price of the Company's common stock at the time of exercise less the cash received from the employees to exercise the options.

During the six months ended June 30, 2017, net proceeds from employee stock option exercises totaled approximately \$4.6 million.

Employee Stock Purchase Plan

For the three and six months ended June 30, 2017, the Company recorded compensation expense related to the 2015 ESPP of \$0.4 million and \$0.9 million, respectively. For the three and six months ended June 30, 2016, the Company recorded compensation expense related to the 2015 ESPP of \$0.3 million and \$0.8 million, respectively. As of June 30, 2017, there was \$0.5 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under the 2015 ESPP. That cost is expected to be recognized over four months.

Tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units for the three and six months ended June 30, 2017 calculated in accordance with accounting for share-based payments were \$0.2 million and \$0.5 million, respectively. There were no tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases, and vesting of equity stock and stock units for the three and six months ended June 30, 2016 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.



Table of Contents

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 Plan			
	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Stock Option Plan				
Expected stock price volatility	32 %	—%	32 %	36 %
Risk free interest rate	1.8 %	—%	-	1.7 %
Expected term (in years)	5.3	—	5.3 - 5.4	6.1
Weighted-average fair value of stock options granted to employees	\$3.84	\$ —	\$4.12	\$4.66

There were no stock options granted during the three months ended June 30, 2016.

	Employee Stock Purchase Plan Six Months Ended June 30, 2017		2016	
	Employee Stock Purchase Plan			
Expected stock price volatility	27 %	33 %		
Risk free interest rate	0.98 %	0.41 %		
Expected term (in years)	0.5	0.5		
Weighted-average fair value of purchase rights granted under the purchase plan	\$2.87	\$2.86		

#### Nonvested Equity Stock and Stock Units

The Company grants nonvested equity stock units to officers, employees and directors. During the three and six months ended June 30, 2017, the Company granted nonvested equity stock units totaling 151,354 and 2,191,162 shares under the 2015 Plan. During the three and six months ended June 30, 2016, the Company granted nonvested equity stock units totaling 184,456 and 2,024,640 shares under the 2015 Plan. 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 1 year. For the