

RAMBUS INC
Form 10-K
February 21, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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 Number)

1050 Enterprise Way, Suite 700
Sunnyvale, California
(Address of principal executive offices)

94089
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$.001 Par Value

Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC
(The NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant as of June 30, 2013 was approximately \$838.1 million based upon the closing price reported for such date on The NASDAQ Global Select Market. For purposes of this disclosure, shares of Common Stock held by officers and directors of the Registrant and persons that may be deemed to be affiliates under the Act have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the Registrant's Common Stock, \$.001 par value, was 113,483,805 as of January 31, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information is incorporated into Part III of this report by reference to the Proxy Statement for the Registrant's annual meeting of stockholders to be held on or about April 24, 2014 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Annual 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;
- Technology product development;
- Outcome and effect of current and potential future intellectual property litigation and other significant litigation;
- 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;
- Deterioration of financial health of commercial counterparties and their ability to meet their obligations to us;
- 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;
- Corporate governance;
- The level and terms of our outstanding debt;
- Resolution of the governmental agency matters involving us;
- Litigation expenses;
- Protection of intellectual property;
- Terms of our licenses and amounts owed under license agreements;
- Indemnification and technical support obligations;
- Refinancing debt;

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

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

Rambus, RDRAM™, XDR™, FlexIO™, FlexPhase™, R+™, CryptoFirewall™, Imerz™, and MicroLens® are trademarks, registered trademarks or copyrights of Rambus Inc. Other trademarks or copyrights that may be mentioned in this annual report on Form 10-K are the property of their respective owners.

Industry terminology, used widely throughout this annual 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
Field Programmable Gate Arrays	FPGA
Graphics Double Data Rate	GDDR
High Definition Television	HDTV
Input/Output	I/O
Light Emitting Diodes	LED
Liquid Crystal Display	LCD
Low-Power Double Data Rate	LPDDR
Peripheral Component Interconnect	PCI
Rambus Dynamic Random Access Memory	RDRAM™
Simple Power Analysis	SPA
Single Data Rate	SDR
Synchronous Dynamic Random Access Memory	SDRAM
eXtreme Data Rate	XDR™

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On occasion 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
Freescale Semiconductor Inc.	Freescale
Fujitsu Limited	Fujitsu
General Electric Company	GE
Hewlett-Packard Company	Hewlett-Packard
Infineon Technologies AG	Infineon
Inotera Memories, Inc.	Inotera
Intel Corporation	Intel
International Business Machines Corporation	IBM
Joint Electronic Device Engineering Councils	JEDEC
Lighting and Display Technology	LDT
LSI Corporation	LSI
MediaTek Inc.	MediaTek
Memory and Interfaces Division	MID
Micron Technology, Inc.	Micron
Mobile Technology Division	MTD
Nanya Technology Corporation	Nanya
NVIDIA Corporation	NVIDIA
Qimonda AG (formerly Infineon's DRAM operations)	Qimonda
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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Item 1. Business

Rambus Inc., referred to as we, us or Rambus, was founded in 1990 and reincorporated in Delaware in March 1997. Our principal executive offices are located at 1050 Enterprise Way, Suite 700, Sunnyvale, California. Our website is www.rambus.com. You can obtain copies of our Forms 10-K, 10-Q, 8-K, and other filings with the SEC, and all amendments to these filings, free of charge, from our website as soon as reasonably practicable following our filing of any of these reports with the SEC. In addition, you may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy, and information statements, and other information regarding registrants that file electronically with the SEC at www.sec.gov.

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. Today, we're driving innovations in smart memory, chip interfaces and architectures, end-to-end security, and advanced LED lighting, while Rambus Labs looks 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 been expanding our portfolio of inventions and solutions to address additional markets in chip and system security as well as LED-based lighting. We also are exploring new areas within the semiconductor space such as computational sensing and imaging. We intend to continue to identify disruptions and opportunities in both traditional and new technology fields, consistent with our goal of creating great value through our innovations and to make those technologies available through both our licensing and non-licensing business models. Key to our efforts, both in our current businesses and in any new area of diversification, will be hiring and retaining world-class inventors, scientists and engineers to lead the development of inventions and technology solutions for these fields of focus, and the management and business support personnel necessary to execute our plans and strategies.

Rambus has four main 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) Lighting and Display Technologies, or LDT, which focuses on the design, development and licensing of technologies for lighting; and (4) Chief Technology Office, or CTO, which focuses on the design, development and productization of emerging technologies.

Our inventions and technology solutions are offered to our customers through either a patent license or a solutions license. Royalties from licenses accounted for 97%, 99% and 96% of our consolidated revenue for the years ended December 31, 2013, 2012 and 2011, respectively. Today, a majority of our revenues are derived from patent licenses, through which we provide our customers a license to use a certain portion of our broad portfolio of patented inventions. The license provides our customers with a defined right to use our innovations in the customer's own digital electronics products, systems or services, as applicable. The licenses may also define the specific field of use where our customers may use or employ our inventions in their products. License agreements are structured with fixed, variable or a hybrid of fixed and variable royalty payments over certain defined periods ranging for up to ten years. The majority of our intellectual property in MID was developed in-house and we intend to expand our business strategy of monetizing our MID intellectual property to include the sale of select intellectual property. In 2013, we signed patent license agreements with customers for aggregate revenues of up to \$1.2 billion, to be paid over the next ten years.

While patent licensing makes up the majority of our revenue today, our goal is to migrate more of our efforts toward providing solutions licenses where our technologies are incorporated into our customers' products and/or systems. Our solutions licenses are designed to support the implementation and adoption of our technology into our customers' products or services. As part of these offerings, we can provide a range of services that can include access to technical experts, advanced system design and analysis, hardware and software to enhance design and validation, system IP and

specifications, and process-specific hard and soft macros, along with other services. These 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.

Background

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The demand for increased performance and improved power efficiency in computers, tablets, smartphones, consumer electronics and other electronic systems rises dramatically with each passing year. Semiconductor and system designers face key challenges in sustaining this pace of innovation. We strive to offer compelling technologies that provide value to our customers. A key component of our current business model is intellectual property licensing. Our intellectual property broadly includes (but is not limited to) our technologies, solutions, and patents that incorporate our innovations. We focus on intellectual property that has the potential to enable future high-volume, mass-market platforms.

Memory and Interfaces

There are three main areas of focus in our Memory and Interface Division: mobile memory, server memory and links, and custom solutions. The main markets for these memory types include memory (DRAM today, NAND in the future), System-on-a-Chip (SoCs) that connect to memory (DRAM controllers), and SoCs that use high-speed serial link interfaces. Since battery technology improves modestly over time, mobile device designers face adding increased functionality and higher performance with only small increases in power budget. For plug-in systems, there is a strong desire to reduce power consumption for both economic and environmental reasons while still providing increased computing capability and more visually compelling displays. At the chip level, it becomes increasingly difficult to maintain signal integrity and power efficiency as data transfer speeds rise to support more powerful, multi-core processors.

To address these challenges and enable the continued improvement of electronics systems, ongoing innovation is required. The many contributions and patented innovations developed by Rambus scientists and engineers have been, and continue to be, critical in addressing some of the most difficult chip and system challenges. To maximize the value of our intellectual property, we have adopted a licensing strategy that takes advantage of the adoption life cycle of new technologies. During early adoption, we enable our customers to utilize our innovations through technology solutions that offer value in large and/or emerging markets. Working with industry leaders positions our inventions for broad market adoption. As our innovations reach broad adoption, we also pursue patent licensing to monetize products not covered by our solutions licenses.

We have developed technologies, advanced designs, and development tools for building high-performance and low-power memory and serial-link interface cores for semiconductor chips. We develop both proprietary and industry-standard interfaces that we provide to our customers under solutions license agreements. 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. In 2013, we introduced a set of solutions under the name R+™ enhanced standard solutions. Fully compatible with industry standards, R+ solutions offer compelling benefits that enable our customers to differentiate their products. Also in 2013, we announced the first R+ solution, the R+ LPDDR3 memory architecture. The R+ LPDDR3 architecture includes improvements to power efficiency and performance that enable longer battery life and enhanced mobile device functionality for streaming HD video, gaming and data-intensive applications. We continue to focus significant resources and effort to help bring products to market under solutions license agreements with leading companies in the industry.

Chip and System Security Technology

Security challenges are increasingly prevalent in a multitude of industries, including high-growth sectors such as mobile and content distribution, providing a variety of opportunities for our hardware-based security technologies and services. This market trend provides us with the opportunity to provide critical technologies, and we are deploying and developing products to enable us to achieve this objective. Through CRI, we own a portfolio of patented inventions and technology solutions that are needed for creating secure tamper-resistant electronic devices and systems. CRI's patented DPA countermeasures are critical in protecting devices against side channel attacks such as differential power analysis, which involve monitoring the variations in power consumption or electromagnetic emissions of a device. In addition, CRI's CryptoFirewall™ cores provide a robust hardware-based solution to protect electronics systems from counterfeiting, piracy, and other attacks. We believe the hardware based security that can be achieved with our technologies is vastly superior to many software-based security solutions.

For DPA countermeasures, our business model is to provide a combination of patent licenses, technology, consulting services (training, evaluation, and design), and test equipment. We are recognized worldwide for our expertise in this

area, and our strategy is to strengthen our offering beyond stand-alone patent licensing. We discovered the existence of SPA and DPA vulnerabilities in the 1990s, and patented the fundamental techniques for preventing against this method of attack. DPA protections are a critical security ingredient in tamper-resistant products, and are important or required for a broad range of applications and devices (including smart cards, mobile devices, FPGAs, government/defense applications, consumer set-top boxes, postage meters and security tokens).

In addition to the DPA countermeasures portfolio, we have developed technologies, expertise, advanced designs, and development tools for building highly secure cryptographic semiconductor cores. We provide semiconductor cores under our CryptoFirewall™ brand. We have successfully deployed these cores in two primary application areas where effective security is

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valued and paid for by customers: content protection and anti-counterfeiting. For CryptoFirewall™ cores, our most common business model is to partner with chip manufacturers to integrate our technology, and then license it to downstream customers.

Lighting and Display Technology

The continued evolution of LED as a bright, reliable and energy-efficient light source creates significant market opportunities in consumer electronics and in general lighting. Harnessing the benefits of LEDs, however, presents a new set of challenges for companies that offer and provide electronics and lighting products and solutions. Our technology allows customers to efficiently and uniformly spread the point source of light emitted from an LED over a large area in a very cost effective way. Moreover, we can control and direct the emitted light to improve the overall product performance or application efficiency. This technology enables class-leading price/performance and freedom of design in the general lighting field. We believe our patented technology, software and know-how, which enables precise placement of MicroLens® optics on light guides, provides our customers with a fundamental competitive advantage over alternative products in the market. We continue to focus resources and effort to help our customers bring new products to market under solutions license agreements. Our business model is a blend of patent and technology licensing, product sales and services to help bring innovative products to market.

Design and Manufacturing

Our technology solutions are developed with high-volume commercial manufacturing processes in mind. Our solutions can be delivered in a number of ways, from reference designs to full turnkey custom development deliverables. A reference design engagement might include an architectural specification, data sheet, theory of operation and implementation guides. A custom development project would entail a specific design implementation optimized for the customer's manufacturing process. In some cases, we may provide supply chain enablement services where we assist our customers in designing and establishing certain manufacturing processes to implement our technologies in their product offerings. We often develop testchips of our designs and, in some cases, may deliver our solutions to the market through physical product.

Our Strategy

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.

Research and Development and Employees

Our ability to compete in the future will be substantially dependent on our ability to develop key innovations that meet the future needs of a dynamic market. To this end, we have assembled a team of highly skilled inventors, engineers and scientists whose activities are focused on continually developing new innovations within our chosen technology fields. Using this foundation of innovations, our technical teams develop new solutions that enable increased performance, greater power efficiency, increased levels of security, as well as other improvements and benefits. Our solution design and development process is a multi-disciplinary effort requiring expertise in multiple fields across all of our operational units.

As of December 31, 2013, we had approximately 300 employees in our engineering departments, representing approximately 70% of our total number of 447 employees. None of our employees are covered by collective bargaining agreements. As noted, we believe our future success is dependent on our continued ability to identify, attract, motivate and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees and that our relationship with our employees is good.

A significant number of our scientists and engineers spend all or a portion of their time on research and development. For the years ended December 31, 2013, 2012 and 2011, research and development expenses were \$118.0 million, \$140.5 million and \$115.7 million, respectively, including stock-based compensation of approximately \$6.6 million, \$9.5 million and \$10.5 million, respectively. For the years ended December 31, 2013, 2012 and 2011, research and development expenses also included \$8.6 million, \$20.5 million and \$15.7 million, respectively, for the accrual of retention bonuses for engineers. Since innovation is critical to our future success, we expect to continue to invest substantial funds in research and development activities. In addition, because our customer agreements often call for us to provide engineering support, a portion of our total engineering costs are allocated to the cost of contract revenue.

Competition

Our selected industries are intensely competitive and have been impacted by price erosion, rapid technological change, short product life cycles, cyclical market patterns and increasing foreign and domestic competition. We face competition from semiconductor and digital electronics products and systems companies, other semiconductor intellectual property companies that provide security cores and non-edge lit LED lighting options that are available to the market.

We believe the principal competition for our technologies may come from our prospective customers, some of whom are evaluating and developing products based on technologies that they contend or may contend will not require a license from us. Some of our competitors use a system-level design approach similar to ours, including activities such as board and package design, power and signal integrity analysis, and thermal management. Many of these companies are larger and may have better access to financial, technical and other resources than we possess.

To the extent that alternatives might provide comparable system performance at lower than or similar cost to our technologies, or are perceived to require the payment of no or lower royalties, or to the extent other factors influence the industry, our customers and prospective customers may adopt and promote alternative technologies. Even to the extent we determine that such alternative technologies infringe our patents, there can be no assurance that we would be able to negotiate agreements that would result in royalties being paid to us without litigation, which could be costly and the results of which would be uncertain. In the past, litigation has been and in the future may be required to enforce and protect our intellectual property rights, as well as the substantial investments undertaken to research and develop our innovations and technologies.

In 2013, we continued our recent focus of putting behind us years of legal disputes with competitors and opening doors for future cooperation. In 2013, we settled all outstanding litigation with LSI, Micron, SK hynix, and STMicroelectronics, and we entered into license agreements with each of them, and we renewed our long-term license agreement with Samsung. We remain committed to developing innovative technology and furthering a more open, collaborative relationship with the broader industry.

Patents and Intellectual Property Protection

We maintain and support an active program to protect our intellectual property, primarily through the filing of patent applications and the defense of issued patents against infringement. As of December 31, 2013, our semiconductor, lighting, security and other technologies are covered by 1,837 U.S. and foreign patents, having expiration dates ranging from 2014 to 2037. Additionally, we have 837 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 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.

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. In addition, we attempt to protect our trade secrets and other proprietary information through agreements with current and prospective customers, and confidentiality agreements with employees and consultants and other security measures. We also rely on trademarks and trade secret laws to protect our intellectual property.

Information concerning revenue, results of operations and revenue by geographic area is set forth in Item 6, "Selected Financial Data," in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 7, "Segments and Major Customers," of Notes to Consolidated Financial Statements of this Form 10-K, all of which are incorporated herein by reference. Information concerning identifiable assets and segment reporting is also set forth in Note 7, "Segments and Major Customers," of Notes to Consolidated Financial Statements of this Form 10-K. Information on customers that comprise 10% or more of our consolidated revenue and risks attendant to our foreign operations is set forth below in Item 1A, "Risk Factors."

Our Executive Officers

Information regarding our executive officers and their ages and positions as of February 28, 2014, is contained in the table below. Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. There is

no family relationship between any of our executive officers.

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Name	Age	Position and Business Experience
Ronald D. Black, Ph.D.	50	<p>Chief Executive Officer and President. Dr. Black has served as our chief executive officer and president since June 2012 and as a director since July 2012. Dr. Black was previously the Managing Director of R.D. Black & Company, a consulting firm, since August 2011. From September 2010 to August 2011, Dr. Black was the Chief Executive Officer of MobiWire, formerly Sagem Wireless, a privately-held mobile handset company headquartered near Paris, France that offers products and services to original equipment manufacturers and mobile network operators in the mobile phone marketplace. From June 2009 to October 2010, Dr. Black served as Chairman and CEO of UPEK, Inc. Dr. Black currently serves as a board member of EnOcean GmbH, a German-based company that manufactures and markets energy harvesting technology, sensors, and radio frequency communication. From September 2010 to November 2012, he served as a board member of AuthenTec, Inc., which he joined following the AuthenTec-UPEK merger in September 2010 and from 2007 to 2013, he served as a board member of Inside Contactless, a France-based company engaged in the semiconductors and information technology industry. From September 2004 to June 2009, he was chief executive officer of Wavecom S.A., a publicly traded French wireless solutions company. Dr. Black holds a Bachelor of Science, a Masters of Science, and a Ph.D. in materials science and engineering from Cornell University in Ithaca, N.Y.</p>
Kevin Donnelly	52	<p>Senior Vice President, GM, Memory & Interfaces. Mr. Donnelly joined us in 1993. Mr. Donnelly has served in his current position since August 2012. From November 2008 to August 2012, Mr. Donnelly served as Senior Vice President, IP Strategy, from March 2006 to November 2008, as Senior Vice President, Engineering and from January 2005 to March 2006, as co-vice president of Engineering. From October 2002 to January 2005 he served as vice president, Logic Interface Division. Mr. Donnelly held various engineering and management positions before becoming vice president, Logic Interface Division in October 2002. Before joining us, Mr. Donnelly held engineering positions at National Semiconductor, Sipex, and Memorex, over an eight year period. He holds a B.S. in Electrical Engineering and Computer Sciences from the University of California, Berkeley, and an M.S. in Electrical Engineering from San Jose State University.</p>
Jae Kim	43	<p>Senior Vice President and General Counsel. Mr. Kim has served as the senior vice president and general counsel since February 2013 and as our vice president, corporate legal since joining us in July 2010. Prior to his tenure at Rambus, Mr. Kim held senior legal positions at Aricent Inc., a privately-held communications technology company and Electronics for Imaging Inc., a digital printing technology company. Mr. Kim has also had significant experience in private practice with the law firm of Wilson Sonsini Goodrich & Rosati, P.C., where he advised high technology and emerging growth companies on mergers and acquisitions, private financings, public offerings, securities compliance, public company reporting and corporate governance. Mr. Kim began his legal career as an attorney with the United States Securities and Exchange Commission, Division of Corporation Finance, in Washington, DC. Mr. Kim is</p>

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a member of both the California State Bar and New York State Bar, and received a J.D. from the American University, Washington College of Law, and his bachelor's degree from Boston University.

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Name	Age	Position and Business Experience
Satish Rishi	54	<p>Senior Vice President, Finance and Chief Financial Officer. Mr. Rishi joined us in his current position in April 2006. Prior to joining us, Mr. Rishi held the position of executive vice president of Finance and chief financial officer of Toppan Photomasks, Inc., (formerly DuPont Photomasks, Inc.) one of the world's leading photomask providers, from November 2001 to April 2006. During his 27-year career, Mr. Rishi has held senior financial management positions at semiconductor and electronic manufacturing companies. He served as vice president and assistant treasurer at Dell Inc. Prior to Dell, Mr. Rishi spent 13 years at Intel Corporation, where he held financial management positions both in the United States and overseas, including assistant treasurer. Mr. Rishi holds a B.S. with honors in Mechanical Engineering from Delhi University in Delhi, India and an M.B.A. from the University of California at Berkeley's Haas School of Business. He also serves as a director of Measurement Specialties, Inc.</p>
Martin Scott, Ph.D.	58	<p>Senior Vice President, Chief Technology Officer. Dr. Scott has served in his current position since August 2012. From August 2010 until August 2012, Dr. Scott served as our Senior Vice President, GM, New Business Group and from December 2006 to August 2010, as our Senior Vice President, Engineering. Dr. Scott joined us from PMC-Sierra, Inc., a provider of broadband communications and storage integrated circuits, where he was most recently vice president and general manager of its Microprocessor Products Division from March 2006. Dr. Scott was the vice president and general manager for the I/O Solutions Division (which was purchased by PMC-Sierra) of Avago Technologies Limited, an analog and mixed signal semiconductor components and subsystem company, from October 2005 to March 2006. Dr. Scott held various positions at Agilent Technologies, including as vice president and general manager for the I/O Solutions division from October 2004 to October 2005, when the division was purchased by Avago Technologies, vice president and general manager of the ASSP Division from March 2002 until October 2004, and, before that, Network Products operation manager. Dr. Scott started his career in 1981 as a member of the technical staff at Hewlett Packard Laboratories and held various management positions at Hewlett Packard and was appointed ASIC business unit manager in 1998. He earned a B.S. from Rice University and holds both an M.S. and Ph.D. from Stanford University.</p>
Laura Stark	45	<p>Senior Vice President, Corporate Strategy and M&A. Ms. Stark has served in her current position since August 2012. From April 2008 to August 2012, Ms. Stark served as Senior Vice President, Corporate Development, from February 2005 to April 2008 as Senior Vice President, Platform Solutions and from October 2002 to February 2005 as vice president, Memory Interface Division. Ms. Stark held various business and management positions before becoming vice president, Memory Interface Division in October 2002. Prior to joining us, Ms. Stark held various positions in the semiconductor products division of Motorola, a communications equipment company, during a six year tenure, including technical sales engineer for the Apple sales team and field application engineer for the Sun and SGI sales teams. Ms. Stark holds a B.S. in Electrical Engineering from the Massachusetts Institute of Technology.</p>

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Item 1A. Risk Factors

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 “Special Note Regarding Forward-Looking Statements” elsewhere in 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. 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 economic downturn of the past several years, 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, extensions 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.

Our revenue is concentrated in a few customers, and if we lose any of these customers through 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%, 68%, and 66% of our revenues for the years ended December 31, 2013, 2012, and 2011, respectively. For the year ended December 31, 2013 and 2012, revenues from Samsung accounted for more than 10% or more of our revenue. For the year ended December 31, 2011, revenues from Elpida, NVIDIA and Samsung, each accounted for 10% or more of our 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 as a result of the addition of new contracts, expiration or termination of existing contracts, renewal of existing contracts, and

industry consolidation.

In addition, our license agreements are complex and some of our license agreements 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

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schedules. These clauses may be subject to interpretation and 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. Furthermore, any future agreement, as well as our recent agreements with LSI, SK hynix, STMicroelectronics, Micron and Samsung, 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 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.

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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 estimated 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 accounting. Contract revenue accounting may result in deferral of the service fees to the completion of the contract, or may be recognized over the period in which services are performed on a percentage-of-completion basis. There can be no assurance that the product development schedule for these projects will not be changed or delayed.

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. We have in the past made and may in the future make acquisitions or enter into mergers, strategic transactions, 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

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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 (in the third quarter of 2013, we recorded an impairment of goodwill related to our MTD reporting unit) or strategic investments. 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 or equity securities could involve restrictive covenants or 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 years ended December 31, 2013, 2012, and 2011, revenue received from our international customers constituted approximately 70%, 73%, and 67%, 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;
- 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
- 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

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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 has 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.

Regulatory initiatives throughout the world can also create new and unforeseen regulatory obligations on us and the technology we develop. The impact of these potential obligations varies based on the jurisdiction, but any such changes could impact whether we enter, maintain or expand our presence in a particular market or with particular potential customers.

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.

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 comprehensive 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 sales and distribution channels for selling certain products. If we are unable to secure sales and distribution channels or 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 sell and deploy our solutions. We may be unable to successfully establish and expand the effectiveness of our distribution channels. If

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our channel partners do not effectively market and sell our solutions, if they choose to place greater emphasis on products of their own or those offered by our competitors, 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 our 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;

trading activity related to our share repurchase plans; 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.

We have outstanding senior convertible notes in an aggregate principal amount totaling \$310.5 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. For more information about this litigation, see Note 18, "Litigation and Asserted Claims," of Notes to Consolidated Financial Statements contained in this Form 10-K. 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

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intellectual property, and to meet other needs.

We have material indebtedness. In 2009, we issued \$172.5 million aggregate principal amount of our 2014 Notes, all of which remains outstanding and will mature in June 2014. In August 2013, we issued \$138.0 million aggregate principal amount of our 2018 Notes (together with the 2014 Notes, the "Notes"), all of which remains 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, including the remaining aggregate principal amount of the 2014 Notes at maturity in June 2014 and the remaining aggregate principal amount of the 2018 Notes at maturity in August 2018; and
- we may be required to make cash payments upon any conversion of the 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 Notes. Any required repurchase of the Notes as a result of a fundamental change or acceleration of the 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.

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.

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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 current and 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 against different parties in multiple jurisdictions. In each of these cases, we have claimed infringement of certain of our patents, while the manufacturers of such products have generally sought damages and a determination that the patents in suit are invalid, unenforceable and not infringed. Among other things, the opposing parties have 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. Notwithstanding the above, we have settled and dismissed all patent lawsuits against all parties except Nanya. 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.

Even if we are successful in our litigation, or any settlement of such litigation, there is no guarantee that the applicable opposing parties will be able to pay any damages awards or licensing fees timely or at all as a result of financial difficulties or

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otherwise. Delay or any or all of these adverse results could cause substantial expenses or declines in our revenue and stock price.

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”). These 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.

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

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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 2037. 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.

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 1B. Unresolved Staff Comments

None.
Item 2. Properties

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As of December 31, 2013, we occupied offices in the leased facilities described below:

Number of Offices Under Lease	Location	Primary Use
6	United States Sunnyvale, CA (2) (Corporate Headquarters) Chapel Hill, NC Brecksville, OH (2) San Francisco, CA	Executive and administrative offices, research and development, sales and marketing and service functions Research and development Research and development and prototyping facility Research and development
1	Bangalore, India	Administrative offices, research and development and service functions
1	Tokyo, Japan	Business development
1	Seoul, Korea	Business development
1	Paris, France	Research and development

Item 3. Legal Proceedings

For the information required by this item regarding legal proceedings, see Note 18 "Litigation and Asserted Claims," of Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is listed on The NASDAQ Global Select Market under the symbol "RMBS." The following table sets forth for the periods indicated the high and low sales price per share of our common stock as reported on The NASDAQ Global Select Market.

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	High	Low	High	Low
First Quarter	\$6.27	\$4.80	\$9.29	\$6.28
Second Quarter	\$8.99	\$5.31	\$6.48	\$4.16
Third Quarter	\$10.85	\$7.95	\$6.10	\$3.78
Fourth Quarter	\$10.57	\$8.15	\$5.65	\$4.01

The graph below compares the cumulative 5-year total return of holders of Rambus Inc.'s common stock with the cumulative total returns of the NASDAQ Composite index and the RDG Semiconductor Composite index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from December 31, 2008 to December 31, 2013.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Rambus Inc., the NASDAQ Composite Index,
and the RDG Semiconductor Composite Index

Fiscal years ending:

	12/08	12/09	12/10	12/11	12/12	12/13
Rambus Inc.	100.00	153.27	128.64	47.42	30.59	59.48
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
RDG Semiconductor Composite	100.00	159.67	182.24	176.00	178.51	236.96

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Information regarding our securities authorized for issuance under equity compensation plans will be included in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this report on Form 10-K.

As of January 31, 2014, there were 624 holders of record of our common stock. Since many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

We have never paid or declared any cash dividends on our common stock or other securities.

Share Repurchase Program

In October 2001, our Board of Directors (the "Board") approved a share repurchase program of our common stock, principally to reduce the dilutive effect of employee stock options. Under this program, the Board approved the authorization to repurchase up to 19.0 million shares of our outstanding common stock over an undefined period of time. On February 25, 2010, the Board approved a new share repurchase program authorizing the repurchase of up to an additional 12.5 million shares. Share repurchases under the program may be made through open market, established plan or privately negotiated transactions in accordance with all applicable securities laws, rules, and regulations. There is no expiration date applicable to the program. The new share repurchase program replaces the program authorized in October 2001. In addition, on August 19, 2010, we entered into a share repurchase agreement (the "Share Repurchase Agreement") with J.P. Morgan Securities Inc. JP Morgan delivered to us approximately 4.8 million shares of common stock at an average price of \$18.88 at the completion of the Share Repurchase Agreement in December 2010.

For the years ended December 31, 2013 and 2012, we did not repurchase any shares of our common stock under our share repurchase program. As of December 31, 2013, 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.

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As of December 31, 2013, 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.

Item 6. Selected Financial Data

The following selected consolidated financial data for and as of the years ended December 31, 2013, 2012, 2011, 2010 and 2009 was derived from our consolidated financial statements. The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," and other financial data included elsewhere in this report. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

	Years Ended December 31,				
	2013 (1) (2)	2012 (1)	2011 (2)	2010 (2)	2009
	(In thousands, except per share amounts)				
Total revenue	\$271,501	\$234,051	\$312,363	\$323,390	\$113,007
Net income (loss)	\$(33,748)	\$(134,336)	\$(43,053)	\$150,917	\$(92,186)
Net income (loss) per share:					
Basic	\$(0.30)	\$(1.21)	\$(0.39)	\$1.34	\$(0.88)
Diluted	\$(0.30)	\$(1.21)	\$(0.39)	\$1.30	\$(0.88)
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	\$387,662	\$203,330	\$289,456	\$512,009	\$460,193
Total assets	\$713,379	\$587,812	\$693,654	\$663,172	\$555,869
Convertible notes	\$273,676	\$147,556	\$133,493	\$121,500	\$248,044
Stockholders' equity	\$340,229	\$321,594	\$429,794	\$334,783	\$255,327

(1) The net loss for the years ended December 31, 2013 and 2012 included \$17.8 million and \$35.5 million, respectively, of impairment of goodwill and long-lived assets.

The net income (loss) for the years ended December 31, 2013, 2011 and 2010 included \$0.5 million, \$6.2 million (2) and \$126.8 million, respectively, of gain from settlement which was reflected as a reduction of operating costs and expenses.

Item 7. 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 pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words "anticipate," "believes," "plans," "expects," "future," "intends," "may," "should," "estimates," "predicts," "potential," "continue" 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.

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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. Today, we are driving innovations in memory, chip interfaces and architectures, end-to-end security, and advanced LED lighting, while Rambus Labs looks 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 been expanding 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, both in our current businesses and in any new area of diversification, will be hiring and retaining world-class inventors, scientists and engineers to lead the development of inventions and technology solutions for these fields of focus, and the management and business support personnel necessary to execute our plans and strategies.

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) Lighting and Display Technologies, or LDT, which focuses on the design, development and licensing of technologies for lighting; and (4) Chief Technology Office, or CTO, which focuses on the design, development and productization of emerging technologies. As of December 31, 2013, MID, CRI and CTO 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 "All Other". For additional information concerning segment reporting, see Note 7, "Segments and Major Customers," of Notes to Consolidated Financial Statements of this Form 10-K.

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 December 31, 2013, our semiconductor, lighting, security and other technologies are covered by 1,837 U.S. and foreign patents. Additionally, we have 837 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, our 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, Panasonic, 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 intend to expand our business strategy of monetizing our MID intellectual property to include the sale of select intellectual property. As any sales executed under this expanded strategy represent a component of our ongoing major or central operations and activities, we will record the related proceeds as revenue.

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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, 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 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 2013, we signed license agreements with ALi Corporation, EchoStar, LSI, Micron, SK hynix, StarChip SAS, STMicroelectronics, and Tiempo SAS and expanded our agreements with Freescale and Samsung. As a result of the patent license agreements with LSI, Micron, SK hynix and STMicroelectronics, we settled all outstanding claims with them, including resolution of past use of our patented innovations.

In 2013, we also sold a portfolio of patent assets covering display technologies to a subsidiary of Acacia Research Corporation ("Acacia"). As part of this transaction, we received an initial upfront payment and expect to receive subsequent payments when Acacia is successful in licensing that portfolio.

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. As a result of these actions, we recorded a non-cash charge for the impairment of goodwill of \$17.8 million and a restructuring charge of \$3.4 million. 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.

Research and development continues to play a key role in our efforts to maintain product innovations. Our engineering expenses in the aggregate for the year ended December 31, 2013 decreased \$17.7 million as compared to 2012 primarily due to decreased accrual of retention bonuses related to acquisitions of \$11.9 million, decreased patent legal costs of \$4.5 million, decreased prototyping costs of \$3.0 million, decreased stock-based compensation of \$2.9 million and decreased headcount related costs of \$1.8 million due to lower average number of employees in 2013, partially offset by \$4.6 million increase in engineering costs which are included in cost of sales due to the introduction of lighting products and \$2.5 million increase in funding for our 2013 CIP which was higher than our 2012 CIP.

Marketing, general and administrative expenses in the aggregate for the year ended December 31, 2013 decreased \$36.2 million as compared to 2012 primarily due to decreased litigation expenses of \$15.8 million, decreased headcount related costs of \$5.0 million from lower average number of employees in 2013, decreased expenses from various cost saving measures (which resulted in decreased consulting expenses of \$3.9 million, decreased costs related to sales and marketing events and activities of \$3.0 million and decreased facilities expenses of \$1.9 million), decreased stock-based compensation expenses of \$4.6 million and decreased accrual of retention bonuses of \$2.4 million related to acquisitions, partially offset by \$2.3 million increase in funding for our 2013 CIP which was higher than our 2012 CIP.

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 62%, 68% and 66% of our revenue for the years ended December 31, 2013, 2012 and 2011, 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 years ended December 31, 2013 and 2012, revenue from Samsung

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accounted for 10% or more of our total revenue in each year. For the year ended December 31, 2011, revenue from Elpida, NVIDIA and Samsung each 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 lightguide 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 recent 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 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 who need our roll-to-roll manufacturing intellectual property and capability for extra-large display panel 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 70%, 73% and 67% of our total revenue for the years ended December 31, 2013, 2012 and 2011, 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 have 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 royalties 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.

For additional information concerning international revenue, see Note 7, "Segments and Major Customers," of Notes to Consolidated Financial Statements of this Form 10-K.

Engineering costs in the aggregate and as a percentage of revenue decreased in the year ended December 31, 2013 as compared to the prior year. 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 expenses in the aggregate and as a percentage of revenue decreased in the year ended December 31, 2013 as compared to the prior year. In the past, our litigation expenses have been high and difficult to predict due

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to litigation stemming from the use of our inventions. Because we have successfully negotiated settlements and license agreements with SK hynix and Micron, we should no longer have material litigation expenses for these matters. We currently still use, and in the future may use, litigation to protect our patented technologies, which could cause us to incur material litigation expenses until such litigation is resolved. In general, our results before courts and regulatory bodies that relate to our intellectual property rights could impact the terms upon which we are able to secure new or renew existing licenses for our technology.

With respect to our non-litigation marketing, general and administrative costs, we expect a decrease due to our restructuring plans undertaken in 2012 and 2013.

Our investment in research and development projects, use of litigation and any lower revenue from our customers in the future, will negatively affect our cash from operations.

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Results of Operations

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

	Years Ended December 31,			
	2013	2012	2011	
Revenue:				
Royalties	97.3	% 99.3	% 95.7	%
Contract and other revenue	2.7	% 0.7	% 4.3	%
Total revenue	100.0	% 100.0	% 100.0	%
Operating costs and expenses:				
Cost of revenue*	12.2	% 12.1	% 7.7	%
Research and development*	43.5	% 60.0	% 37.0	%
Marketing, general and administrative*	28.2	% 48.1	% 52.6	%
Restructuring charges	2.0	% 3.1	% —	%
Impairment of goodwill and long-lived assets	6.5	% 15.2	% —	%
Gain from sale of intellectual property	(0.5))% —	% —	%
Gain from settlement	(0.2)	)% —	% (2.0))%
Costs of restatement and related legal activities, net	0.0	% 0.1	% 5.2	%
Total operating costs and expenses	91.7	% 138.6	% 100.5	%
Operating income (loss)	8.3	% (38.6)	)% (0.5))%
Interest income and other income, net	(0.6)	)% 0.0	% 0.2	%
Interest expense	(12.1)	)% (11.8)	)% (8.0))%
Interest and other income (expense), net	(12.7)	)% (11.8)	)% (7.8))%
Loss before income taxes	(4.4)	)% (50.4)	)% (8.3))%
Provision for income taxes	8.0	% 7.0	% 5.5	%
Net loss	(12.4)	)% (57.4)	)% (13.8))%

* Includes stock-based compensation:

Cost of revenue	0.0	% 0.0	% 0.2	%
Research and development	2.4	% 4.1	% 3.4	%
Marketing, general and administrative	3.1	% 5.5	% 5.4	%

Segment Results

Revenue from the MID reportable segment increased approximately \$17.0 million to \$232.0 million for the year ended December 31, 2013 from \$215.0 million for the year ended December 31, 2012. The increase was primarily due to revenue recognized from new license agreements signed with SK hynix, Micron, STMicroelectronics and LSI Corporation during 2013. The increased revenue is partially offset by lower Samsung royalties which were allocated to the CRI reportable segment and lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product. Segment operating income from the MID reportable segment increased approximately \$18.6 million to \$203.8 million for the year ended December 31, 2013 from \$185.2 million for the year ended December 31, 2012. The increase was primarily due to increase in revenue as discussed above and decreased headcount related costs due to fewer average number of employees in 2013.

Revenue from the CRI reportable segment increased approximately \$14.8 million to \$32.6 million for the year ended December 31, 2013 from \$17.8 million for the year ended December 31, 2012. The increase was primarily due to the new

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license agreement signed with STMicroelectronics, the license agreement signed with Samsung and new evaluation and test equipment contracts during 2013.

Segment operating income from the CRI reportable segment increased approximately \$1.4 million to \$10.8 million for the year ended December 31, 2013 from \$9.4 million for the year ended December 31, 2012. The increase was primarily due to increase in revenue as discussed above, partially offset by increased headcount related costs from additional employees to support our cryptography development efforts.

There was no revenue from the CTO reportable segment for both the year ended December 31, 2013 and 2012.

Segment operating loss from the CTO reportable segment decreased approximately \$2.4 million to \$25.7 million for the year ended December 31, 2013 from \$28.1 million for the year ended December 31, 2012. The decrease was primarily due to decreased headcount related costs due to fewer average number of employees in 2013.

Revenue from the All Other reportable segment increased approximately \$5.6 million to \$6.8 million for the year ended December 31, 2013 from \$1.2 million for the year ended December 31, 2012. The increase was primarily due to the roll-out of products using our LED edge-lit waveguide in 2013.

Segment operating loss from the All Other reportable segment decreased approximately \$4.7 million to \$13.4 million for the year ended December 31, 2013 from \$18.1 million for the year ended December 31, 2012. The decrease was primarily due to increase in revenue as discussed above and gain from sale of portfolio of patent assets covering lighting technologies during 2013, partially offset by increase in cost of sales due to introduction of lighting products in 2013.

Revenue from the MID reportable segment decreased approximately \$77.1 million to \$215.0 million for the year ended December 31, 2012 from \$292.1 million for the year ended December 31, 2011. The decrease was primarily due to recognition of one-time royalty revenue during 2011 from patent license agreements signed in 2011, the absence of new technology development contracts in 2012 and lower royalties reported by certain customers in the semiconductor industry and lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product. The decreased revenue was partially offset by revenue recognized from various new patent license agreements signed in 2012.

Segment operating income from the MID reportable segment decreased approximately \$64.4 million to \$185.2 million for the year ended December 31, 2012 from \$249.6 million for the year ended December 31, 2011. The decrease was primarily due to decrease in revenue as discussed above, partially offset by decrease in funding for our 2012 CIP which was lower than our 2011 CIP.

Revenue from the CRI reportable segment increased slightly to \$17.8 million for the year ended December 31, 2012 from \$17.4 million for the year ended December 31, 2011, primarily due to new evaluation and test equipment contracts in 2012.

Segment operating income from the CRI reportable segment decreased approximately \$4.6 million to \$9.4 million for the year ended December 31, 2012 from \$14.0 million for the year ended December 31, 2011. The decrease was primarily due to a full year of CRI operating expenses in 2012 as compared to 7 months in 2011 and increased headcount related costs from additional employees to support our cryptography development efforts.

There was no revenue from the CTO reportable segment for both the year ended December 31, 2012 and 2011.

Segment operating loss from the CTO reportable segment increased approximately \$10.3 million to \$28.1 million for the year ended December 31, 2012 from \$17.8 million for the year ended December 31, 2011. The increase was primarily due to increased consulting expenses and increased headcount related costs from additional employees (including employees from the Unity acquisition) to support our development efforts.

Revenue from the All Other reportable segment decreased approximately \$1.7 million to \$1.2 million for the year ended December 31, 2012 from \$2.9 million for the year ended December 31, 2011. The decrease was primarily due to the absence of new technology development contracts in 2012. The decreased revenue was partially offset by a new license agreement signed in 2012.

Segment operating loss from the All Other reportable segment increased approximately \$6.0 million to \$18.1 million for the year ended December 31, 2012 from \$12.1 million for the year ended December 31, 2011. The increase was primarily due to decrease in revenue as discussed above, increased consulting expenses and increased headcount

related costs from additional employees to support our development efforts.

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	Years Ended December 31,			2012 to	2011 to 2012	
	2013	2012	2011	2013	Change	Change
	(Dollars in millions)					
Total Revenue						
Royalties	\$264.1	\$232.4	\$299.0	13.7	% (22.3)%
Contract and other revenue	7.4	1.7	13.4	NM*	NM*	
Total revenue	\$271.5	\$234.1	\$312.4	16.0	% (25.1)%

*NM — percentage is not meaningful

Royalty Revenue

Patent Licenses

Our patent royalties increased approximately \$40.4 million to \$249.1 million for the year ended December 31, 2013 from \$208.7 million for the same period in 2012. The increase was primarily due to revenue recognized from new license agreements signed with SK hynix, Micron, STMicroelectronics and LSI Corporation during 2013.

Our patent royalties decreased approximately \$58.9 million to \$208.7 million for the year ended December 31, 2012 from \$267.6 million for the same period in 2011. The decrease was primarily due to recognition of one-time royalty revenue during 2011 from new patent license agreements signed in 2011 and lower royalties reported by certain customers in the semiconductor industry during 2012. The decreased revenue was partially offset by revenue recognized from various new patent license agreements signed in 2012.

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 \$8.7 million to \$15.0 million for the year ended December 31, 2013 from \$23.7 million for the same period in 2012. The decrease was primarily due to lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product.

Royalties from solutions licenses decreased approximately \$7.7 million to \$23.7 million for the year ended December 31, 2012 from \$31.4 million for the same period in 2011. The decrease was primarily due to lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with 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 Segment

Royalty revenue from the MID reportable segment, which includes patent and solutions license royalties, increased approximately \$17.7 million to \$231.7 million for the year ended December 31, 2013 from \$214.0 million for the year ended December 31, 2012. The increase was primarily due to revenue recognized from new license agreements signed with SK hynix, Micron, STMicroelectronics and LSI Corporation during 2013. The increased revenue is partially offset by lower Samsung royalties which were allocated to the CRI reportable segment and lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product.

Royalty revenue from the CRI reportable segment increased approximately \$13.9 million to \$31.2 million for the year ended December 31, 2013 from \$17.3 million for the year ended December 31, 2012. The increase was primarily due to the new license agreement signed with STMicroelectronics and the license agreement signed with Samsung during 2013.

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Royalty revenue from the All Other reportable segment increased slightly to \$1.2 million for the year ended December 31, 2013 from \$1.1 million for the year ended December 31, 2012.

Royalty revenue from the MID reportable segment, which includes patent and solutions license royalties, decreased approximately \$67.6 million to \$214.0 million for the year ended December 31, 2012 from \$281.6 million for the year ended December 31, 2011. The decrease was primarily due to recognition of one-time royalty revenue during 2011 from patent license agreements signed in 2011 and lower royalties reported by certain customers in the semiconductor industry and lower royalties reported from decreased shipments related to DDR2 technologies and lower royalties from XDR™ DRAM associated with decreased shipments of the Sony PlayStation®3 product. The decreased revenue was partially offset by revenue recognized from various new patent license agreements signed in 2012.

Royalty revenue from the CRI reportable segment was \$17.3 million for both the year ended December 31, 2012 and the year ended December 31, 2011.

Royalty revenue from the All Other reportable segment increased approximately \$1.0 million to \$1.1 million for the year ended December 31, 2012 from \$0.1 million for the year ended December 31, 2011. The increase was primarily due to a new license agreement signed in 2012.

Contract and Other Revenue

Contract and other revenue consists of revenue from technology development as well as sale of LED edge-lit products. Contract and other revenue increased approximately \$5.7 million to \$7.4 million for the year ended December 31, 2013 from \$1.7 million for the year ended December 31, 2012. The increase was primarily due to increased revenue from roll-out of lighting products and services in 2013.

Contract and other revenue decreased approximately \$11.7 million to \$1.7 million for the year ended December 31, 2012 from \$13.4 million for the year ended December 31, 2011. The decrease was primarily due to absence of new technology development contracts in 2012.

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 CRI reportable segment increased approximately \$0.9 million to \$1.4 million for the year ended December 31, 2013 from \$0.5 million for the year ended December 31, 2012, primarily due to new evaluation and test equipment contracts in 2013. Contract revenue from the All Other reportable segment increased approximately \$5.5 million to \$5.7 million for the year ended December 31, 2013 from \$0.2 million for the year ended December 31, 2012, primarily due to the roll-out of products using our LED edge-lit waveguide in 2013. Contract revenue from the MID reportable segment decreased approximately \$0.7 million to \$0.3 million for the year ended December 31, 2013 from \$1.0 million for the year ended December 31, 2012, primarily due to the absence of new technology development contracts in 2013.

Contract and other revenue from the MID reportable segment decreased approximately \$9.4 million to \$1.0 million for the year ended December 31, 2012 from \$10.4 million for the year ended December 31, 2011. Contract revenue from the All Other reportable segment decreased approximately \$2.7 million to \$0.2 million for the year ended December 31, 2012 from \$2.9 million for the year ended December 31, 2011. Both decreases were primarily due to the absence of new technology development contracts in 2012. Contract revenue from the CRI reportable segment increased approximately \$0.4 million to \$0.5 million for the year ended December 31, 2012 from \$0.1 million for the year ended December 31, 2011, primarily due to new evaluation and test equipment contracts in 2012.

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Engineering costs:

	Years Ended December 31,			2012 to 2013 Change	2011 to 2012 Change	
	2013	2012	2011			
	(Dollars in millions)					
Engineering costs						
Cost of revenue	\$7.3	\$0.7	\$4.9	NM*	(86.9)%
Amortization of intangible assets	25.9	27.7	18.6	(6.5	)%	48.9
Stock-based compensation	0.0	0.0	0.6	0.0	%	(96.5
Total cost of revenue	33.2	28.4	24.1	17.1	%	17.8
Research and development	111.4	131.0	105.2	(14.9	)%	24.5
Stock-based compensation	6.6	9.5	10.5	(31.0	)%	(9.2
Total research and development	118.0	140.5	115.7	(16.0	)%	21.4
Total engineering costs	\$151.2	\$168.9	\$139.8	(10.5	)%	20.8

*NM — percentage is not meaningful

Engineering costs are allocated between cost of revenue and research and development expenses. Cost of revenue reflects the portion of the total engineering costs which are specifically devoted to individual customer development and support services, costs of lighting products sold as well as amortization expense related to various acquired intellectual property for patent licensing. The balance of engineering costs, incurred for the development of applicable technologies, is charged to research and development. In a given period, the allocation of engineering costs between these two components is a function of the timing of the development and implementation schedules of individual customer contracts.

For the year ended December 31, 2013 as compared to the same period in 2012, total engineering costs decreased 10.5% primarily due to decreased accrual of retention bonuses related to acquisitions of \$11.9 million, decreased patent legal costs of \$4.5 million due to cost saving measures, decreased prototyping costs of \$3.0 million due to cost saving measures, decreased stock-based compensation of \$2.9 million and decreased headcount related costs of \$1.8 million due to fewer average number of employees in 2013, partially offset by \$4.6 million increase in engineering costs which are included in cost of sales due to the introduction of lighting products and \$2.5 million increase in funding for our 2013 CIP which was higher than our 2012 CIP.

For the year ended December 31, 2012 as compared to the same period in 2011, total engineering costs increased 20.8% primarily due to increased headcount related costs of \$11.4 million from additional employees to support our research and development efforts, increased amortization expense of \$9.1 million related to intangible assets acquired since the second quarter of 2011, increased consulting expenses of \$6.3 million and increased accrual of retention bonuses related to acquisitions of \$4.9 million, offset by \$4.2 million decrease in funding for our 2012 CIP which was lower than our 2011 CIP.

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, security and other technologies.

Marketing, general and administrative costs:

	Years Ended December 31,			2012 to 2013 Change	2011 to 2012 Change	
	2013	2012	2011			
	(Dollars in millions)					
Marketing, general and administrative costs						
Marketing, general and administrative costs	\$70.7	\$86.4	\$86.2	(18.1	)%	0.2
Litigation expense	(2.6	)	13.2	61.0	NM*	(78.3
Stock-based compensation	8.3	13.0	16.9	(35.6	)%	(23.2
Total marketing, general and administrative costs	\$76.4	\$112.6	\$164.1	(32.1)%	(31.4

*NM — percentage is not meaningful

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Marketing, general and administrative expenses include expenses and costs associated with trade shows, public relations, advertising, litigation, general legal, insurance and other marketing and administrative efforts. Litigation expenses have historically been a significant portion of our marketing, general and administrative expenses and have been declining over the past three years. Consistent with our business model, our licensing and marketing activities aim to develop or strengthen relationships with potential and current customers. In addition, we work with current customers through marketing, sales and technical efforts to drive adoption of their products that use our innovations and solutions, by system companies. Due to the long business development cycles we face and the semi-fixed nature of marketing, general and administrative expenses in a given period, these expenses generally do not correlate to the level of revenue in that period or in recent or future periods.

For the year ended December 31, 2013 as compared to 2012, total marketing, general and administrative costs decreased 32.1% which included a decrease in litigation expenses related to ongoing major cases of \$15.8 million (primarily due to the reversals of accrued related litigation costs of \$9.0 million related to the SK hynix and Micron lawsuits) and a decrease in stock-based compensation of \$4.6 million. Non-litigation and non-stock based compensation related marketing, general and administrative costs decreased 18.1% for the year ended December 31, 2013 as compared to 2012, primarily due to decreased headcount related costs of \$5.0 million from the lower average number of employees in 2013, decreased expenses from various cost saving measures (which resulted in decreased consulting expenses of \$3.9 million, decreased costs related to sales and marketing events and activities of \$3.0 million and decreased facilities expenses of \$1.9 million) and decreased accrual of retention bonuses of \$2.4 million related to acquisitions, partially offset by \$2.3 million increase in funding for our 2013 CIP, which was higher than our 2012 CIP.

For the year ended December 31, 2012 as compared to 2011, total marketing, general and administrative costs decreased 31.4% which included a decrease in litigation expenses related to ongoing major cases of \$47.8 million. Non-litigation and non-stock based compensation related marketing, general and administrative costs remained relatively flat for the year ended December 31, 2012 as compared to 2011, primarily due to increased headcount related costs of \$3.2 million from the increase in average number of employees to support our business during 2012, increased accrual of retention bonuses of \$1.8 million related to acquisitions, increased amortization expense of \$1.1 million related to intangible assets acquired since the second quarter of 2011 and increased costs related to sales and marketing events of \$1.0 million, offset by \$8.1 million decrease in funding for our 2012 CIP, which was lower than our 2011 CIP.

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 non-litigation marketing, general and administrative costs to decrease due to our restructuring plans undertaken in 2012 and 2013. Litigation expenses are expected to vary from period to period due to the variability of litigation activities.

Restructuring charges:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Restructuring charges	\$5.5	\$7.3	\$—	(24.0	)% N/A*

*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. As a result of these actions, we recorded a restructuring charge of \$3.4 million related primarily to the reduction in workforce. We expect to substantially complete our restructuring activities related to this plan by the end of 2014. Additionally, we recorded a charge of \$2.1 million during 2013 related primarily to the consolidation of certain facilities and the reduction in workforce which was part of our approved 2012 plan.

During 2012, we initiated a restructuring program to reduce overall corporate expenses which was expected to improve future profitability by reducing spending on marketing, general and administrative programs and refining

some of our research and development efforts. As a result of the restructuring program, we recorded a charge of \$7.3 million during 2012 related primarily to the reduction in workforce, which included approximately \$1.8 million in early termination payments to certain employees related to their previous retention bonus arrangements. Refer to Note 16, "Restructuring Charges," of Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

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Impairment of goodwill and long-lived assets:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Impairment of goodwill and long-lived assets	\$17.8	\$35.5	\$—	(50.0)	)% N/A*

*N/A — not applicable

During 2013, we recorded a charge for the impairment of long-lived assets of \$9.7 million 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 recorded a charge for the impairment of goodwill of \$8.1 million related to our MTD group as we curtailed our immersive media platform spending. 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 in our strategy related to the groups.

During 2012, we recorded a charge for the impairment of goodwill and long-lived assets of \$35.5 million within our LDT group. We conducted this impairment review as a result of the change in our business strategy with less focus on the higher margin display technology licensing and an increased focus on general lighting technologies. Refer to Note 6, "Intangible Assets and Goodwill," of Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Gain from sale of intellectual property:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Gain from sale of intellectual property	\$1.4	\$—	\$—	N/A*	N/A*

*N/A — not applicable

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

Gain from settlement:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Gain from settlement	\$0.5	\$—	\$6.2	N/A*	(100.0)

*N/A — not applicable

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 year ended December 31, 2013, we recognized \$0.5 million 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 19, "Agreements with SK hynix and Micron," of Notes to Consolidated Financial Statements of this Form 10-K for further discussion.

Costs of restatement and related legal activities:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Costs of restatement and related legal activities, net	\$0.0	\$0.2	\$16.2	(92.2)%	(98.5)%

Costs of restatement and related legal activities consist primarily of settlement payments, investigation, audit, legal and other professional fees related to the 2006-2007 stock option investigation and the filing of the restated financial statements and related litigation.

For the year ended December 31, 2013, we recognized an immaterial amount of costs related to costs of restatement and related legal activities as we resolved all outstanding derivative lawsuits related to the 2006-2007 stock option investigation as of the end of 2012. For the year ended December 31, 2012, costs of restatement and related legal activities were \$0.2 million primarily due to litigation expense associated with the derivative lawsuit related to the 2006-2007 stock option investigation.

Interest and other income (expense), net:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Interest income and other income (expense), net	\$(1.6)	\$0.0	\$0.5	NM*	(89.5)%
Interest expense	(32.9)	(27.5)	(24.8)	19.5 %	10.8 %
Interest and other income (expense), net	\$(34.5)	\$(27.5)	\$(24.3)	25.6 %	13.1 %

*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, in the second quarter of 2013, during our review of the fair value of our \$2.0 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 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 of \$1.4 million related to our investment in the non-marketable equity security for the year ended December 31, 2013. 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 the 1.125% convertible senior notes due 2018 (the "2018 Notes"), which were issued during the third quarter of 2013, as well as the coupon interest related to these notes. For the years ended December 31, 2013, 2012 and 2011, we recognized \$4.4 million, \$4.1 million and \$3.3 million, respectively, of interest expense in connection with the imputed financing obligations in our statements of operations. We expect our non-cash interest expense to increase steadily as the notes reach maturity. See Note 11, "Convertible Notes," of Notes to Consolidated Financial Statements of this Form 10-K for additional details.

Provision for income taxes:

	Years Ended December 31,			2012 to 2013	2011 to 2012
	2013	2012	2011	Change	Change
	(Dollars in millions)				
Provision for income taxes	\$21.7	\$16.5	\$17.3	32.1 %	(4.6)%
Effective tax rate	(180.8)%	(14.0)%	(66.9)%		

*NM — percentage is not meaningful

Our effective tax rate for the year ended December 31, 2013 was different from the U.S. statutory tax rate applied to our pretax loss primarily due to the valuation allowance on our U.S. deferred tax assets and foreign withholding and income taxes. Our effective tax rate for the years ended December 31, 2012 and December 31, 2011 were different from the U.S. statutory tax

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rate applied to our pretax loss primarily due to the valuation allowance on our U.S. deferred tax assets, foreign losses with no current tax benefit recorded, and foreign withholding and income taxes.

For the year ended December 31, 2013, we paid withholding taxes of \$19.3 million. We recorded a provision for income taxes of \$21.7 million which was primarily comprised of withholding taxes, other foreign taxes and current state taxes. For the year ended December 31, 2012, we paid withholding taxes of \$15.7 million. We recorded a provision for income taxes of \$16.5 million which was primarily comprised of withholding taxes, other foreign taxes and current state taxes. For the year ended December 31, 2011, we paid withholding taxes of \$16.6 million. We recorded a provision for income taxes of \$17.3 million which was primarily comprised of withholding taxes, other foreign taxes and current state taxes.

As of December 31, 2013, we continued to maintain a valuation allowance against our U.S. deferred tax assets. Management periodically evaluates the realizability of our deferred tax assets based on all available evidence, both positive and negative. The realization of 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. Based on all available evidence, we determined that it was not more likely than not that the deferred tax assets would be realized. Should we achieve sustained taxable income in the future, we would release the valuation allowance to recognize the deferred tax assets which would provide a valuable benefit to us.

Liquidity and Capital Resources

	December 31, 2013	December 31, 2012
	(In millions)	
Cash and cash equivalents	\$338.7	\$149.0
Marketable securities	49.0	54.3
Total cash, cash equivalents, and marketable securities	\$387.7	\$203.3
	Years Ended December 31,	
	2013	2012
	(In millions)	
Net cash provided by (used in) operating activities	\$51.3	\$(17.5) \$53.0
Net cash provided by (used in) investing activities	\$(2.3)	\$2.6 \$(24.1)
Net cash provided by (used in) financing activities	\$140.8	\$1.7 \$(81.9)

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 year ended December 31, 2013 were funded primarily from cash collected from our customers.

We do not anticipate any liquidity constraints as a result of either the current credit environment, investment fair value fluctuations or the repayment of the 2014 Notes in June 2014. During 2013, we issued the 2018 Notes, in part, to provide liquidity for the repayment of the 2014 Notes. 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 \$51.3 million for the year ended December 31, 2013 was primarily attributable to cash generated from customer licensing. Changes in operating assets and liabilities for the year ended December 31, 2013 primarily included decreases in accrued litigation expenses primarily due to the one-time reversal of accrued SK hynix and Micron related litigation costs and accrued salaries and benefits and other accrued liabilities primarily due to the payment of retention bonuses, offset by decreases in prepaid expenses and other assets.

Cash used in operating activities of \$17.5 million for the year ended December 31, 2012 was primarily attributable to the net loss, adjusted for certain non-cash items, of \$14.4 million, which included the payment of \$8.6 million for the

interest related to the 2014 Notes, and changes in operating assets and liabilities. Changes in operating assets and liabilities for the year ended

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December 31, 2012 primarily included decreases in prepaid expenses and other assets and accounts payable and accrued litigation due to payments of invoices, offset by increases in accrued salaries and benefits and other accrued liabilities, primarily due to our commitment to purchase intellectual property from Elpida.

Cash provided by operating activities of \$53.0 million for the year ended December 31, 2011 was primarily attributable to changes in operating assets and liabilities and the net loss adjusted for non-cash items, including stock-based compensation expense, non-cash interest expense, depreciation and amortization expense. Changes in operating assets and liabilities for the year ended December 31, 2011 primarily included increases in accounts payable, accrued litigation and decreases in prepaid expenses and other assets.

Investing Activities

Cash used in investing activities of \$2.3 million for the year ended December 31, 2013 primarily consisted of purchases of available-for-sale marketable securities of \$125.6 million, partially offset by maturities of available-for-sale marketable securities of \$119.6 million and proceeds from the sale of intellectual property of \$2.3 million.

Cash provided by investing activities of \$2.6 million for the year ended December 31, 2012 primarily consisted of proceeds from the maturities of available-for-sale marketable securities of \$183.1 million, partially offset by cash paid for purchases of available-for-sale marketable securities of \$110.7 million and the acquisition of Unity and other businesses of \$46.3 million, net of cash acquired. In addition, we paid \$21.8 million to acquire property, plant and equipment, primarily related to building improvements and computer equipment, and \$1.7 million for intangible assets.

Cash used in investing activities of \$24.1 million for the year ended December 31, 2011 primarily consisted of cash paid for the acquisition of CRI of \$167.4 million, net of cash acquired, and purchases of available-for-sale marketable securities of \$174.0 million, partially offset by proceeds from the maturities of available-for-sale marketable securities of \$337.9 million. In addition, we paid \$19.4 million to acquire property and equipment, primarily computer equipment, machinery and software.

Financing Activities

Cash provided by financing activities was \$140.8 million for the year ended December 31, 2013. We received net proceeds of \$134.4 million from the issuance of the 2018 Notes. Additionally, we received proceeds of \$8.4 million from the issuance of common stock under our plans.

Cash provided by financing activities was \$1.7 million for the year ended December 31, 2012 primarily due to proceeds of \$4.1 million from issuance of common stock under equity incentive plans, partially offset by \$1.9 million for payments under installment payment arrangements to acquire fixed assets and \$0.5 million related to the principal payments against the lease financing obligation.

Cash used in financing activities was \$81.9 million for the year ended December 31, 2011 as a result of the repurchase in August 2011 from Samsung of approximately 4.8 million shares of our common stock for an aggregate amount of \$100.0 million pursuant to a put option exercised by Samsung in accordance with the terms of a stock purchase agreement with Samsung dated January 19, 2010. This was partially offset by \$8.8 million received from the landlord for the tenant improvements related to the lease in Sunnyvale and \$12.3 million from issuance of common stock under equity incentive plans. We also made payments of \$2.5 million under an installment payment plan to acquire intangible assets and computer software and \$0.5 million related to the principal payments against the lease financing obligation.

Contractual Obligations

On December 15, 2009, we entered into a lease agreement for approximately 125,000 square feet of office space located at 1050 Enterprise Way in Sunnyvale, California commencing on July 1, 2010 and expiring on June 30, 2020. The office space is used for our corporate headquarters, as well as engineering, marketing and administrative operations and activities. We have two options to extend the lease for a period of 60 months each and a one-time option to terminate the lease after 84 months in exchange for an early termination fee. Pursuant to the terms of the lease, the landlord agreed to reimburse us approximately \$9.1 million, which was received by the year ended December 31, 2011. We recognized the reimbursement as an additional imputed financing obligation as such payment from the landlord is deemed to be an imputed financing obligation. On November 4, 2011, to better plan for future

expansion, we entered into an amended lease for our Sunnyvale facility for approximately an additional 31,000 square feet of space commencing on March 1, 2012 and expiring on June 30, 2020. Additionally, a tenant improvement allowance to be provided by the landlord was approximately \$1.7 million. On September 29, 2012, we entered into a second amended Sunnyvale lease to reduce the tenant improvement allowance to approximately \$1.5 million. On January 31, 2013, we entered into a third amendment to the Sunnyvale lease to surrender the 31,000 square-foot space from the first amendment back to the landlord and recorded a total charge of \$2.0 million related to the surrender of the amended lease.

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On March 8, 2010, we entered into a lease agreement for approximately 25,000 square feet of office and manufacturing areas, located in Brecksville, Ohio. The office space is used for LDT's engineering activities while the manufacturing space is used for the manufacturer of prototypes. This lease was amended on September 29, 2011 to expand the facility to approximately 51,000 total square feet and the amended lease will expire on July 31, 2019. We have an option to extend the Lease for a period of 60 months.

We undertook a series of structural improvements to ready the Sunnyvale and Brecksville facilities for our use. Since certain improvements to be constructed by us were considered structural in nature and we were responsible for any cost overruns, for accounting purposes, we were treated in substance as the owner of the construction project during the construction period. At the completion of each construction, we concluded that we retained sufficient continuing involvement to preclude de-recognition of the building under the FASB authoritative guidance applicable to the sale leasebacks of real estate. As such, we continue to account for the building as owned real estate and to record an imputed financing obligation for our obligation to the legal owners.

Monthly lease payments on the facility are allocated between the land element of the lease (which is accounted for as an operating lease) and the imputed financing obligation. The imputed financing obligation is amortized using the effective interest method and the interest rate was determined in accordance with the requirements of sale leaseback accounting. For the years ended December 31, 2013, 2012 and 2011, we recognized in our Consolidated Statements of Operations \$4.4 million, \$4.1 million and \$3.3 million, respectively, of interest expense in connection with the imputed financing obligation on these facilities. At December 31, 2013 and 2012, the imputed financing obligation balance in connection with these facilities was \$39.7 million and \$45.9 million, respectively, which was primarily classified under long-term imputed financing obligation.

In November 2011, we entered into a lease agreement for approximately 26,000 square feet of office space in San Francisco, California to be used for CRI's office space and is treated as an operating lease. This lease has a commencement date of February 1, 2012 and a lease term of 75 months from the commencement date. The annual base rent includes certain rent abatement and increases annually over the lease term.

In connection with the June 3, 2011 acquisition of CRI, we are obligated to pay a retention bonus to certain CRI employees and contractors, subject to certain eligibility and acceleration provisions including the condition of employment, in three equal amounts of approximately \$16.7 million. The first and second payments were paid in cash during the second quarter of 2012 and 2013, respectively, and the remaining payment payable on June 3, 2014 will be paid in cash or stock at our election. As of December 31, 2013, the remaining retention bonus commitment is \$16.9 million and may be forfeited in part or whole by the covered employees and contractors upon voluntary departure from employment or discontinuation of services. Any amounts forfeited will be accelerated and paid by us to a designated charity. See Note 5, "Acquisitions," of Notes to Consolidated Financial Statements of this Form 10-K for additional information regarding the acquisition of CRI.

On June 29, 2009, we entered into an Indenture with U.S. Bank, National Association, as trustee, relating to the issuance by us of \$150.0 million aggregate principal amount of the 2014 Notes. On July 10, 2009, an additional \$22.5 million in aggregate principal amount of 2014 Notes were issued as a result of the underwriters exercising their overallotment option. The aggregate principal amount of the 2014 Notes outstanding as of December 31, 2013 and 2012 was \$172.5 million, offset by unamortized debt discount of \$8.5 million and \$24.9 million, respectively, in the accompanying consolidated balance sheets. The debt discount is currently being amortized over the remaining 6 months until maturity of the 2014 Notes on June 15, 2014. See Note 11, "Convertible Notes," of Notes to Consolidated Financial Statements of this Form 10-K for additional details.

On August 16, 2013, we entered into an Indenture with U.S. Bank, National Association, as trustee, relating to the issuance by us of \$138.0 million aggregate principal amount of the 2018 Notes. The aggregate principal amount of the 2018 notes as of December 31, 2013 was \$138.0 million, offset by unamortized debt discount of \$28.4 million in the accompanying consolidated balance sheet. The unamortized discount related to the 2018 Notes is being amortized to interest expense using the effective interest method over the remaining 56 months until maturity of the 2018 Notes on August 15, 2018. See Note 11, "Convertible Notes," of Notes to Consolidated Financial Statements of this Form 10-K for additional details.

As of December 31, 2013, our material contractual obligations are as follows (in thousands):

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	Total	2014	2015	2016	2017	2018	Thereafter
Contractual obligations (1)							
Imputed financing obligation (2)	\$40,260	\$5,874	\$6,010	\$6,156	\$6,302	\$6,447	\$9,471
Leases and other contractual obligations	8,456	3,753	2,108	1,237	1,018	340	—
Software licenses (3)	8,715	5,477	2,865	373	—	—	—
Acquisition retention bonuses (4)	18,083	18,013	70	—	—	—	—
Convertible notes	310,500	172,500	—	—	—	138,000	—
Interest payments related to convertible notes	12,076	5,865	1,553	1,553	1,553	1,552	—
Total	\$398,090	\$211,482	\$12,606	\$9,319	\$8,873	\$146,339	\$9,471

The above table does not reflect possible payments in connection with uncertain tax benefits of approximately \$18.8 million including \$12.6 million recorded as a reduction of long-term deferred tax assets and \$6.2 million in (1) long-term income taxes payable, as of December 31, 2013. As noted in Note 17, "Income Taxes," of Notes to Consolidated Financial Statements of this Form 10-K, 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 Consolidated Balance Sheets are the (2) interest on the imputed financing obligation and the estimated common area expenses over the future periods. Additionally, the amount includes the amended Ohio lease and the amended Sunnysvale lease.

We have commitments with various software vendors for non-cancellable license agreements generally having (3) terms longer than one year. The above table summarizes those contractual obligations as of December 31, 2013 which are also presented on our Consolidated Balance Sheet under current and other long-term liabilities.

In connection with acquisitions, we are obligated to pay retention bonuses to certain employees and contractors, (4) subject to certain eligibility and acceleration provisions including the condition of employment. The remaining \$16.9 million of CRI retention bonuses payable on June 3, 2014 will be paid in cash or stock at our election.

Share Repurchase Program

In October 2001, our Board of Directors (the "Board") approved a share repurchase program of our common stock, principally to reduce the dilutive effect of employee stock options. Under this program, the Board approved the authorization to repurchase up to 19.0 million shares of our outstanding common stock over an undefined period of time. On February 25, 2010, the Board approved a new share repurchase program authorizing the repurchase of up to an additional 12.5 million shares. Share repurchases under the program may be made through open market, established plan or privately negotiated transactions in accordance with all applicable securities laws, rules, and regulations. There is no expiration date applicable to the program. The new share repurchase program replaces the program authorized in October 2001.

On August 19, 2010, we entered into a share repurchase agreement (the "Share Repurchase Agreement") with J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, London Branch ("JP Morgan") to repurchase approximately \$90.0 million of our common stock, as part of our share repurchase program. Under the Share Repurchase Agreement, we pre-paid to JP Morgan the \$90.0 million purchase price in the third quarter of 2010 for the common stock and JP Morgan delivered to us approximately 4.8 million shares of common stock at an average price of \$18.88 at the completion of the Share Repurchase Agreement in December 2010.

For the years ended December 31, 2013 and 2012, we did not repurchase any shares of our common stock under our share repurchase program. As of December 31, 2013, 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 December 31, 2013, 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.

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Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our 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, 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Overview

We recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, we defer recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require us to make judgments, assumptions and estimates based upon current information and historical experience.

Certain revenue contracts consist of service fees associated with integration of our solutions into our customers' products and fees associated with providing training, evaluation and test equipment to our customers. Under the accounting guidance, if the deliverables have standalone value upon delivery, we account for each deliverable separately. When multiple deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on our best estimate of selling price ("BESP"). We have determined that vendor-specific objective evidence of selling price for each deliverable is not available as there lacks a consistent number of standalone sales and third-party evidence is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third-party pricing information. We determined BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where our services are sold, our price lists, our go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in relative selling prices. In most cases, the relative values of the undelivered components are not significant to the overall arrangement and are typically delivered within twelve months after the core product has been delivered. In such agreements, selling price is determined for each component and any difference between the total of the separate BESP and total contract consideration (i.e. discount) is allocated pro-rata across each of the components in the arrangement.

During 2013, we expanded our business strategy of monetizing our patent portfolio to include the sale of selected intellectual property. Our MID business continues to grow its patent portfolio and actively engage with various external parties to monetize the patent portfolio and explore new revenue opportunities. As the sales of such patents developed by our MID business unit under this expanded strategy represents a component of our ongoing major or central operations, we record the related proceeds as revenue. As patent sales executed under this expanded strategy represent a component of our ongoing major or central operations and activities, we will record the related proceeds as revenue. We will recognize the revenue when there is persuasive evidence of a sales arrangement, fees are fixed or determinable, delivery has occurred and collectibility is reasonably assured. These requirements are generally fulfilled upon closing of the patent sale transaction.

Our revenue consists of royalty revenue and contract and other revenue derived from MID, CRI and LDT operating segments. Royalty revenue consists of patent license and solutions license royalties. Contract and other revenue

consists of fixed license fees, fixed engineering fees and service fees associated with integration of our technology solutions into our customers' products as well as sale of LED edge-lit products.

Royalty Revenue

We recognize royalty revenue upon notification by our customers and when deemed collectible. The terms of the royalty agreements generally either require customers to give us notification and to pay the royalties within a specified period or are based on a fixed royalty that is due within a specified period. Many of our customers have the right to cancel their licenses. In

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such arrangements, revenue is only recognized to the extent that is consistent with the cancellation provisions. Cancellation provisions within such contracts generally provide for a prospective cancellation with no refund of fees already remitted by customers for products provided and payment for services rendered prior to the date of cancellation. We have two types of royalty revenue: (1) patent license royalties and (2) solutions license royalties. Patent licenses - We license our broad portfolio of patented inventions to companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of our patent portfolio. The contractual terms of the agreements generally provide for payments over an extended period of time. For the licensing agreements with fixed royalty payments, we generally recognize revenue from these arrangements as amounts become due. For the licensing agreements with variable royalty payments which can be based on either a percentage of sales or number of units sold, we earn royalties at the time that the customers' sales occur. Our customers, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. As we are unable to estimate the customers' sales in any given quarter to determine the royalties due to us, we recognize royalty revenues based on royalties reported by customers during the quarter and when other revenue recognition criteria are met.

In addition, we may enter into certain settlements of patent infringement disputes. The amount of consideration received upon any settlement (including but not limited to past royalty payments, future royalty payments and punitive damages) is allocated to each element of the settlement based on the fair value of each element. In addition, revenues related to past royalties are recognized upon execution of the agreement by both parties, provided that the amounts are fixed or determinable, there are no significant undelivered obligations and collectability is reasonably assured. We do not recognize any revenues prior to execution of the agreement since there is no reliable basis on which we can estimate the amounts for royalties related to previous periods or assess collectability. Elements that are related to royalty revenue in nature (including but not limited to past royalty payments and future royalty payments) will be recorded as royalty revenue in the consolidated statements of operations. Elements that are not related to royalty revenue in nature (including but not limited to punitive damage and settlement) will be recorded as gain from settlement which is reflected as a separate line item within the operating expenses section in the consolidated statements of operations.

Solutions licenses - We develop proprietary and industry-standard products that we provide to our customers under solutions license agreements. These arrangements include royalties, which can be based on either a percentage of sales or number of units sold. We earn royalties on such licensed products sold worldwide by our customers at the time that the customers' sales occur. Our customers, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. As we are unable to estimate the customers' sales in any given quarter to determine the royalties due to us, we recognize royalty revenues based on royalties reported by customers during the quarter and when other revenue recognition criteria are met.

Contract and Other Revenue

We recognize revenue from the sale of LED edge-lit products when risk of loss and title have transferred to customers provided all other revenue recognition criteria have been met. Revenue from distributors is recognized on the shipment or delivery of the related products, provided all other revenue recognition criteria have been met. Our agreements with these distributors have terms which are generally consistent with the standard terms and conditions for the sale of our products to end users, and do not provide for product rotation or pricing allowances. We accrue for sales returns and warranty based on the standard market experience, none of which are currently material.

We generally recognize revenue using percentage of completion for development contracts related to licenses of our solutions that involve significant engineering and integration services. For all license and service agreements accounted for using the percentage-of-completion method, we determine progress to completion using input measures based upon contract costs incurred. We have evaluated use of output measures versus input measures and have determined that our output is not sufficiently uniform with respect to cost, time and effort per unit of output to use output measures as a measure of progress to completion.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill is not subject to amortization, but is subject to at least an

annual assessment for impairment, applying a fair-value based test. We perform our impairment analysis of goodwill on an annual basis during the fourth quarter of the year unless conditions arise that warrant a more frequent evaluation.

Goodwill is allocation to the various reporting units which generally operating segments. The goodwill impairment test involves a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value. The fair values of the reporting units are estimated using an income or discounted cash flows approach.

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Under the income approach, we measure fair value of the reporting unit based on a projected cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Our discounted cash flow projections are based on our annual financial forecasts developed internally by management for use in managing our business. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, we must perform the second step of the impairment test to measure the amount of impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired by a market participant in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that the estimates and assumptions made for purposes of our goodwill impairment testing in the fourth quarter of 2013 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenues or operating margin rates are not achieved, we may be required to record goodwill impairment charges in future periods, whether in connection with the next annual impairment testing or prior to that if any change constitutes a triggering event outside of the period when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material. We believe that the assumptions and rates used in our impairment test are reasonable. However, they are judgmental, and variations in any of the assumptions or rates could result in materially different calculations of impairment amounts.

Intangible Assets

Intangible assets are comprised of existing technology, customer contracts and contractual relationships, and other intangible assets. Identifiable intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Identifiable intangible assets are being amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from 1 to 10 years.

We amortize long-lived assets over their estimated useful lives. We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted cash flows resulting from the use of the asset and its eventual disposition. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many factors. Factors we consider important which could trigger an impairment review include significant negative industry or economic trends, significant loss of clients, and significant changes in the manner of our use of the acquired assets or the strategy for our overall business.

When we determine that the carrying value of the long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure the potential impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. An impairment loss is recognized only if the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Different assumptions and judgments could materially affect the calculation of the fair value of our long-lived assets.

2013 Impairment of Long-Lived Assets

During the fourth quarter of 2013, as a result of the change in business strategy for our LDT reporting unit to reduce its focus on the lower margin bulb products, we revised our projected cash flows for LDT, triggering an impairment analysis for long-lived assets.

As a result of the impairment analysis, we concluded that our LDT asset group was not able to recover the carrying amount of its assets. Determining the fair value of an asset group unit is judgmental in nature and requires the use of significant estimates and assumptions, considered to be Level 3 fair value inputs, including current replacement costs, revenue growth rates and operating margins, and discount rates, among others. Accordingly, we were required to make various estimates in determining the fair values of the LDT asset group. Due to the highly customized nature of

the LDT manufacturing equipment, we primarily utilized the cost approach to estimate the fair value of its property, plant and equipment. To determine the estimated fair value of its property, plant and equipment, adjustment factors, including cost trend factors, were applied to each individual asset's original cost in order to estimate current replacement cost. The current replacement cost was then adjusted for estimated deductions to recognize the effects of deterioration and obsolescence from all causes, as well as indirect costs such as installation. Where appropriate, we utilized a market approach to estimate the fair value of the property, plant and equipment. This approach included the identification of market prices in actual transactions for similar assets based on asking prices for assets currently available for sale, as well as obtaining and reviewing certain direct market values based quoted prices with

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manufacturers and secondary market participants for similar equipment. Upon completion of this analysis, we recorded an impairment charge of \$3.5 million, \$0.5 million and \$0.2 million for building and related improvements, machinery and equipment, and software in our LDT asset group, respectively.

The estimated fair value of the LDT acquired existing technology intangible assets was determined based on the income approach, using Level 3 fair value inputs, as it was deemed to be the most indicative of the fair value in an orderly transaction between market participants.

Under the income approach we determined fair value based on the estimated future cash flows resulting from the licensing of the technology underlying the intangible assets. The estimated cash flows in the income approach were discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the reporting unit and the rate of return an outside investor would expect to earn. Upon completion of this analysis, we recorded an impairment charge of \$4.0 million in the fourth quarter of 2013 related to the acquired intangible assets. Also, during the fourth quarter of 2013, as a result of changes in one customer's business, we recorded a \$1.5 million impairment charge related to our CRI favorable contracts due to a decline in the projected discrete cash flows from the customer.

The long-lived asset impairment charges for LDT and CRI aggregating to \$9.7 million were included in "Impairment of goodwill and long-lived assets" in the Consolidated Statements of Operations. As of December 31, 2013, we had \$12.9 million and \$99.4 million of long-lived assets remaining in our LDT and CRI asset groups, respectively.

2013 Impairment of Goodwill

During the third quarter of 2013, we curtailed our immersive media platform spending. We conducted an impairment review as a result of the change of our strategy related to the immersive media platform. As a result of this impairment review, we recorded a charge of \$8.1 million to fully impair goodwill related to the MTD reporting unit which was part of the Chief Technology Office ("CTO") reportable segment. The goodwill impairment charge was reflected in "Impairment of goodwill and long-lived assets" in the Consolidated Statements of Operations. We estimated the fair value of the MTD reporting unit using the income approach which was determined using Level 3 fair value inputs. The utilization of the income approach to determine fair value requires estimates of future operating results and cash flows discounted using an estimated discount rate. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used of 36% is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows.

In the fourth quarter of 2013, we performed our annual goodwill impairment analysis for the MID and CRI reporting units, which are the only reporting units with goodwill.

As of December 31, 2013, the fair value of the MID reporting unit, with \$19.9 million of goodwill, exceeded the carrying value of its net assets by approximately 480%; the fair value of the CRI reporting unit, with \$97.0 million of goodwill, exceeded the carrying value of its net assets by approximately 44%. To arrive at the cash flow projections utilized in the income approach, we used the reporting unit's forecast of estimated operating results based on assumptions such as long-term revenue growth rates, costs and estimates of future anticipated changes in operating margins based on economic and market information. Key assumptions used to determine the fair value of the MID and CRI reporting units at December 31, 2013, were the revenue growth rates for the forecast period and terminal year, terminal growth rates and discount rates. Certain estimates used in the income approach involve information for new product lines with limited financial history and developing revenue models which increase the risk of differences between the projected and actual performance. The discount rate of 14% for MID and 21% for CRI is based on the reporting units' overall risk profile relative to other guideline companies, the reporting units' respective industry as well as the visibility of future expected cash flows. The terminal growth rate applied to determine fair value for both reporting units was 3%, which was based on historical experience as well as anticipated economic conditions, industry data and long term outlook for the business. These assumptions are inherently uncertain. We hypothetically assumed, while holding all other assumptions constant, a combination of a one percentage point increase in the discount rate and a one percentage point decrease in the terminal growth rate used, both of which would result in lower estimates of fair value, and concluded that the estimated fair value of the reporting unit would exceed the carrying value by 413% for MID and 26% for CRI.

It is reasonably possible that the businesses could perform significantly below our expectations or a deterioration of market and economic conditions could occur. This would adversely impact our ability to meet our projected results, which could cause the goodwill in any of our reporting units or long-lived assets in any of our asset groups to become impaired. Significant differences between these estimates and actual cash flows could materially affect our future financial results. If the reporting units are not successful in commercializing new business arrangements, if the businesses are unsuccessful in signing new

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license agreements or renewing its existing license agreements, or if we are unsuccessful in managing our 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 we determine that our goodwill or long-lived assets are impaired, we would be required to record a non-cash charge that could have a material adverse effect on its results of operations and financial position.

Income Taxes

As part of preparing our consolidated financial statements, we are required to calculate the income tax expense or benefit which relates to the pretax income or loss for the period. In addition, we are required to assess the realization of the deferred tax asset or liability to be included on the consolidated balance sheet as of the reporting dates.

As of December 31, 2013, our consolidated balance sheet included net deferred tax assets, before valuation allowance, of approximately \$195.3 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 December 31, 2013, a valuation allowance of \$192.8 million reduced net deferred tax assets to \$2.5 million. Management periodically evaluates 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 statutes to fully utilize these assets. Our forecasted future operating results are highly influenced by, among other factors, assumptions regarding (1) our ability to achieve our forecasted revenue, (2) our ability to effectively manage our expenses in line with our forecasted revenue and (3) general trends in the industries in which we operate.

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 statutes 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 of December 31, 2013, we were in a cumulative loss position over the previous three years, which we considered significant negative evidence. A sustained period of profitability in our operations is required before we would change our judgment regarding the need for a full valuation allowance against our net deferred tax assets. Although the weight of negative evidence related to cumulative losses is decreasing as the uncertainty around litigation settlement is reducing, 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 in 2013. However, continued improvement in our operating results, conditioned on our MID, LDT or CRI 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 as early as 2014. 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.

Significant management judgment is required in determining the period in which the reversal of a valuation allowance should occur. We consider all available evidence, both positive and negative, such as historical levels of income and future forecasts of taxable income amongst other items in determining whether a full or partial release of a valuation allowance is required. In addition, our assessments sometimes require us to schedule future taxable income in accordance with FASB Accounting Standards Codification (“ASC”) 740 Income Taxes, to assess the appropriateness of a valuation allowance which further requires the exercise of significant management judgment. We will continue to evaluate the ability to realize, by jurisdiction, our deferred tax assets and related valuation allowances on a quarterly basis based on our cumulative income position and income trend as well as our future projections of sustained profitability and whether this profitability trend constitutes sufficient positive evidence to support a reversal of our valuation allowance (in full or in part).

Tax attributes related to stock option windfall deductions are not to be recognized until they result in a reduction of cash taxes payable. The benefit of these excess tax benefits will be recorded to equity when they reduce cash taxes

payable. We will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized. In addition, we have elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credits, through the consolidated statement of operations as part of the tax effect of stock-based compensation.

The calculation of our tax liabilities involves uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although ASC 740 Income Taxes, provides further clarification on the accounting for uncertainty in

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income taxes, significant judgment is required by management. If the ultimate resolution of tax uncertainties is different from what is currently estimated, it could materially affect income tax expense.

Stock-Based Compensation

We 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, we sponsor an Employee Stock Purchase Plan (“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.

The accounting guidance for share-based payments requires the measurement and recognition of compensation expense in our statement of operations for all share-based payment awards made to our employees, directors and consultants including employee stock options, nonvested equity stock and equity stock units, and employee stock purchase grants. Stock-based compensation expense is measured at grant date, based on the estimated fair value of the award, reduced by an estimate of the annualized rate of expected forfeitures, and is recognized as expense over the employees’ expected requisite service period, generally using the straight-line method. In addition, the accounting guidance for share-based payments requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. Our forfeiture rate represents the historical rate at which our stock-based awards were surrendered prior to vesting. The accounting guidance for share-based payments requires forfeitures to be estimated at the time of grant and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. See Note 13, “Equity Incentive Plans and Stock-Based Compensation,” of Notes to Consolidated Financial Statements of this Form 10-K for more information regarding the valuation of stock-based compensation.

Recent Accounting Pronouncements

See Note 3, “Recent Accounting Pronouncement,” of Notes to Consolidated Financial Statements of this Form 10-K for a full description of recent accounting pronouncements including the respective expected dates of adoption.

Item 7A. 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 December 31, 2013, we had an investment portfolio of fixed income marketable securities of \$359.1 million including cash equivalents. If market interest rates were to increase immediately and uniformly by 1.0% from the levels as of December 31, 2013, the fair value of the portfolio would decline by approximately \$0.1 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 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 a design center in India and small business development offices in Japan, Korea and Taiwan. We monitor our foreign currency exposure; however, as of December 31, 2013, we believe our foreign currency exposure is not material enough to warrant foreign currency hedging.

Item 8. Financial Statements and Supplementary Data

See Item 15 “Exhibits and Financial Statement Schedules” of this Form 10-K for required financial statements and supplementary data.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2013, our disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets;
provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial
- (ii) statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth in Internal Control — Integrated Framework of 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on the results of this assessment, management has concluded that, as of December 31, 2013, our internal control over financial reporting was effective based on the criteria in Internal Control — Integrated Framework issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There was no change in internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information responsive to this item is incorporated herein by reference to our Proxy Statement for our 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. The information under the heading “Our Executive Officers” in Part I, Item 1 of this Annual Report on Form 10-K is also incorporated herein by reference.

We have a Code of Business Conduct and Ethics for all of our directors, officers and employees. Our Code of Business Conduct and Ethics is available on our website at <http://investor.rambus.com/documentdisplay.cfm?DocumentID=8379>. To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any amendments or waivers, if and when granted, of our Code of Business Conduct and Ethics on our website.

Item 11. Executive Compensation

The information responsive to this item is incorporated herein by reference to our Proxy Statement for our 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information responsive to this item is incorporated herein by reference to our Proxy Statement for our 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information responsive to this item is incorporated herein by reference to our Proxy Statement for our 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The information responsive to this item is incorporated herein by reference to our Proxy Statement for our 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The following consolidated financial statements of the Registrant and Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included herewith:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>51</u>
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	<u>52</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	<u>53</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011</u>	<u>54</u>
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	<u>55</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements</u>	<u>57</u>
<u>Consolidated Supplementary Financial Data (unaudited)</u>	<u>100</u>

(a) (2) Financial Statement Schedule

All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or the notes thereto.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Rambus Inc.:

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Rambus Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 21, 2014

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RAMBUS INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except shares and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$338,696	\$148,984
Marketable securities	48,966	54,346
Accounts receivable	2,251	529
Prepays and other current assets	8,253	10,529
Deferred taxes	205	788
Total current assets	398,371	215,176
Intangible assets, net	117,172	153,173
Goodwill	116,899	124,969
Property, plant and equipment, net	72,642	86,905
Deferred taxes, long term	4,797	4,458
Other assets	3,498	3,131
Total assets	\$713,379	\$587,812
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$7,001	\$7,918
Accrued salaries and benefits	33,448	23,992
Accrued litigation expenses	498	9,822
Convertible notes, short-term	164,047	—
Other accrued liabilities	7,848	12,402
Total current liabilities	212,842	54,134
Convertible notes, long-term	109,629	147,556
Long-term imputed financing obligation	39,349	45,919
Long-term income taxes payable	6,561	6,533
Other long-term liabilities	4,769	12,076
Total liabilities	373,150	266,218
Commitments and contingencies (Notes 12 and 18)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares; Issued and outstanding: no shares at December 31, 2013 and December 31, 2012	—	—
Common Stock, \$.001 par value:		
Authorized: 500,000,000 shares; Issued and outstanding: 113,459,390 shares at December 31, 2013 and 111,525,021 shares at December 31, 2012	113	112
Additional paid in capital	1,128,148	1,075,761
Accumulated deficit	(787,727	) (753,979
Accumulated other comprehensive loss	(305	) (300
Total stockholders' equity	340,229	321,594
Total liabilities and stockholders' equity	\$713,379	\$587,812
See Notes to Consolidated Financial Statements		

Table of ContentsRAMBUS INC.
CONSOLIDATED STATEMENTS OF OPERATIONSYears Ended December 31,
2013 2012 2011
(In thousands, except per share amounts)

Revenue:			
Royalties	\$264,111	\$232,385	\$299,004
Contract and other revenue	7,390	1,666	13,359
Total revenue	271,501	234,051	312,363
Operating costs and expenses:			
Cost of revenue*	33,215	28,372	24,085
Research and development*	117,981	140,503	115,696
Marketing, general and administrative*	76,448	112,594	164,131
Restructuring charges	5,546	7,301	—
Impairment of goodwill and long-lived assets	17,751	35,471	—
Gain from sale of intellectual property	(1,388) —	—
Gain from settlement	(535	) —	(6,200
Costs of restatement and related legal activities, net	19	244	16,187
Total operating costs and expenses	249,037	324,485	313,899
Operating income (loss)	22,464	(90,434	) (1,536
Interest income and other income (expense), net	(1,596	) 59	563
Interest expense	(32,885	) (27,510	) (24,828
Interest and other income (expense), net	(34,481	) (27,451	) (24,265
Loss before income taxes	(12,017	) (117,885	) (25,801
Provision for income taxes	21,731	16,451	17,252
Net loss	\$(33,748	) \$(134,336	) \$(43,053
Net loss per share:			
Basic	\$(0.30	) \$(1.21	) \$(0.39
Diluted	\$(0.30	) \$(1.21	) \$(0.39
Weighted average shares used in per share calculations:			
Basic	112,415	110,769	110,041
Diluted	112,415	110,769	110,041

* Includes stock-based compensation:

Cost of revenue	\$19	\$20	\$575
Research and development	\$6,597	\$9,546	\$10,519
Marketing, general and administrative	\$8,365	\$12,980	\$16,902

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net loss	\$ (33,748	) \$ (134,336	) \$ (43,053
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities, net of tax	(5	) 89	(27
Total comprehensive loss	\$ (33,753) \$ (134,247) \$ (43,080
See Notes to Consolidated Financial Statements			

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RAMBUS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total
	Shares	Amount				
	(In thousands)					
Balances at December 31, 2010	102,676	\$ 103	\$911,632	\$(576,590)	\$(362)	\$ 334,783
Net loss	—	—	—	(43,053)	—	(43,053)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(27)	(27)
Issuance of common stock upon exercise of options, equity stock and employee stock purchase plan	1,371	1	10,093	—	—	10,094
Net issuance of common stock due to CRI acquisition	6,220	6	86,137	—	—	86,143
Settlement of Samsung's option related to the contingently redeemable common stock	—	—	13,500	—	—	13,500
Stock-based compensation	—	—	28,354	—	—	28,354
Balances at December 31, 2011	110,267	110	1,049,716	(619,643)	(389)	429,794
Net loss	—	—	—	(134,336)	—	(134,336)
Unrealized gain on marketable securities, net of tax	—	—	—	—	89	89
Issuance of common stock upon exercise of options, equity stock and employee stock purchase plan	1,258	2	3,499	—	—	3,501
Stock-based compensation	—	—	22,546	—	—	22,546
Balances at December 31, 2012	111,525	112	1,075,761	(753,979)	(300)	321,594
Net loss	—	—	—	(33,748)	—	(33,748)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(5)	(5)
Issuance of common stock upon exercise of options, equity stock and employee stock purchase plan	1,934	1	7,864	—	—	7,865
Stock-based compensation	—	—	14,981	—	—	14,981
Equity component of 1.125% convertible senior notes due 2018	—	—	29,542	—	—	29,542
Balances at December 31, 2013	113,459	\$ 113	\$ 1,128,148	\$(787,727)	\$(305)	\$ 340,229

See Notes to Consolidated Financial Statements

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RAMBUS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$(33,748	)\$ (134,336	)\$ (43,053
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Stock-based compensation	14,981	22,546	27,996
Depreciation	15,451	13,190	11,894
Amortization of intangible assets	28,909	30,345	20,191
Non-cash interest expense and amortization of convertible debt issuance costs	19,296	14,695	12,622
Impairment of goodwill and long-lived assets	17,751	35,471	—
Impairment of investment in non-marketable equity security	1,400	—	—
Deferred tax (benefit) provision	1,919	3,728	(246
Non-cash restructuring	653	—	—
Loss on disposal of property, plant and equipment	364	8	—
Gain from sale of intellectual property	(1,388)—	—
Non-cash acquisition of patents	—	—	(3,000
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,722	) 497	2,714
Prepays and other assets	6,174	8,379	8,810
Accounts payable	(1,544	) (9,664	) 10,452
Accrued salaries and benefits and other accrued liabilities	(7,114	) 1,847	(741
Accrued litigation expenses	(9,324	) (680	) 6,442
Income taxes payable	(716	) (3,522	) (1,047
Net cash provided by (used in) operating activities	51,342	(17,496	) 53,034
Cash flows from investing activities:			
Purchases of property, plant and equipment	(6,938	) (21,809	) (19,431
Acquisition of intangible assets	(2,656	) (1,700	) (1,210
Purchases of marketable securities	(125,554	) (110,716	) (173,996
Maturities of marketable securities	119,600	183,086	337,880
Proceeds from sale of marketable securities	11,020	—	33
Proceeds from sale of intellectual property and property, plant and equipment	2,255	—	—
Acquisition of businesses, net of cash acquired	—	(46,278	) (167,381
Net cash provided by (used in) investing activities	(2,273	) 2,583	(24,105
Cash flows from financing activities:			
Proceeds from issuance of convertible senior notes	138,000	—	—
Issuance costs related to issuance of convertible senior notes	(3,603) —	—
Proceeds received from issuance of common stock under employee stock plans	8,391	4,103	12,282
Payments under installment payment arrangement	(1,829	) (1,923	) (2,531
Principal payments against financing lease obligation	(178	) (522	) (456
Payment to redeem contingently redeemable common stock pursuant to the settlement agreement with Samsung	—	—	(100,000
Proceeds from landlord for tenant improvements	—	—	8,800

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Net cash provided by (used in) financing activities	140,781	1,658	(81,905)
Effect of exchange rate changes on cash and cash equivalents	(138)	(5)	(42)
Net increase (decrease) in cash and cash equivalents	189,712	(13,260)	(53,018)
Cash and cash equivalents at beginning of year	148,984	162,244	215,262
Cash and cash equivalents at end of year	\$338,696	\$148,984	\$162,244

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$8,625	\$8,625	\$8,625
Income taxes, net of refunds	\$18,720	\$16,384	\$16,254
Non-cash investing and financing activities:			
Non-cash obligation for property, plant and equipment	\$—	\$2,512	\$7,409
Property, plant and equipment received and accrued in accounts payable and other accrued liabilities	\$5,909	\$1,709	\$3,093
Common stock, net, issued pursuant to acquisition	\$—	\$—	\$86,143

See Notes to Consolidated Financial Statements

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RAMBUS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Formation and Business of the Company

Rambus Inc. (the “Company” or “Rambus”), the innovative technology solutions company that brings invention to market, was incorporated in California in March 1990 and reincorporated in Delaware in March 1997. In addition to licensing, the Company is creating new business opportunities through offering products and services where its goal is to perpetuate strong company operating performance and long-term stockholder value. The Company generates revenue by licensing its inventions and solutions, whether in the form of patent licensing, solutions licensing, services or products, to market-leading companies.

While the Company has historically focused its efforts on the development of technologies for electronics memory and chip interfaces, the Company has been expanding its portfolio of inventions and solutions to address additional markets in chip and system security as well as LED-based lighting. The Company also is exploring new areas within the semiconductor space such as computational sensing and imaging. The Company intends to continue to identify disruptions and opportunities in both traditional and new technology fields, consistent with its goal of creating great value through its innovations and to make those technologies available through both its licensing and non-licensing business models. Key to the Company's efforts, both in its current businesses and in any new area of diversification, will be hiring and retaining world-class inventors, scientists and engineers to lead the development of inventions and technology solutions for these fields of focus, and the management and business support personnel necessary to execute its plans and strategies.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of Rambus and its wholly owned subsidiaries, Rambus K.K., located in Tokyo, Japan, Cryptography Research, Inc., located in California, U.S.A., Unity Semiconductor Corporation, located in California, U.S.A., Mozaik Multimedia, Inc., located in California, U.S.A., and Rambus Ltd., located in George Town, Grand Cayman Islands, British West Indies, which includes Rambus Chip Technologies (India) Private Limited, Rambus Deutschland GmbH, located in Pforzheim, Germany, Kamiyacho IP Holdings, Rambus Korea, Inc., located in Seoul, Korea and Rambus France, located in Paris, France. In addition, Rambus International Ltd. and Rambus Delaware LLC are also subsidiaries. All intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Investments in entities with less than 20% ownership by Rambus and in which Rambus does not have the ability to significantly influence the operations of the investee are accounted for using the cost method and are included in other assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances were reclassified to conform to the current year's presentation. None of these reclassifications had an impact on reported net income (loss) or cash flows for any of the periods presented.

Revenue Recognition

Overview

Rambus recognizes revenue when persuasive evidence of an arrangement exists, Rambus has delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, Rambus defers recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

Certain revenue contracts consist of service fees associated with integration of Rambus' solutions into its customers' products and fees associated with providing training, evaluation and test equipment to its customers. Under the

accounting guidance, if the deliverables have standalone value upon delivery, Rambus accounts for each deliverable separately. When multiple deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration

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is allocated to the identified separate units based on a relative selling price hierarchy. Rambus determines the relative selling price for a deliverable based on its best estimate of selling price ("BESP"). Rambus has determined that vendor-specific objective evidence of selling price for each deliverable is not available as there lacks a consistent number of standalone sales and third-party evidence is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third-party pricing information. Rambus determined BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area where services are sold, price lists, go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by management, taking into consideration the go-to-market strategy. As the go-to-market strategies evolve, Rambus may modify its pricing practices in the future, which could result in changes in relative selling prices. In most cases, the relative values of the undelivered components are not material to the overall arrangement and are typically delivered within twelve months after the core product has been delivered. In such agreements, selling price is determined for each component and any difference between the total of the separate BESP and total contract consideration (i.e. discount) is allocated pro-rata across each of the components in the arrangement.

During 2013, the Company expanded its business strategy of monetizing its patent portfolio to include the sale of selected intellectual property. The Company's Memory and Interface Division ("MID") business continues to grow its patent portfolio and actively engage with various external parties to monetize the patent portfolio and explore new revenue opportunities. As the sales of such patents developed by the MID business unit under this expanded strategy represents a component of the Company's ongoing major or central operations, the Company records the related proceeds as revenue. As patent sales executed under this expanded strategy represent a component of the Company's ongoing major or central operations and activities, it will record the related proceeds as revenue. The Company will recognize the revenue when there is persuasive evidence of a sales arrangement, fees are fixed or determinable, delivery has occurred and collectibility is reasonably assured. These requirements are generally fulfilled upon closing of the patent sale transaction.

Rambus' revenue consists of royalty revenue and contract and other revenue derived from MID, Cryptography Research Inc. ("CRI") and Lighting and Display Technologies ("LDT") operating segments. Royalty revenue consists of patent license and solutions license royalties. Contract and other revenue consists of fixed license fees, fixed engineering fees and service fees associated with integration of Rambus' technology solutions into its customers' products as well as sale of LED edge-lit products.

Royalty Revenue

Rambus recognizes royalty revenue upon notification by its customers and when deemed collectible. The terms of the royalty agreements generally either require customers to give Rambus notification and to pay the royalties within a specified period or are based on a fixed royalty that is due within a specified period. Many of Rambus' customers have the right to cancel their licenses. In such arrangements, revenue is only recognized to the extent that is consistent with the cancellation provisions. Cancellation provisions within such contracts generally provide for a prospective cancellation with no refund of fees already remitted by customers for products provided and payment for services rendered prior to the date of cancellation. Rambus has two types of royalty revenue: (1) patent license royalties and (2) solutions license royalties.

Patent licenses - Rambus licenses its broad portfolio of patented inventions to companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of Rambus' patent portfolio. The contractual terms of the agreements generally provide for payments over an extended period of time. For the licensing agreements with fixed royalty payments, Rambus generally recognizes revenue from these arrangements as amounts become due. For the licensing agreements with variable royalty payments which can be based on either a percentage of sales or number of units sold, Rambus earns royalties at the time that the customers' sales occur. Rambus' customers, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. As Rambus is unable to estimate the customers' sales in any

given quarter to determine the royalties due to Rambus, it recognizes royalty revenues based on royalties reported by customers during the quarter and when other revenue recognition criteria are met.

In addition, Rambus may enter into certain settlements of patent infringement disputes. The amount of consideration received upon any settlement (including but not limited to past royalty payments, future royalty payments and punitive damages) is allocated to each element of the settlement based on the fair value of each element. In addition, revenues related to past royalties are recognized upon execution of the agreement by both parties, provided that the amounts are fixed or determinable, there are no significant undelivered obligations and collectability is reasonably assured.

Rambus does not recognize any revenues prior to execution of the agreement since there is no reliable basis on which it can estimate the amounts

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for royalties related to previous periods or assess collectability. Elements that are related to royalty revenue in nature (including but not limited to past royalty payments and future royalty payments) will be recorded as royalty revenue in the consolidated statements of operations. Elements that are not related to royalty revenue in nature (including but not limited to punitive damage and settlement) will be recorded as gain from settlement which is reflected as a separate line item within the operating expenses section in the consolidated statements of operations.

Solutions licenses - Rambus develops proprietary and industry-standard products that it provides to its customers under solutions license agreements. These arrangements include royalties, which can be based on either a percentage of sales or number of units sold. Rambus earns royalties on such licensed products sold worldwide by its customers at the time that the customers' sales occur. Rambus' customers, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. As Rambus is unable to estimate the customers' sales in any given quarter to determine the royalties due to Rambus, it recognizes royalty revenues based on royalties reported by customers during the quarter and when other revenue recognition criteria are met.

Contract and Other Revenue

Rambus recognizes revenue from the sale of LED edge-lit products when risk of loss and title have transferred to customers, provided all other revenue recognition criteria have been met. Revenue from distributors is recognized on the shipment or delivery of the related products, provided all other revenue recognition criteria have been met. The Company's agreements with these distributors have terms which are generally consistent with the standard terms and conditions for the sale of the Company's products to end users, and do not provide for product rotation or pricing allowances. The Company accrues for sales returns and warranty based on the standard market experience, none of which are currently material.

Rambus generally recognizes revenue using percentage of completion for development contracts related to licenses of its solutions that involve significant engineering and integration services. For agreements accounted for using the percentage-of-completion method, Rambus determines progress to completion using input measures based upon contract costs incurred.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill is not subject to amortization, but is subject to at least an annual assessment for impairment, applying a fair-value based test. The Company performs its impairment analysis of goodwill on an annual basis during the fourth quarter of the year unless conditions arise that warrant a more frequent evaluation.

Goodwill is allocated to the various reporting units which are generally operating segments. The goodwill impairment test involves a two-step process. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The fair values of the reporting units are estimated using an income or discounted cash flows approach.

Under the income approach, the Company measures fair value of the reporting unit based on a projected cash flow method using a discount rate determined by its management which is commensurate with the risk inherent in its current business model. The Company's discounted cash flow projections are based on its annual financial forecasts developed internally by management for use in managing its business. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired by a market participant in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

In the third quarter of 2013, the Company performed an interim goodwill impairment analysis due to the curtailment of operations for its Mobile Technology Division ("MTD") reporting unit which resulted in an impairment of all of the

MTD reporting unit's goodwill. See Note 6, "Intangible Assets and Goodwill" for further details. The Company also performed its annual goodwill impairment analysis as of December 31, 2013 and determined that the fair value of the reporting units with goodwill exceeded their carrying values.

Intangible Assets

Intangible assets are comprised of existing technology, customer contracts and contractual relationships, and other intangible assets. Identifiable intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Identifiable intangible assets are

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being amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from 1 to 10 years.

Property, Plant and Equipment

Property, plant and equipment includes computer equipment, computer software, machinery, leasehold improvements, furniture and fixtures and buildings. Computer equipment, computer software, machinery and furniture and fixtures are stated at cost and generally depreciated on a straight-line basis over an estimated useful life of 3, 3 to 5, 7 and 3 years, respectively. The Company undertook a series of structural improvements to ready the Sunnyvale and Brecksville facilities for its use. The Company concluded that its requirement to fund construction costs and responsibility for cost overruns resulted in the Company being considered the owner of the buildings during the construction period for accounting purposes. Upon completion of construction, the Company concluded that it retained sufficient continuing involvement to preclude de-recognition of the buildings under the Financial Accounting Standards Board ("FASB") authoritative guidance applicable to sale leaseback for real estate. As such, the Company continues to account for the buildings as owned real estate and to record an imputed financing obligation for its obligation to the legal owners. The buildings will be depreciated on a straight-line basis over an estimated useful life of approximately 39 years. See Note 10, "Balance Sheet Details," and Note 12, "Commitments and Contingencies," for additional details. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the initial terms of the leases. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the related gain or loss is included in the results from operations.

Long-lived Asset Impairment

The Company evaluates long-lived assets (including property, plant and equipment and intangible assets) for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted cash flows resulting from the use of the asset group and its eventual disposition. The Company's estimates of future cash flows attributable to its long-lived asset groups require significant judgment based on its historical and anticipated results and are subject to many factors. Factors that the Company considers important which could trigger an impairment review include significant negative industry or economic trends, significant loss of clients, and significant changes in the manner of its use of the acquired assets or the strategy for its overall business.

When the Company determines that the carrying value of the long-lived asset groups may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company measures the potential impairment based on a projected discounted cash flow method using a discount rate determined by the Company to be commensurate with the risk inherent in the Company's current business model. An impairment loss is recognized only if the carrying amount of the long-lived asset group is not recoverable and exceeds its fair value. The impairment charge is recorded to reduce the pre-impairment carrying amount of the long-lived assets based on the relative carrying amount of those assets, though not to reduce the carrying amount of an asset below its fair value. Different assumptions and judgments could materially affect the calculation of the fair value of the long-lived assets. During 2013, the Company recognized an impairment of its long-lived assets related to its LDT asset group and CRI favorable contract asset group. During 2012, the Company recognized an impairment of its long-lived and intangible assets related to its LDT asset group. See Note 6, "Intangible Assets and Goodwill" for further details. During 2011, Rambus did not recognize any impairment of its long-lived assets.

Litigation

Rambus is involved in certain legal proceedings. Based upon consultation with outside counsel handling its defense in these matters and an analysis of potential results, if Rambus believes that a loss arising from such matters is probable and can be reasonably estimated, Rambus records the estimated liability in its consolidated financial statements. If only a range of estimated losses can be determined, Rambus records an amount within the range that, in its judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, Rambus records the low end of the range. Any such accrual would be charged to expense in the appropriate period.

Rambus recognizes litigation expenses in the period in which the litigation services were provided.

Income Taxes

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for expected future tax events that have been recognized differently in Rambus' consolidated financial statements and tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated. A valuation allowance is established when necessary to

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reduce deferred tax assets to amounts expected to be realized based on available evidence.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in its tax return. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Stock-Based Compensation and Equity Incentive Plans

The Company maintained stock plans covering a broad range of equity grants including stock options, nonvested equity stock and equity stock units and performance based instruments. In addition, the Company sponsors an Employee Stock Purchase Plan ("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.

The Company determines compensation expense associated with restricted stock units based on the fair value of its common stock on the date of grant. The Company determines compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes Merton valuation model. The Company generally recognizes compensation expense using a straight-line amortization method over the respective vesting period for awards that are ultimately expected to vest. Accordingly, stock-based compensation expense for 2013, 2012 and 2011 has been reduced for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behaviors as well as trends of actual option forfeitures. The Company will only recognize a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized. In addition, the Company has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credits, through the consolidated statement of operations as part of the tax effect of stock-based compensation.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with original maturity of three months or less at the date of purchase. The Company maintains its cash balances with high quality financial institutions. Cash equivalents are invested in highly-rated and highly-liquid money market securities and certain U.S. government sponsored obligations.

Marketable Securities

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses reported, net of tax, in stockholders' equity as part of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest and other income, net. Realized gains and losses are recorded on the specific identification method and are included in interest and other income, net. The Company reviews its investments in marketable securities for possible other than temporary impairments on a regular basis. If any loss on investment is believed to be a credit loss, a charge will be recognized in operations. In evaluating whether a credit loss on a debt security has occurred, the Company considers the following factors: 1) the Company's intent to sell the security, 2) if the Company intends to hold the security, whether or not it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis and 3) even if the Company intends to hold the security, whether or not the Company expects the security to recover the entire amortized cost basis. Due to the high credit quality and short term nature of the Company's investments, there have been no credit losses recorded to date. The classification of funds between short-term and long-term is based on whether the securities are available for use in operations or other purposes.

Non-Marketable Securities

The Company has an investment in a non-marketable security of a private company which is carried at cost. The Company monitors the investment for other-than-temporary impairment and records appropriate reductions in carrying value when necessary. The non-marketable security is classified within other assets in the consolidated

balance sheets.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable and accounts payable approximate their fair values due to their relatively short maturities as of December 31, 2013 and 2012. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of tax. Fair value of the marketable securities is

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determined based on quoted market prices. The fair market value of the Company's convertible notes fluctuates with interest rates and with the market price of the stock, but does not affect the carrying value of the debt on the balance sheet.

Research and Development

Costs incurred in research and development, which include engineering expenses, such as salaries and related benefits, stock-based compensation, depreciation, professional services and overhead expenses related to the general development of Rambus' products, are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Rambus has not capitalized any software development costs since the period between establishing technological feasibility and general customer release is relatively short and as such, these costs have not been material.

Computation of 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 (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of incremental common shares issuable upon exercise of stock options, employee stock purchases, restricted stock and restricted stock units, and shares issuable upon the conversion of convertible notes. The dilutive effect of outstanding shares is reflected in diluted earnings per share by application of the treasury stock method. This method includes consideration of the amounts to be paid by the employees, the amount of excess tax benefits that would be recognized in equity if the instrument was exercised and the amount of unrecognized stock-based compensation related to future services. No potential dilutive common shares are included in the computation of any diluted per share amount when a net loss is reported. The Company reported approximately 4.8 million shares issued to Samsung as contingently redeemable common stock due to the contractual put rights associated with those shares. As such, the Company used the two-class method for reporting earnings per share for those periods where the contingently redeemable common stock was outstanding (until August 2011) prior to Samsung's redemption of the shares.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Other comprehensive income (loss), net of tax, is presented in the consolidated statements of comprehensive income (loss).

Credit Concentration

As of December 31, 2013 and 2012, the Company's cash, cash equivalents and marketable securities were invested with various financial institutions in the form of corporate notes, bonds and commercial paper, money market funds, U.S. government bonds and notes, and municipal bonds and notes. The Company's exposure to market risk for changes in interest rates relates primarily to its investment portfolio. The Company places its investments with high credit issuers and, by investment policy, attempts to limit the amount of credit exposure to any one issuer. As stated in the Company's investment policy, it will ensure the safety and preservation of the Company's invested funds by limiting default risk and market risk. The Company has no investments denominated in foreign country currencies and therefore is not subject to foreign exchange risk from these assets.

The Company mitigates default risk by investing in high credit quality securities and by positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to enable portfolio liquidity.

The Company's accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. As of December 31, 2013, one customer accounted for approximately 73% of the total \$2.3 million of accounts receivable. The Company's accounts receivable balance as of December 31, 2012 was not material.

Foreign Currency Remeasurement

The Company's foreign subsidiaries currently use the U.S. dollar as the functional currency. Remeasurement adjustments for non-functional currency monetary assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue, expenses, gains or losses are translated at the average exchange rate for the period, and non-monetary assets and liabilities are translated at historical rates. The remeasurement gains and losses of these foreign

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subsidiaries as well as gains and losses from foreign currency transactions are included in other expense, net in the consolidated statements of operations, and are not material for any periods presented.

3. Recent Accounting Pronouncement

In July 2013, the FASB issued Accounting Standards Update (“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 No. 2013-11 is a new accounting standards update related to the financial statement presentation of unrecognized tax benefits. The new accounting standards update provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new accounting standards update becomes effective for the Company on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company anticipates the adoption may result in equal reductions to both deferred tax assets and long term taxes payable of approximately \$4.7 million.

In February 2013, the FASB issued ASU No. 2013-02 “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the income statement or as a separate disclosure in the notes. The new accounting standards update became effective for the Company's interim period ended March 31, 2013. The Company adopted this new accounting standards update and the adoption did not have any impact on its financial position, results of operations or cash flows as the amounts reclassified out of accumulated other comprehensive loss were de minimis.

4. Earnings (Loss) Per Share

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

	Years Ended December 31,					
	2013		2012		2011	
	(In thousands, except per share amounts)					
	CRCS*	Other CS**	CRCS*	Other CS**	CRCS*	Other CS**
Basic net loss per share:						
Numerator:						
Allocation of undistributed earnings	\$—	\$(33,748)	\$—	\$(134,336)	\$(1,180)	\$(41,873)
Denominator:						
Weighted-average common shares outstanding	—	112,415	—	110,769	4,788	107,024
Basic net loss per share	\$—	\$(0.30)	\$—	\$(1.21)	\$(0.25)	\$(0.39)
Diluted net loss per share:						
Numerator:						
Allocation of undistributed earnings for basic computation	\$—	\$(33,748)	\$—	\$(134,336)	\$(1,180)	\$(41,873)
Reallocation of undistributed earnings	—	—	—	—	—	—
Allocation of undistributed earnings for diluted computation	\$—	\$(33,748)	\$—	\$(134,336)	\$(1,180)	\$(41,873)
Denominator:						
Number of shares used in basic computation	—	112,415	—	110,769	4,788	107,024
Dilutive potential shares from stock options, ESPP, convertible notes, CRI retention bonuses and nonvested equity stock and stock units	—	—	—	—	—	—

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Number of shares used in diluted computation	—	112,415	—	110,769	4,788	107,024	
Diluted net loss per share	\$—	\$(0.30) \$—	\$(1.21) \$(0.25) \$(0.39)

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* CRCS — Contingently Redeemable Common Stock

** Other CS — Common Stock other than CRCS

For the years ended December 31, 2013, 2012 and 2011, options to purchase approximately 7.3 million, 12.2 million and 12.0 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 years ended December 31, 2013, 2012 and 2011, an additional 3.3 million, 6.8 million and 4.1 million potentially dilutive shares, respectively, have been excluded from the weighted average dilutive shares because there was a net loss for the periods. These shares do not include the Company's 5% convertible senior notes due 2014 (the "2014 Notes") and 1.125% convertible senior notes due 2018 (the "2018 Notes"). The par amount of convertible notes is payable in cash equal to the principal amount of the notes plus any accrued and unpaid interest and then the "in-the-money" conversion benefit feature at the conversion price above \$19.31 and \$12.07, respectively, per share is payable in cash, shares of the Company's common stock or a combination of both. Refer to Note 11, "Convertible Notes" for more details.

5. Acquisitions

Unity Semiconductor Corporation

On February 3, 2012, the Company completed its acquisition of a privately-held company, Unity Semiconductor Corporation ("Unity"), by acquiring all issued and outstanding shares of capital stock of Unity. Under the terms of the merger agreement, the purchase price was \$35.0 million subject to certain post-closing adjustments to the purchase price which were applied as of the end of the second quarter of 2012. In addition to the purchase consideration, the Company agreed to pay an aggregate of \$5.0 million in retention bonuses to certain Unity employees over three years. The retention bonus payouts were subject to the condition of employment, and therefore, were treated as compensation and expensed as incurred on a graded attribution basis. The Company acquired Unity's technology and a portfolio of non-volatile solid state memory patents. The solid state memory technology is a potential successor to the current NAND flash technology, or could be otherwise deployed in the growing non-volatile memory market. Devices using this technology are expected to achieve higher density, faster performance, lower manufacturing costs and greater data reliability than NAND Flash. Unity is part of the MID reportable segment. The Company incurred approximately \$0.6 million in direct acquisition costs in connection with the acquisition which were expensed as incurred.

The purchase price allocation for the business acquired is based on management's estimate of the fair value for purchase accounting purposes at the date of acquisition. The fair value of the assets acquired has been determined primarily by using valuation methods that discount the expected future cash flows to present value using estimates and assumptions determined by management, which is a level three fair value measurement. The Company performed a valuation of the net assets acquired as of the February 3, 2012 closing date. The purchase price from the business combination was allocated as follows:

	Total (in thousands)
Cash	\$ 182
Property and equipment	51
Other tangible assets	36
Identified intangible assets	19,280
Goodwill	15,451
Total	\$35,000

The goodwill arising from the acquisition is primarily attributed to synergies related to the combination of new and complementary technologies of the Company and the assembled workforce of Unity. This goodwill is not expected to be deductible for tax purposes. The identified intangible assets assumed in the acquisition of Unity were recognized as existing technology based upon their fair values as of the acquisition date. The acquired intangible assets have an

estimated average useful life of 10 years from the date of acquisition.

Other Acquisition Activities

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For the year ended December 31, 2012, the Company entered into one additional business combination and two patent and technology acquisitions for \$13.2 million to expand the Company's existing technology, which resulted in approximately \$8.1 million of goodwill, \$4.1 million of intangible assets (weighted average useful life of 6 years) and \$1.0 million of other assets. The business combination was part of the Chief Technology Office ("CTO") reportable segment.

The consolidated financial statements include the operating results of these businesses from the date of acquisition. The acquired assets did not generate any revenue during the reported periods. Pro forma results of operations for the 2012 business combinations have not been presented because their effects were not material to the Company's consolidated financial statements.

2011 Acquisition Activity: During the year ended December 31, 2011, the Company acquired CRI for a total purchase price of \$257.2 million which consisted of cash of \$168.8 million and approximately 6.4 million of the Company's common stock. The Company expensed the related transaction costs amounting to approximately \$3.9 million. The acquisition of CRI expands the Company's technologies available for licensing with complementary technologies from CRI that include patented innovations and solutions for content protection, network security and anti-counterfeiting. As part of the acquisition, the Company agreed to pay \$50.0 million to certain CRI employees and contractors in cash or the Company's common stock, at the Company's option, over three years following June 3, 2011. The purchase price from the business combination was allocated as follows:

	Total (in thousands)
Cash	\$ 1,424
Accounts receivable	1,140
Identified intangible assets	159,200
Property and equipment	965
Other assets	133
Goodwill	96,994
Liabilities	(2,613)
Total	\$257,243

Of the identified intangible assets, \$12.2 million was recognized as favorable contracts which are acquired patent licensing agreements where the Company has no performance obligations. Cash received from these acquired favorable contracts will reduce the favorable contract intangible asset over the estimated useful life which is based on the expected payment dates related to the underlying favorable contracts.

6. Intangible Assets and Goodwill

2013 Impairment of Long-Lived Assets

During the fourth quarter of 2013, as a result of the change in business strategy for the LDT reporting unit to reduce its focus on the lower margin bulb products, the Company revised its projected cash flows for LDT, triggering an impairment analysis for long-lived assets.

As a result of the impairment analysis, the Company concluded that its LDT asset group was not able to recover the carrying amount of its assets. Determining the fair value of an asset group unit is judgmental in nature and requires the use of significant estimates and assumptions, considered to be Level 3 fair value inputs, including current replacement costs, revenue growth rates and operating margins, and discount rates, among others. Accordingly, the Company was required to make various estimates in determining the fair values of the LDT asset group. Due to the highly customized nature of the LDT manufacturing equipment, the Company primarily utilized the cost approach to estimate the fair value of its property, plant and equipment. To determine the estimated fair value of its property, plant and equipment, adjustment factors, including cost trend factors, were applied to each individual asset's original cost in order to estimate current replacement cost. The current replacement cost was then adjusted for estimated deductions to recognize the effects of deterioration and obsolescence from all causes, as well as indirect costs such as installation.

Where appropriate, the Company utilized a market approach to estimate the fair value of its property, plant and

equipment. This approach included the identification of market prices in actual transactions for similar assets based on asking prices for assets currently available for sale, as well as obtaining and reviewing certain direct market values based quoted prices with manufacturers and secondary market participants for similar equipment. Upon completion of

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this analysis, the Company recorded an impairment charge of \$3.5 million, \$0.5 million and \$0.2 million for building and related improvements, machinery and equipment, and software in its LDT asset group, respectively.

The estimated fair value of the LDT acquired existing technology intangible assets was determined based on the income approach, using Level 3 fair value inputs, as it was deemed to be the most indicative of the fair value in an orderly transaction between market participants.

Under the income approach the Company determined fair value based on the estimated future cash flows resulting from the licensing of the technology underlying the intangible assets. The estimated cash flows in the income approach were discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the reporting unit and the rate of return an outside investor would expect to earn. Upon completion of this analysis, the Company recorded an impairment charge of \$4.0 million in the fourth quarter of 2013 related to the acquired intangible assets.

Also, during the fourth quarter of 2013, as a result of changes in one customer's business, the Company recorded a \$1.5 million impairment charge related to its CRI favorable contracts (refer to "Intangible Assets" table below for further discussion on favorable contracts) due to a decline in the projected cash flows from the customer.

The long-lived asset impairment charges for LDT and CRI aggregating to \$9.7 million were included in "Impairment of goodwill and long-lived assets" in the Consolidated Statements of Operations. As of December 31, 2013, the Company had \$12.9 million and \$99.4 million of long-lived assets remaining in its LDT and CRI asset groups, respectively.

2013 Impairment of Goodwill

During the third quarter of 2013, the Company curtailed its immersive media platform spending. The Company conducted an impairment review as a result of the change of its strategy related to the immersive media platform. As a result of this impairment review, the Company recorded a charge of \$8.1 million to fully impair the goodwill related to the MTD reporting unit which was part of the CTO reportable segment. The goodwill impairment charge was reflected in "Impairment of goodwill and long-lived assets" in the Consolidated Statements of Operations. The Company estimated the fair value of the MTD reporting unit using the income approach which was determined using Level 3 fair value inputs. The utilization of the income approach to determine fair value requires estimates of future operating results and cash flows discounted using an estimated discount rate. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used of 36% is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows.

In the fourth quarter of 2013, the Company performed its annual goodwill impairment analysis for the MID and CRI reporting units, which are the only reporting units with goodwill.

As of December 31, 2013, the fair value of the MID reporting unit, with \$19.9 million of goodwill, exceeded the carrying value of its net assets by approximately 480%; the fair value of the CRI reporting unit, with \$97.0 million of goodwill, exceeded the carrying value of its net assets by approximately 44%. To arrive at the cash flow projections utilized in the income approach, the Company used the reporting unit's forecast of estimated operating results based on assumptions such as long-term revenue growth rates, costs and estimates of future anticipated changes in operating margins based on economic and market information. Key assumptions used to determine the fair value of the MID and CRI reporting units at December 31, 2013, were the revenue growth rates for the forecast period and terminal year, terminal growth rates and discount rates. Certain estimates used in the income approach involve information for new product lines with limited financial history and developing revenue models which increase the risk of differences between the projected and actual performance. The discount rate of 14% for MID and 21% for CRI is based on the reporting units' overall risk profile relative to other guideline companies, the reporting units' respective industry as well as the visibility of future expected cash flows. The terminal growth rate applied to determine fair value for both reporting units was 3%, which was based on historical experience as well as anticipated economic conditions, industry data and long term outlook for the business. These assumptions are inherently uncertain.

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 its 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.

2012 Impairment of Long-Lived Assets

In August 2012, as a result of the change in business strategy for the LDT reporting unit, the Company revised its projected cash flows for LDT, triggering an interim impairment analysis of goodwill and long-lived assets. The decline in the projected cash flows for LDT resulted from a change in business strategy with less focus on the higher margin display technology licensing and an increased focus on its general lighting technologies.

As noted above, the Company tested for impairment its long-lived assets in LDT as of August 31, 2012. The Company determined its long-lived asset group to be its LDT reporting unit comprised primarily of finite-lived intangible assets and property, plant and equipment.

As a result of the interim impairment analysis, the Company concluded that its LDT asset group was not able to recover the carrying amount of its LDT assets. Determining the fair value of an asset group unit is judgmental in nature and requires the use of significant estimates and assumptions, considered to be Level 3 fair value inputs, including current replacement costs, revenue growth rates and operating margins, and discount rates, among others. Accordingly, the Company was required to make various estimates in determining the fair values of the LDT asset group. Due to the highly customized nature of the LDT manufacturing equipment, the Company primarily utilized the cost approach to estimate the fair value of its property, plant and equipment. To determine the estimated fair value of its property, plant and equipment, adjustment factors, including cost trend factors, were applied to each individual asset's original cost in order to estimate current replacement cost. The current replacement cost was then adjusted for estimated deductions to recognize the effects of deterioration and obsolescence from all causes, as well as indirect costs such as installation. Where appropriate, the Company utilized a market approach to estimate the fair value of its property, plant and equipment. This approach included the identification of market prices in actual transactions for similar assets based on asking prices for assets currently available for sale, as well as obtaining and reviewing certain direct market values based quoted prices with manufacturers and secondary market participants for similar equipment. Upon completion of this analysis, the Company recorded an impairment charge of \$5.8 million and \$0.6 million for building and related improvements and software in its LDT asset group, respectively.

The estimated fair value of the LDT intangible assets was determined based on the income approach, using Level 3 fair value inputs, as it was deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants. Under the income approach the Company determined fair value based on the estimated future cash flows resulting from the licensing of the technology underlying the intangible assets. The estimated cash flows in the income approach were discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the reporting unit and the rate of return an outside investor would expect to earn. Upon completion of this analysis, the Company recorded an impairment charge of \$15.4 million in the third quarter of 2012 related to the LDT intangible assets.

Accordingly a long-lived asset impairment charge aggregating to \$21.8 million was included in "Impairment of goodwill and long-lived assets" in the accompanying Consolidated Statements of Operations.

2012 Impairment of Goodwill

In addition to the annual goodwill impairment analysis, the Company performed an event-driven interim impairment analysis of goodwill as of August 31, 2012 as noted above.

The fair value of each of the reporting units was determined using the income approach as discussed above. One of the key assumptions used in applying the income approach includes discount rates which ranged from 20% to 35% depending on the reporting units' overall risk profile relative to other guideline companies, the reporting units' respective industry as well as the visibility of future expected cash flows.

Upon the completion of the goodwill impairment analysis as of August 31, 2012, the Company recorded a non-cash goodwill impairment charge of \$13.7 million relating to the LDT reporting unit. The goodwill impairment charge is included in "Impairment of goodwill and long-lived assets" in the accompanying Consolidated Statements of Operations.

Goodwill

The following tables present goodwill information for each of the reportable segments for the years ended December 31, 2013 and December 31, 2012:

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Reportable Segment:	December 31, 2012	Addition to Goodwill	Impairment Charge of Goodwill (1)	December 31, 2013
	(In thousands)			
MID	\$19,905	\$—	\$—	\$19,905
CTO	8,070	—	(8,070)) —
CRI	96,994	—	—	96,994
Total	\$124,969	\$—	\$(8,070)	) \$116,899

(1) The Company recorded a non-cash goodwill impairment charge of \$8.1 million related to the MTD reporting unit as discussed above.

Reportable Segment:	As of December 31, 2013			Net Carrying Amount
	Gross Carrying Amount	Accumulated Impairment Losses		
	(In thousands)			
MID	\$19,905	\$—		\$19,905
CTO	8,070	(8,070))	—
CRI	96,994	—		96,994
All Other	13,700	(13,700))	—
Total	\$138,669	\$(21,770)	)	\$116,899

Reportable Segment:	December 31, 2011	Addition to Goodwill (1)	Impairment Charge of Goodwill (2)	December 31, 2012
MID	\$4,454	\$15,451	\$—	\$19,905
CTO	—	8,070	—	8,070
CRI	96,994	—	—	96,994
All Other	13,700	—	(13,700)) —
Total	\$115,148	\$23,521	\$(13,700)	) \$124,969

(1) The addition to goodwill resulted from two business combinations in the first quarter of 2012. See Note 5, “Acquisitions” for further details.

(2) The Company recorded a non-cash goodwill impairment charge of \$13.7 million related to the LDT reporting unit as discussed above.

Reportable Segment:	As of December 31, 2012			Net Carrying Amount
	Gross Carrying Amount	Accumulated Impairment Losses		
MID	\$19,905	\$—		\$19,905
CTO	8,070	—		8,070
CRI	96,994	—		96,994
All Other	13,700	(13,700))	—
Total	\$138,669	\$(13,700))	\$124,969

Intangible Assets

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The components of the Company's intangible assets as of December 31, 2013 and December 31, 2012 were as follows:

		As of December 31, 2013		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In thousands)				
Existing technology (1)	3 to 10 years	\$186,202	\$(80,961)	\$105,241
Customer contracts and contractual relationships (2)	1 to 10 years	31,093	(19,204)	11,889
Non-compete agreements	3 years	300	(258	